

Basic Points

Goodbye, Global Savings Glut:
Hello, Food & Fuel Inflation

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Basic Points

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Goodbye, Global Savings Glut: Hello, Food & Fuel Inflation

Overview



We have been bearish about the US stock market since American banking and financial stocks broke down last summer. A major financial crisis hit Wall Street, and the fallout spread across much of the rest of the world like volcanic ash.

Yet Wall Street remained bullish, climbing briefly to a new high.

Then oil ran past \$100 a barrel and kept on climbing.

Then a global food crisis was proclaimed, and talk of stagflation was heard, and stocks sulked. But, with the arrival of Spring, Wall Street's animal spirits came out of hibernation: in early May the Dow was back to 13,000 amid renewed optimism that the banking crisis was over, and Washington's handouts revived consumer spending.

Since then, the hoary strategy of "Sell in May and go away" has been the new wisdom.

As the three shocks to the global economy—food, fuels and folly (of bankers)—work their way into economic projections, the likelihood of the biggest challenge of all—a recession—keeps increasing, with the US and Europe looking most vulnerable, and Emerging Markets shares plunging.

For the First Half, investors following our "Bad News" recommended strategies have had excellent relative returns: the CRB Index was up 30.4% (its largest leap for that period on record) and the S&P and the MSCI world equity index were down 12%.

We believe that the onset of a global food crisis at a time of record oil prices is a direct challenge to the prevalent views of economic growth and inflation. We also grow more concerned by the week about the potential for even higher prices for foods and fuels because of global chills arising from the worrisome failure of sunspots to return after their normal year of sharply reduced activity.

We are raising our Cash commitment slightly, reducing bond durations, and fine-tuning our Recommended Commodity Stock Weightings to reflect the shifting risks and rewards in the raw materials sector.

Recommended Asset Allocation

Recommended Asset Allocation (for U.S. Pension Funds)		
	Allocations	Change
US Equities	21	-5
Foreign Equities		
European Equities	7	unch
Japanese and Korean Equities	5	unch
Canadian and Australian Equities	8	unch
Emerging Markets	11	unch
Bonds		
US Bonds	7	unch
Canadian Bonds	4	unch
International Bonds	11	unch
Long-Term Inflation Hedged Bonds	10	unch
Cash	16	+5

Bond Durations		
	Years	Change
US	4.00	-0.50
Canada	4.25	-0.50
International	3.75	-0.50

Global Exposure to Commodity Stocks		
		Change
Agriculture	35%	+4
Energy	29%	-2
Precious Metals	25%	unch
Base Metals & Steel	11%	-2

We recommend these sector weightings to all clients for commodity exposure—whether in pure commodity stock portfolios or as the commodity component of equity and balanced funds.

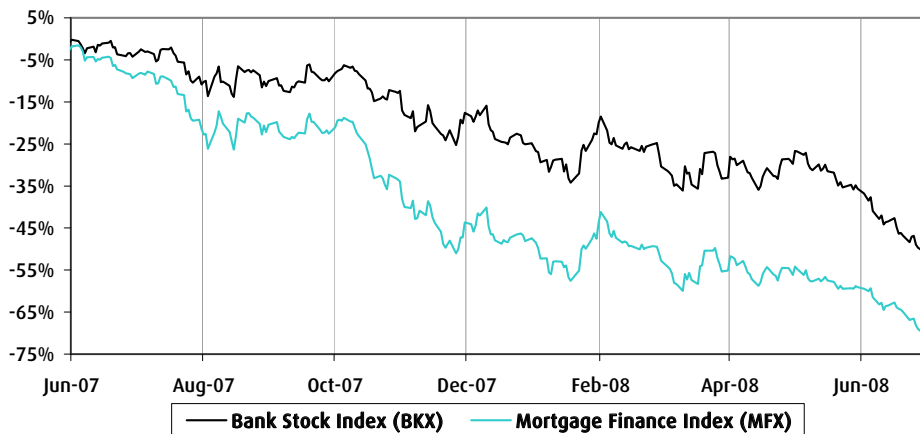
Goodbye, Global Savings Glut: Hello, Food & Fuel Inflation

1. The Global Financial Crisis

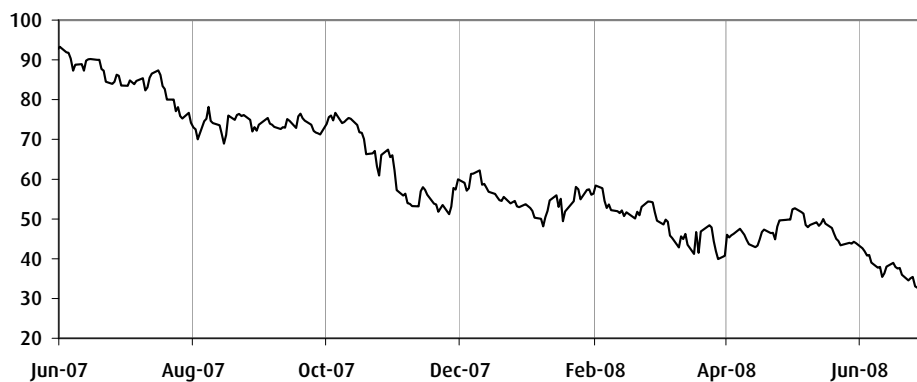
Until last month, a fortnight rarely passed without some prominent person proclaiming that the worst of the housing crisis was behind us. However, in June, what was bustin' out all over was pessimism that the worst of the housing bust was yet to come, as considerations of the impact of trillions in mortgage rate upward resets came back to haunt policymakers and investors:

...in June, what was bustin' out all over was pessimism...

**Bank Stock Index (BKX) vs. Mortgage Finance Index (MFX)
June 2007 to June 2008**



**Merrill Lynch (MER – NYSE)
June 2007 to June 2008**



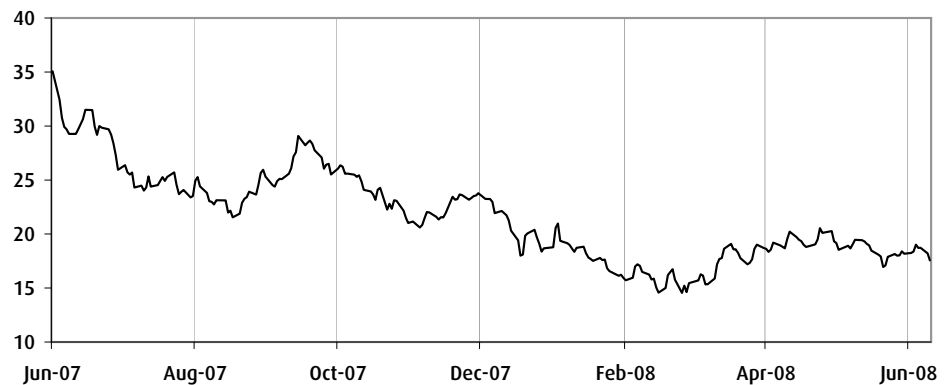


The S&P was amazingly calm even when the Merrill Lynch bull publicly suffered the pain and indignity of sudden steerdom...

