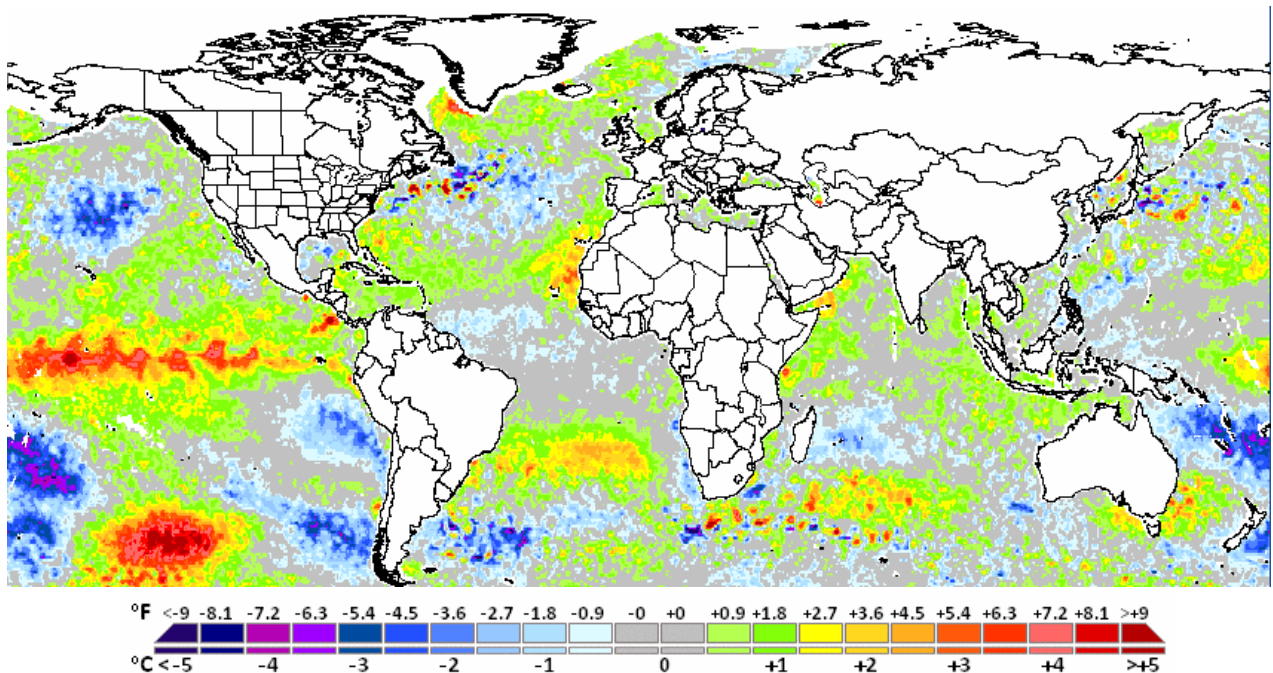


Weather and Market Discussion

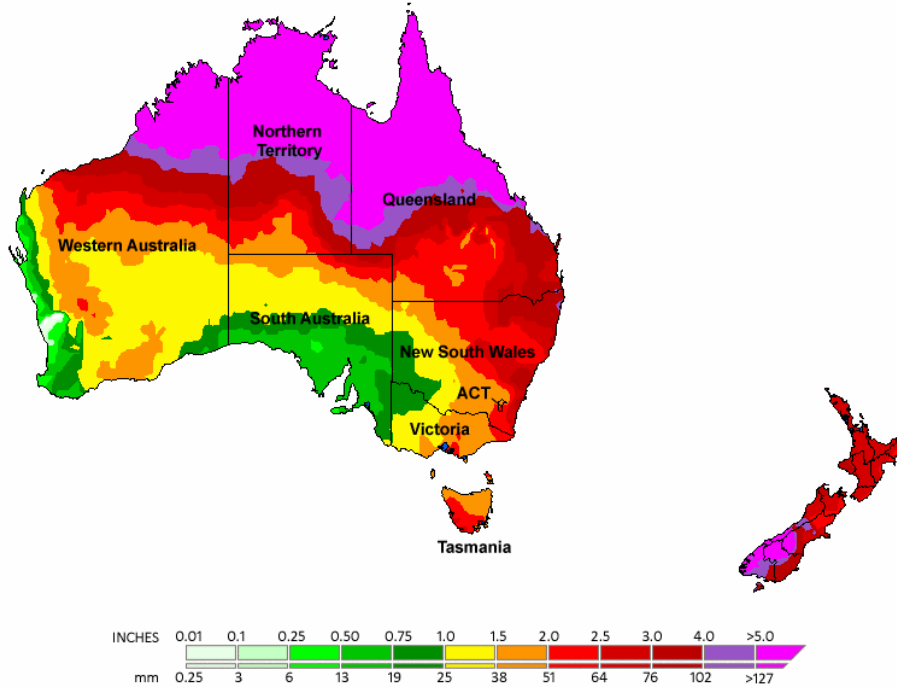
At the start of 2010, our biggest weather concern for global dairy production will be centered around the current El Nino, which will influence much of the *global* pattern for the first half of the year, while also exhibiting lingering effects through the end of the year in some origins. The current Sea Surface Temperature anomaly shown below is indicative of a strengthening El Nino pattern, at least for the next couple of months. The mass of warm surface water along the equatorial Pacific is well defined, and the subsurface profile in the eastern Pacific depicts another warm mass to rise to the surface, keeping El Nino conditions in place for beyond the next 60 days.



This El Nino pattern has led to dryness for much of the ANZ region, but unlike a 'typical' El Nino, there have still been some pockets of the dairy producing regions where a cooler and wetter pattern has prevailed. Looking ahead, the maps on p.2 show the outlook for precipitation in January 2010. As far as the producing regions are concerned, we are expecting some more significant precipitation for the next 4 weeks over SE Queensland, NE NSW and much of NZ. For the latter two regions, this pattern is wetter than the one seen last January. Given the fact that January is heading into the low period for milk production in each of these regions, it is not a significant concern; however, when we take a longer range view, there may be some reason to focus on the pattern in these areas. We believe that this El Nino will be a shorter event, and by mid year the ANZ region might move back to a pattern that will show a wetter y/y pattern from May through August 2010. As such, a wetter and also cooler pattern will have the potential to limit grazing, leading to a slight curtailment of milk yields in these production regions. In the coming weeks, we will start to issue weather driven milk production/yield indices for the primary global production regions (ANZ, Europe & US), where favorable as well as herd stress conditions can start to be identified, helping shape a view of the long range supply balance.

January Precipitation Outlook - ANZ

Monthly Rainfall (03 JAN 2010 - 30 JAN 2010)



Monthly Rainfall vs Previous Year (01 JAN 2010 - 31 JAN 2010)