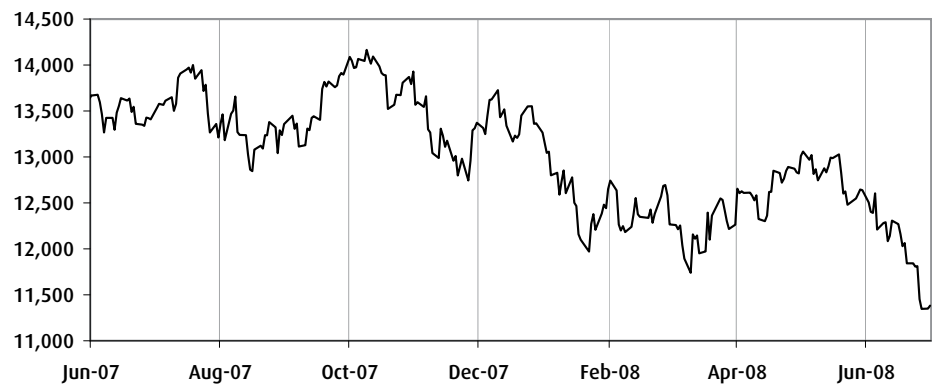
Surprisingly, the financial crisis did not send Wall Street into an officially certified bear market—a 20% decline. The S&P was amazingly calm even when the Merrill Lynch bull publicly suffered the pain and indignity of sudden steerdom, while its former CEO was luxuriating in a settlement that might have aroused the envy of the Queen of Sheba. (Among the gifts she gave Solomon were gold, spices and perfumes. Merrill gave Mr. O’Neal real money, keeping the perfumed paper that he had helped to create: presumably, much of what it couldn’t sell has since then gone to the Fed in return for Treasurys.)

How bad is the banking crisis?

**Blackstone (BX – NYSE)
June 2007 to June 2008**



**Dow Jones Industrial Average
June 2007 to June 2008**



Basic Points

The Street has a variety of financial distress measures, most of which rely on the pricing of derivatives that didn't exist in earlier bear markets. We are told that the outstanding principal amount of such sophisticated innovations exceeds \$60 trillion. How can we factor such a number into our calculations of market risk? Like the number of stars, it is beyond comprehension.

A year ago, Tom Wolfe, the author of *Bonfire of the Vanities*, had been strolling around the floor of the NYSE. Blackstone was minutes away from going public, the largest IPO since 2002, and the Dow was at 13,337. He was asked by a CNBC reporter what he thought of all the excitement. Wolfe replied, "We may be witnessing the end of capitalism as we know it."

Last week, Andrew Sorkin of *The New York Times* asked him to update his observations. Wolfe told Sorkin, "It sounds like even the firms that aren't in trouble are in trouble." He explained his concerns by citing Schumpeter. "Stocks and bonds are what he called evaporated property. People completely lose touch of the underlying assets. It's all paper—these esoteric devices. So it has become evaporated property squared. I call it evaporated property cubed." But, with his customary politeness, he said, "Of course, I'm not an economist."

We wrote at the time of Wolfe's visit to the floor that the Street's mania was a modern replay of the Tower of Babel. We predicted that, like the attempt to erect a structure that would challenge Heaven, the CDOs and CDSs would begin to turn to dust—sooner or later.

Investors have since learned that we are living dangerously: any financial convulsion that evaporates Bear Stearns and costs UBS—the biggest of the supposedly inscrutable and cautious Swiss Banks—\$25 billion in writedowns is no mere hiccup or belch.

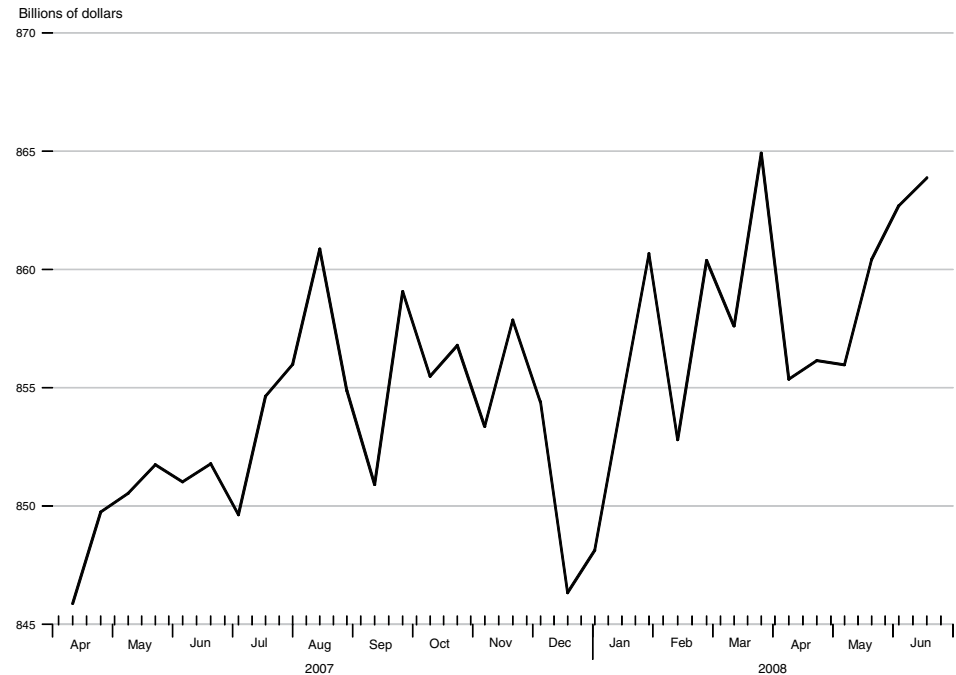
"It's all paper—these esoteric devices... I call it evaporated property cubed."



**Clearly, the stalwarts
in the fire and rescue
brigade of Bernanke
& Co. are alarmed.**

Like Mr. Wolfe, we aren't economists, so we have taken to measuring this bear's ferocity by watching what The Greatest Insider is doing to prevent it from despoiling the financial system. Clearly, the stalwarts in the fire and rescue brigade of Bernanke & Co. are alarmed.

**U. S. Federal Reserve
Adjusted Monetary Base**
Averages of Daily Figures, Seasonally Adjusted
April 2007 to June 2008



Source: June 26, 2008, Weekly U.S. Financial Data, Research Division, Federal Reserve Bank of St. Louis

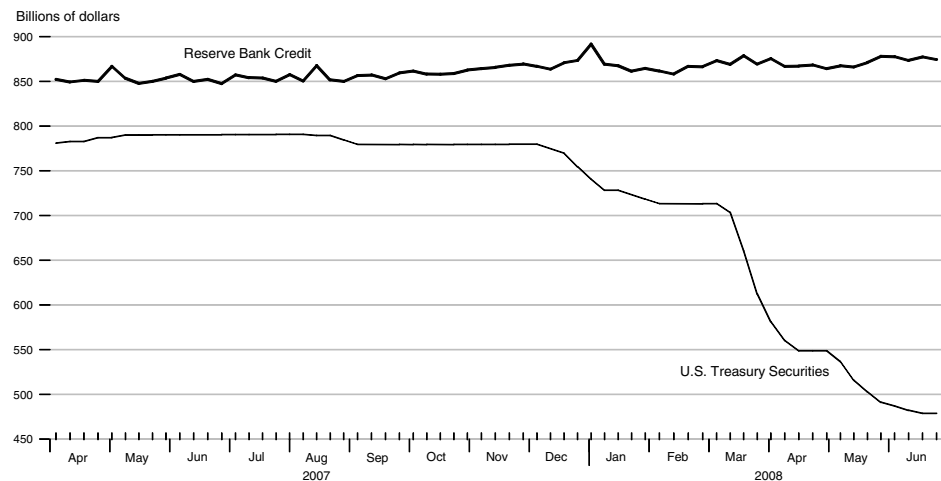
**U. S. Federal Reserve
Adjusted Monetary Base**
August 2007 to April 2008

To the average of two maintenance periods ending:	Compounded annual rates of change, average of two maintenance periods ending:							
	06/20/07	09/12/07	11/21/07	12/19/07	01/16/08	02/13/08	03/26/08	04/23/08
11/21/07	1.2							
12/19/07	-0.2	-1.1						
01/16/08	0.0	-0.5	-3.2					
02/13/08	1.0	1.1	0.6	5.0				
03/26/08	1.5	1.8	1.9	4.8	6.2			
04/23/08	0.6	0.5	0.0	1.8	2.0	-0.6		
05/21/08	0.9	0.9	0.6	2.2	2.4	0.6	-2.3	
06/18/08	1.4	1.6	1.6	3.1	3.4	2.2	1.0	5.9

Source: June 26, 2008, Weekly U.S. Financial Data, Research Division, Federal Reserve Bank of St. Louis

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U. S. Federal Reserve Reserve Bank Credit and Federal Reserve Holdings of U.S. Treasury Securities Averages of Daily Figures



Source: June 26, 2008, Weekly U.S. Financial Data, Research Division, Federal Reserve Bank of St. Louis

**The Bernanke Fed has
had to throw caution
to the winds...**

For those who've forgotten how the Monetary Base works, a few pointers: This is, essentially, the Fed's Balance Sheet, and it's ordinarily made up of (1) Securities, including T-Bills, Treasuries, paper from Federal Agencies—mostly Fannie Mae, Freddie Mac, Federal Housing Authority and Tennessee Valley Authority; and (2) Reserves, being deposits of cash made with the Fed by commercial banks that are members of the system. Banks that are short of cash, borrow from other banks that have excess reserves; the interest rate on those loans is the fed funds rate—probably the best-known interest rate in the world.

Monetary policy operates through the Monetary Base like some great accordion: it goes out and in. When it is going out, liquidity expands, sending beautiful dance music to the markets. When it comes in, the sound shifts to a dirge in a minor key.

When the Fed grows its balance sheet faster than the growth of real GDP, that ordinarily means that the excess liquidity reduces interest rates. When—as in the past year—its growth rate is well below the growth rate of nominal GDP, that is historically a sign of Fed tightening, and is associated with inverted yield curves and rising interest rates.

Not this time. Interest rates fell 325 bps, despite tiny growth (1.4%) in the fed funds rate.

The Bernanke Fed has had to throw caution to the winds because too many major US banks threw caution to the winds years ago.



The banking crisis has backed the Fed into a corner in which fear of financial collapse drives away fears of inflation.

Consider the uniqueness of this convulsion:

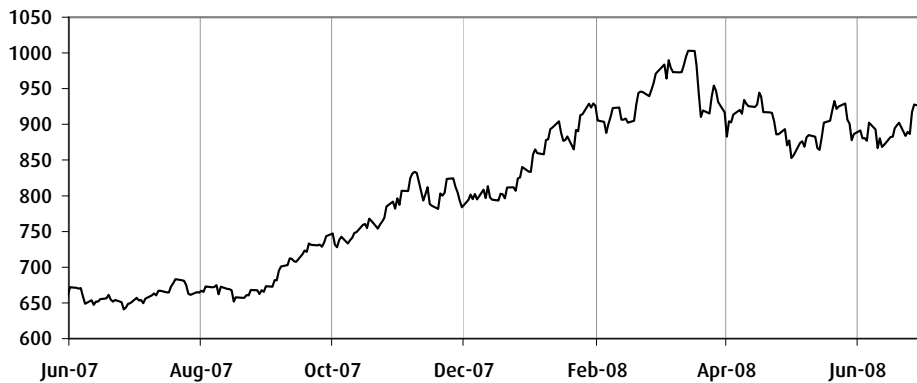
1. The Fed's balance sheet has barely grown in a year.
2. The bank reserve component of the Fed's balance sheet is Net Borrowed, and has been that way for many weeks. Historically, this has also been a rare event, and a sign of tight monetary policies and a Fed-induced squeeze on the banking system.
3. Not only is the Fed *not* squeezing the banking system, it is showering the banks with its own most precious asset—liquidity—in the form of Treasuries and T-Bills. Historically, such massive dumping of Treasuries would have triggered skyrocketing interest rates.
4. For the first time ever, the Fed isn't dumping Treasuries for cash or against pledges of Treasuries and other government-related paper—it is lending them out, secured (insecurely) by the same illiquid, dubious or outright toxic structured products that the banks created in their own Frankenfinance labs based on mathematics and risk formulas that Nassim Taleb (*Black Swan*) has long ridiculed as spurious. The banks prospered mightily by selling these smelly spawn to greater fools, but then they ran out of greater fools and so the banks were forced to keep these fast-rotting wonders on their own fast-eroding balance sheets. That meant levering up bank balance sheets and creating Enronesque off-balance sheet vehicles designed to borrow short and ingest the longest and most loathsome paper that the banks couldn't sell elsewhere. Somewhere, the ghost of Enron's Ken Lay, who died suddenly just before he was headed for prison, is shaking his head. As he doubtless ponders, what's the difference between what we did and what they did? And why are those ex-CEOs rich and on the most exclusive of golf courses when I was sentenced so harshly?
5. The banking crisis has backed the Fed into a corner in which fear of financial collapse drives away fears of inflation. Before the banking crisis took center stage, Bernanke mused aloud from time to time about the risk to the Fed's credibility in using Core Inflation as its reference if Nominal CPI were staying significantly higher. (Core Inflation has routinely been dismissed by skeptics as "The measure for economists who neither eat nor heat," or by a dry British economist as "The measure appropriate for anorexic pedestrians.") Bernanke's 2% fed funds rate is less than half the CPI, and is now well below even Core Inflation. Central banks who keep their target rates in negative real terms invite serious inflation. Bernanke, a cautious student of monetary history, would hardly take that risk if he weren't so terrified by the fallout from the banking disaster.

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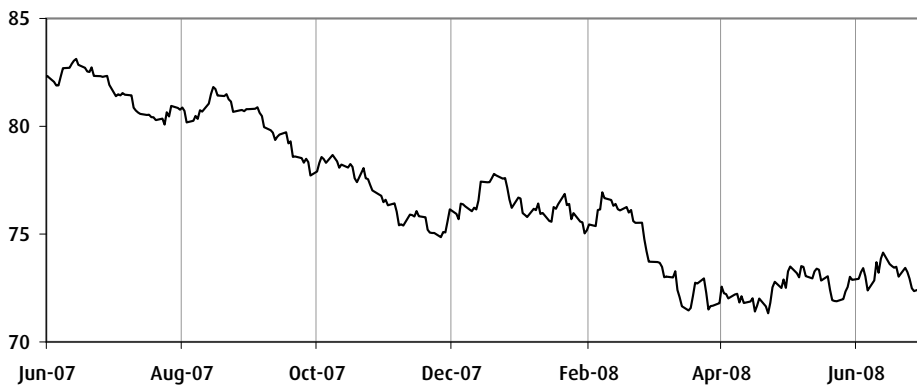
The crisis could be moving into uncharted territory. Last week, the latest rally in the dollar that would, the Street's brightest brayed, burst the commodity bubble, ended suddenly. Commodities rallied, led by the grains. Most ominously for Bernanke, gold broke out of its correction pattern:

How could so many big banks simultaneously behave so stupidly?

Gold
June 2007 to June 2008



US Dollar Index (DXY)
June 2007 to June 2008



How could so many big banks simultaneously behave so stupidly?

Perhaps, because they had diminished quantities of brain power at a time the global liquidity glut had given them nearly unlimited opportunities to lever up their balance sheets. Their business models were no longer the stodgy, traditional Basel I banks, but the new stars of Wall Street—the hedge funds.



The sudden appearance of so many geniuses may have been the greatest instant success story since Jason sowed the fields with dragons' teeth and hundreds of warriors sprang forth.

During this decade, the number of operating hedge funds increased by more than 500%. Hedge funds tended to have balance sheets levered even more heavily than the banks, but they have shown they are able to escape collapse and earn profits by being collectively smarter than the banks. More banks have publicly reported horrendous results than have hedge funds—and there are thousands more hedge funds than banks. These “shadow banks” have collectively demonstrated their smarts at analyzing the Street’s fiendishly difficult products and picking out the diamonds in the dung. (Warren Buffett has said it takes 700,000 calculations to value just one mortgage-backed CDO.)

The sudden appearance of so many geniuses may have been the greatest instant success story since Jason sowed the fields with dragons’ teeth and hundreds of warriors sprang forth.

Since dragons’ teeth are in short supply these days, from whence sprang all these geniuses?

Mostly from the banks. The explosive growth of hedge funds was seeded and irrigated by the brain drain from the big banks.

By 2006, prime brokerage between investment banks and hedge funds was a major line of business for Wall Street. It is reasonable to assume that the basic Darwinism that built the hedge fund industry would have meant that the average hedge fund practitioner was much smarter than the average banker. Result: a dream situation for hedgies: the bankers at the non-stop poker table had more money than brains, while the hedgies had more brains than money.

The banks were collectively left with the hedgies’ rejects—both in personnel on their payrolls and paper silting up on their balance sheets. The term used by bank analysts to compare the performance of the CDOs comes from oenology—vintages. Each year of mortgage-backed CDOs was a new vintage. And the younger the vintage, the worse. The very worst vintages of mortgage-backed paper were those issued during 2006 and early 2007—and the banks who created them found they couldn’t ship them out of their warehouses. The hedge funds weren’t buying. We now know that the hedgies got the good wines, leaving the banks only the whine.

Basic Points

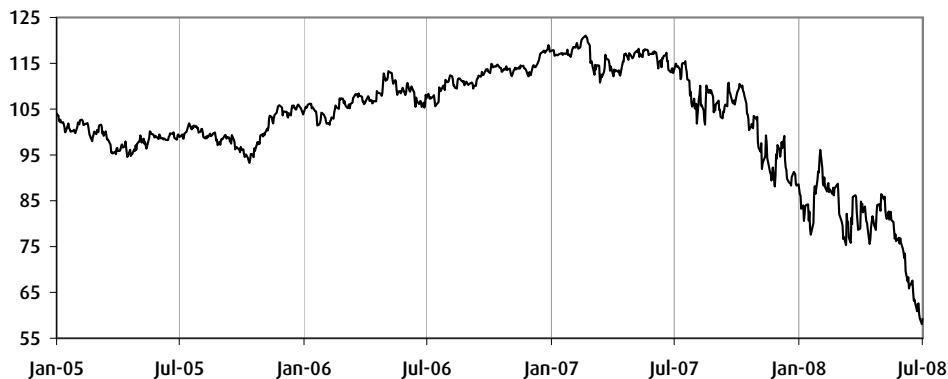
That the most recently issued CDOs turned out so disastrously seems counter-intuitive. Wouldn't the banks have learned from experience? Instead, on the evidence, the more experience the banks had with such products, the worse their judgment about what to buy.

What had happened was that the housing bubble had expanded to its peak. Amid the frenzy, the incentive systems to mortgage lenders and CDO creators had been hugely corrupted. Result: the smart former bankers refused to invest in the paper issued late in the housing bubble at a time when lending and appraisal practices had been debauched to the point of Hogarthian dissipation.

We make these points to buttress our argument that the banking crisis is, at best, in the fourth inning of a game in which the home team is already down by 40 runs—and the beer has run out and the exit doors are sealed.

...the banking crisis is, at best, in the fourth inning of a game in which the home team is already down by 40 runs—and the beer has run out and the exit doors are sealed.

**Bank Stock Index (BKX)
January 2005 to June 2008**



What Bernanke is doing would not just have shocked Congress in previous eras, it would have led to the firing of the Fed Chairman. That the Fed is now taking as security hundreds of billions of face value of the bottom-of-the-barrel sludge from the most notorious asset class in the history of modern banking is a measure of just how seriously Bernanke—and Congress and the Administration—view this crisis.



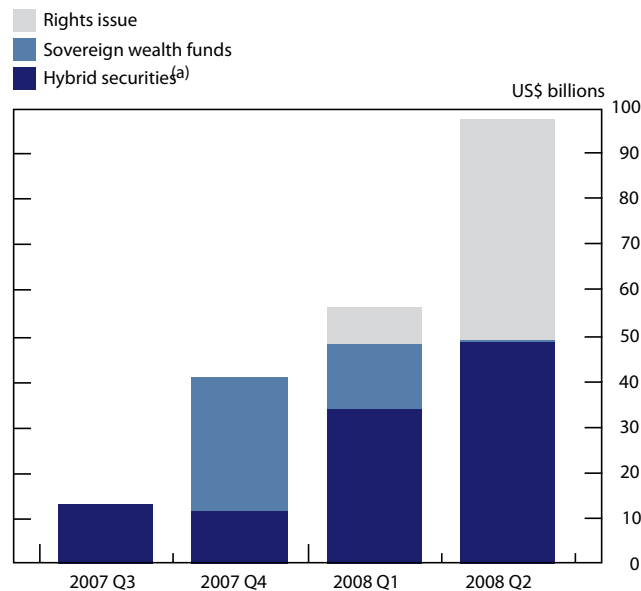
...the Sovereign Wealth Funds... have learned to fear geeks bearing swiftly-manufactured financial products.

Moreover, the \$40 billion or so that Wall Street managed to hustle from Sovereign Wealth Funds in just a few weeks is not likely to be the model that saves the banks. Every one of those investors is a substantial loser on its stake. It is highly improbable that the bank CEOs who jetted to Jeddah and elsewhere to offer a piece of their banks leveled with investors about the extent of their likely losses. In their defense, given the quality of their managements, the banks may not actually have understood how serious were their losses on subprimes and Alt-As, how much they had at risk in gasping commercial mortgages and Collateralized Loan Obligations, or how much they might have to advance under existing guaranteed credit lines to major customers as the recessionary forces intensified.

The US banking sector, once a source of national pride and a global symbol of American capitalist pre-eminence, is now a national embarrassment, with some segments already being declared national disasters.

As this chart from the Bank of England shows, the Sovereign Wealth Funds, which lost so heavily when betting on the Street's computer-based risk appraisals, have learned to fear geeks bearing swiftly-manufactured financial products.

Major Banks' Tier 1 Capital Raising by Type Since September 2007

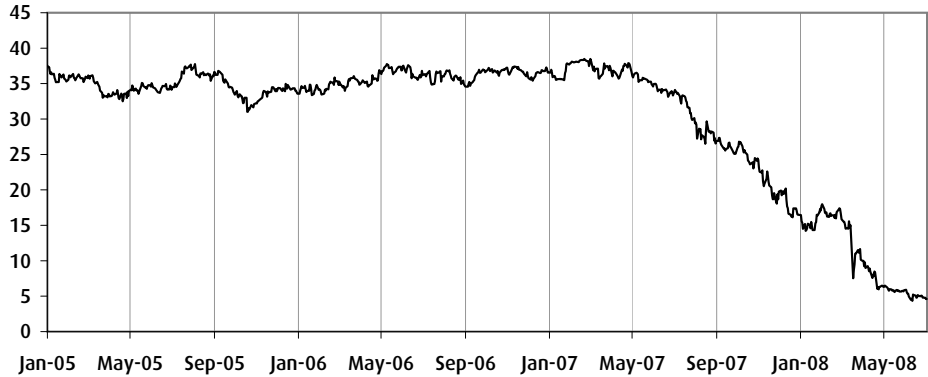


Sources: Dealogic, company releases and Bank calculations; Bank of England Quarterly Bulletin, 2008 Q2 Volume 48 No. 2
(a) Fixed-rate debt instruments with equity-like features.

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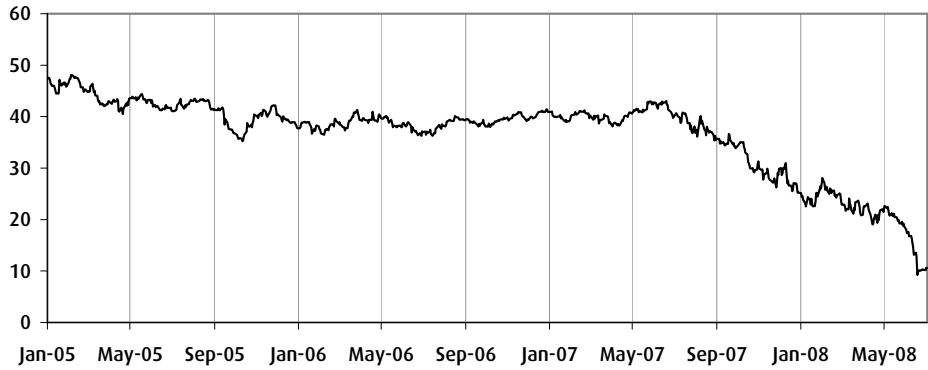
Although we discuss this crisis with reference to the big-cap Wall Street names, the disease is more widespread:

National City (NCC – NYSE)
January 2005 to June 2008

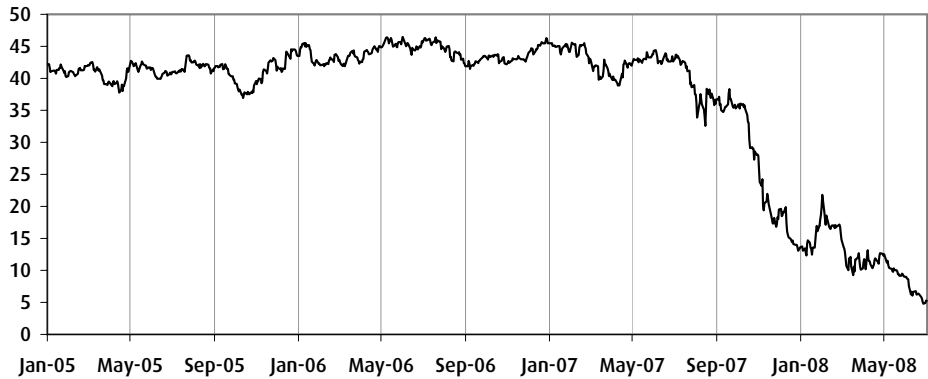


...the disease is more widespread...

Fifth Third Bank (FITB – NYSE)
January 2005 to June 2008



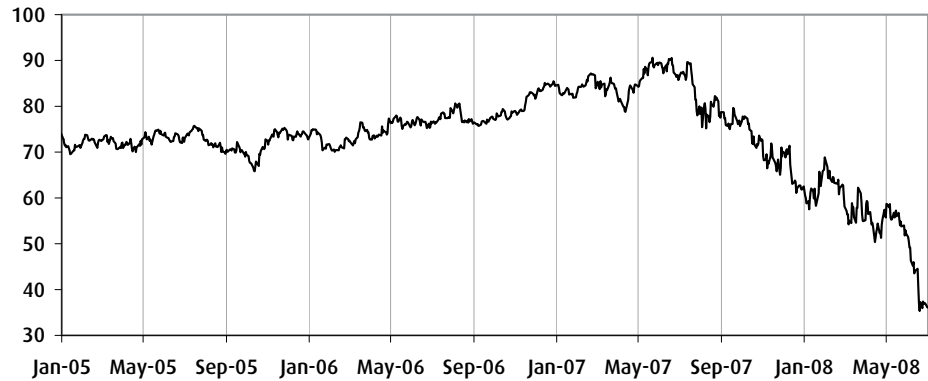
Washington Mutual (WAMU – NYSE)
January 2005 to June 2008





**In other words, the
US financial system
is in its worst mess
since the Depression.**

**Suntrust (STI – NYSE)
January 2005 to June 2008**



Each of these institutions has a long and proud history. Two are Northeast Regionals, WAMU is a national S&L, and Suntrust is one of the great names in the Southeast—until recently one of the most attractive regions for financial institutions. Yet these charts are of the kind that we call, “If found at the end of a hospital bed, order flowers for the widow.”

House prices continue to decline, and, in recent months, the rate of decline has accelerated. Congress, which boasts such flickering luminaries as Republican Senator Shelby who has extensive banking connections, and several high-profile Democratic Senators who have suspiciously favorable mortgage deals with folks such as Angelo Mozilo of Countrywide Financial, is getting into housing in a big way. It has expanded the lending power of the Federal Housing Administration so rapidly and egregiously that the storied and safe FHA is likely to join the disreputable and financially risky Fannie and Freddie as potential supplicants for taxpayer support.

In other words, the US financial system is in its worst mess since the Depression.

The consolation—if that be *le mot juste*, is that so is Britain’s—and, for that matter, the Swiss and Spanish banking systems. We can remember how smug the American and British bankers were when the Japanese banking system had become the preserve of the aged, the weak, the hopeless, and the zombies.

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But the Japanese eventually cleaned up their banking system. In retrospect, the right trade in this decade would have been to short American and British banks and buy Japanese banks.

Who would ever have predicted that Bank of America stock would trade at a 10% yield? The B of A was, for years, the pre-eminent total return investment among financial stocks. At the time we were writing our book (*The New Reality of Wall Street*, McGraw Hill, 2003), we were advising investors that B of A was the model for a retirement investment—and better than a Treasury bond, because its dividends would climb every year—and was the most obvious “Great Dividend-Paying Stock.” In particular, this was the only large bank that had zero exposure to Eurodollar deposits: it was entirely funded on domestic deposits, mostly retail checking and savings accounts. That deposit base was generally reliable during banking crises, whereas wholesale Eurodollar CDs were prone to mass migrations if fear were coursing through the system. That funding base meant the bank was, we argued, almost immune to banking crises. We were disappointed to learn a few months ago that the bank had quietly changed its financial structure and was now getting an undisclosed level of funding through wholesale Eurodollar deposits. That bad news came after the bank shocked us by buying Countrywide Financial, which to us had a morally inferior culture to the B of A.

If this powerhouse is so humbled, why should investors have confidence in the merits of lesser organizations?

We are not predicting that dozens more major American and British institutions must go bust. That said, we wonder how long Bernanke can continue to frantically disgorge Treasuries in exchange for unmarketable, undeodorized securities. At his current rate of bailing, the Fed could be out of Treasuries by year-end, and its balance sheet would be as dubious as Citigroup's. At that point, would he be forced to petition Congress to let him start selling the gold in Fort Knox? And which Sovereign Wealth Funds would step forward to displace the Fed as Banker to the World?

We *are* suggesting that these walking wounded whose injuries were almost entirely self-inflicted are hardly the kind of deep-pocketed backers who can haul the American and British economies out of their housing-led funks. Drunks make bad bartenders.

**...the Fed could be
out of Treasuries by
year-end...**



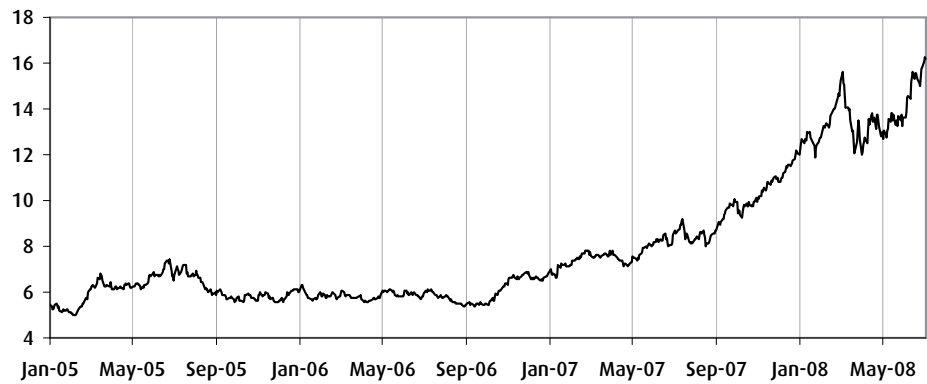
2. The Global Food Crisis

We have been writing about the attractiveness of agricultural stocks since October 2006.

Corn
January 2005 to June 2008



Soybeans
January 2005 to June 2008

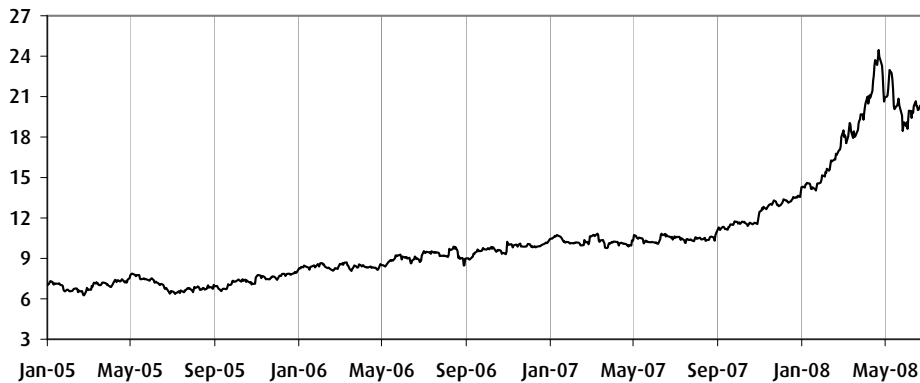


Wheat
January 2005 to June 2008



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Rice
January 2005 to June 2008



Double-digit food inflation is spreading across the Third World.

We have been writing about the attractiveness of agricultural stocks since October 2006. This year, we have switched our commentary to discuss the potential catastrophe the world faces as food prices soar to levels that threaten the survival of the poor—and of many governments.

In June, the UN World Food Commission held an emergency meeting in Rome to discuss the global food crisis. Among the more notable attendees was Zimbabwe's Robert Mugabe, who took time from waging his typically vigorous campaign for re-election to make an appearance and appeal for support for the Commission. Mr. Mugabe was needed because he serves as Chairman of the UN's Committee on Sustainable Development. He has long been a leading supporter of the Food Commission, the UN's Program in Iraq of Oil for Food, Greenpeace, and other similar causes. His shouted reminders that imperialists and global corporations produce starvation have produced many a standing ovation in the UN General Assembly—"The Conscience of Mankind." To make him almost perfect by UN and other global standards, he also opposes genetically modified foods.

In other words, apart from the way he loots his country, beats up and murders citizens who disagree with him, and the 1,000,000% inflation he has unleashed, Mr. Mugabe is representative of the forces standing in the way of achieving a rational and successful global food program.

Double-digit food inflation is spreading across the Third World. Until last week, when China reduced its fuel subsidies, food inflation accounted for roughly 80% of China's CPI increase. Food is the prime culprit in Vietnam's 25% rate of CPI, and India's 11%.



**"Biofuels are
economical nonsense,
ecologically useless
and ethically
indefensible..."**

What concerns us most is that this 1970s-style food inflation comes after two decades of mostly good growing weather across the world—including 17 consecutive good years in the US Midwest, the self-styled "Saudi Arabia of Corn." Yet world supplies of grains have declined for six straight years and are now at record-low levels in relation to consumption. (See the USDA tables appended to this report.)

Moreover, the ethanol and biodiesel industries in the US and Europe continue to receive enormous government aid in the form of tariffs and subsidies. These programs were conceived when corn and soybeans were cheap, and almost no one believed they would ever reach \$5 and \$10, respectively—let alone \$7 and \$15. Worse: the planners assumed perpetually low prices for natural gas, the fuel in the factories. (Natural gas consumed in ethanol plants accounted for 6.5–8.0% of total US gas consumption in 2006.)

Estimates of corn consumption in ethanol plants this year are in the one-third range. But President Bush's 2007 State of the Union speech called for biofuel production to rise from 5 billion gallons in 2007 to 35 billion gallons in 2017. (That would include vast expansion of ethanol, plus the prospects for cellulosic and animal fat-based products.)

Peter Brabeck-Letmathe, Chairman and former CEO of Nestle, published a powerful and disturbing op-ed piece in *The Wall Street Journal* last month. We have been criticizing the corn ethanol programs with such fervor that we thought we were among the strongest opponents. In comparison with Mr. Brabeck-Letmathe, we are wimps. He says, "Biofuels are economical nonsense, ecologically useless and ethically indefensible...The biofuel craze, egged on by global warming activists, has helped fuel a huge agricultural crisis."

However, his indignation hasn't the fire power to stand up to the well-organized self-interest of the ethanol industry. ADM and friends aren't about to abandon their operations because of the impact on poor people in nations of which they know little. The counterattack is remarkably sophisticated.

Consider the broadside on speculators and oil delivered to Congress by the now-famous Michael Masters. (We discuss his arguments about the effects of pension funds on oil prices on page 25.)

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We had heard of his rage at pension funds holding oil futures, but were rather surprised to read in his screed that the pension funds were also guilty of inflicting starvation on the poor of the world and were falsely blaming the ethanol industry.

The man Senator McCaskill (D.-Mo.) calls “the most important man in Washington right now” was telling Senator Lieberman and other villain seekers what they wanted to hear.

When somebody who makes a living in the competitive world of hedge funds makes the breathtaking allegation that the industry that will this year burn up roughly one-third of the nation’s corn production has nothing to do with \$7 corn because the pension fund speculators drove the price to that level with their greed, then one wonders about his motivations.

Mr. Masters got help from another unlikely source. Merrill Lynch published an analysis that showed that corn ethanol had cut \$21 off the price of a barrel of oil in the Midwest in terms of the cost of gasoline in that part of the country.

We worry that so much of this debate proceeds on the assumption that the splendid weather we have experienced for decades will last forever. However, we have been unable to build up surplus stocks of corn and other grains despite the best winning streak for Midwest weather on record.

That may be about to end.

As we have been mentioning in this journal in recent months, we are concerned that the 26 years of very favorable sunspot activity that contributed so strongly to great growing conditions may be history.

We mention this with some trepidation, because we know what an unusual idea this is. Moreover, we stuck our necks out last year by raising alarms about honey bees and there are still bees around and no food crisis has resulted. However, the latest statistics on US bees are that the nation lost 31% of its population during the fall and winter of 2006–07 and a further 36% a year later. There is still disagreement about what causes the Colony Collapse Disorder. The risk is still there—and still growing.

...one wonders about his motivations.

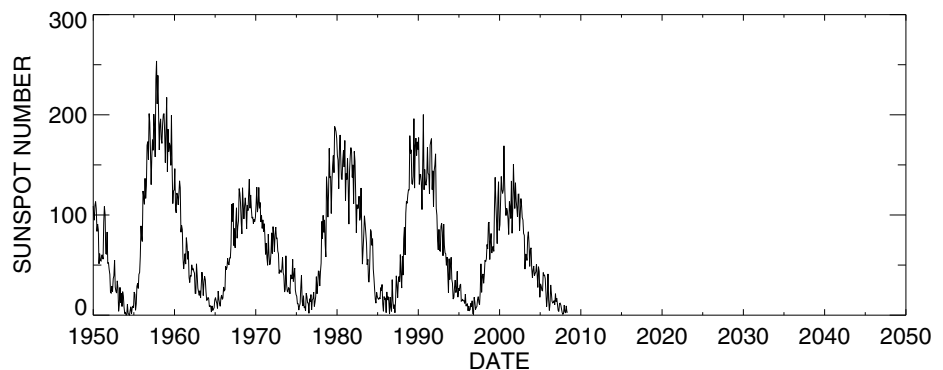
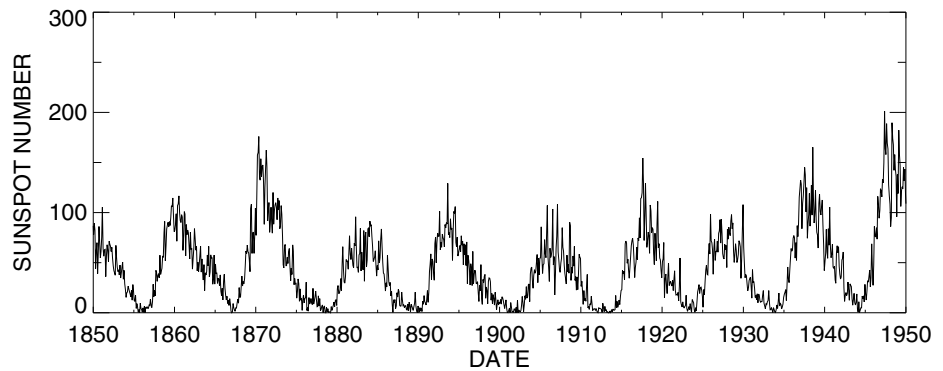
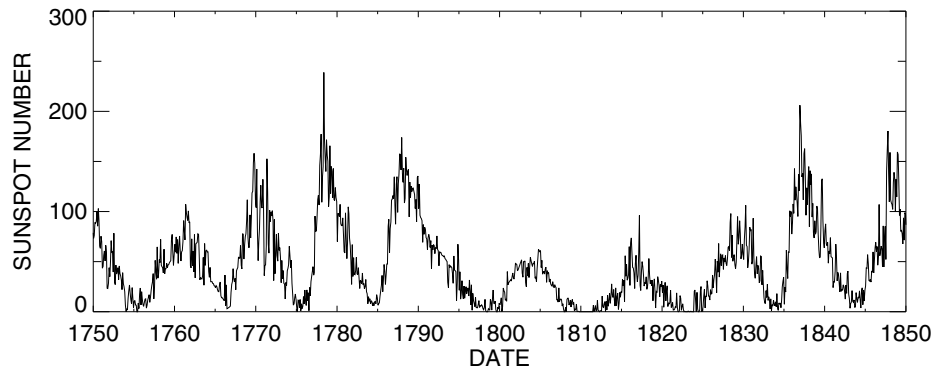


...so much of this debate proceeds on the assumption that the splendid weather we have experienced for decades will last forever.

And so to sunspots.

Here is what we have been talking and writing about. The chart shows sunspot activity for the years that astronomers have been recording their observations:

Sunspot Cycles 1760 to 2008



Source: <http://solarscience.msfc.nasa.gov/SunspotCycle.shtml>

Basic Points

A few non-controversial notes:

1. Sunspots were first identified by scientists in ancient Greece and medieval China. However, it was Galileo who really launched the study of these solar explosions. Various websites publish the charts showing sunspot activity over the past 240 years.
2. Historically, years of high sunspot activity have been associated with warm weather—at least in Europe and North America, where we have detailed records. Conversely, years of very low sunspot activity have been associated with very cold weather—at least in Europe and North America.
3. The mini-Ice Age that ended in the early 19th Century was a period of very low sunspot activity. The Thames frequently froze over. In the winter of 1780, one could walk from Manhattan to Staten Island. Crop failures due to early frosts were frequent occurrences.
4. The modern sunspot cycle—11 years—began in the early 19th Century. 2007 was the final year of Cycle #23 and was supposed to be the start of Cycle #24. In each such cycle, sunspot activity moves from low to high over 10 years, then drops sharply in the eleventh year.
5. Sunspots may be accompanied by solar flares, in which case the total radiation emitted can be disabling to communications on this planet. The massive power failure for Hydro Quebec in 1989 was caused by such an event.
6. The last two sunspot cycles had one of the highest sustained levels of activity on record. Apart from the effects of Mt. Pinatubo in 1991, the world experienced pronounced warming during that period. The winter of 2006–07, the end of the cycle, had very low sunspot activity and the global temperature fell 0.7C, wiping out the warming of the previous two decades. The polar ice cap is, according to some reports, back to “normal.”
7. The sunspots have not returned on schedule. Indeed, there have been many weeks of zero sunspot activity. Weather in most parts of Canada, the US, China, Ukraine, and central and northern Europe has been unusually cold and wet. The jet stream is much further south than usual for this time of the year, and that means wet, stormy weather for the Midwest as cool weather meets the hot, humid air coming north from the Gulf of Mexico.

**In the winter of 1780,
one could walk
from Manhattan to
Staten Island.**



“Man is the measure of all things” became a good slogan for Renaissance philosophers, but may be an unsound basis for climatology.

8. According to *National Geographic* (July 2004), scientists are unsure about the extent of the relationship between sunspots and weather on earth. NASA scientists believe that sunspots accounted for up to half of global warming until 1940, but believe greenhouse gases have probably accounted for a greater share of warming since then.
9. If the frequency of sunspots does not revert to the pattern of previous cycles, it would be reasonable to assume that next winter would be bitterly cold and long—at least by recent standards. It would also be reasonable to expect early frosts in many regions.

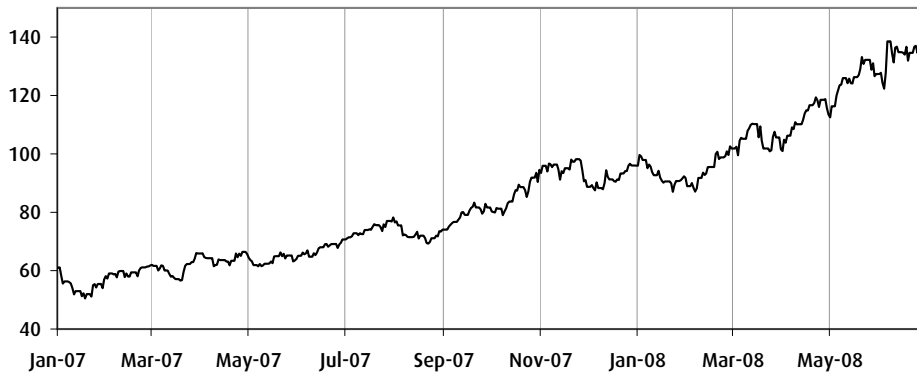
What about global warming?

It has been a reality in recent decades, but the dispute among scientists is about how much of that temperature change is due to human activity and how much is due to an increase in total radiation received from the sun. We aren't about to get into that debate, but we believe clients should realize that, at least in the shorter term, sunspot activity or inactivity is likely to be a far greater contributor to global temperature change than those widely publicized threats to the planet—SUVs and bovine flatulence.

If next winter is as cold in China and North America as last winter, and if spring is as wet in those regions as this year, the effect on global food prices would be dramatic. We no longer have any carryover cushion of grains against severe cold, or against sustained rains on the plains. We believe the global warmists may be overstating the effects of human energy consumption and underrating the effects of changes in the sun's radiation, and in ocean currents. Protagoras' famous assertion “Man is the measure of all things” became a good slogan for Renaissance philosophers, but may be an unsound basis for climatology.

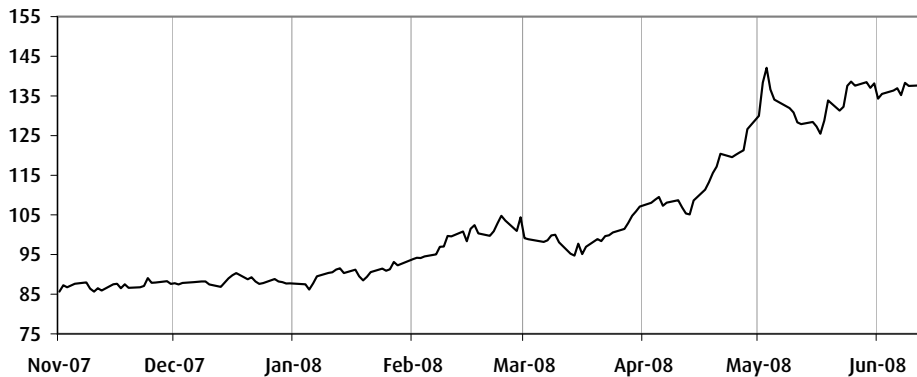
3. The Oil Shock

Crude Oil Spot
January 2007 to June 2008



\$140 oil isn't a crisis...

Crude Oil Futures (Dec. 2016 Contract)
November 2007 to June 2008



We don't use the expression "energy crisis," because \$140 oil isn't a crisis—it is a shock that has varying impact on nearly all sectors of the global economy.

In a sense, there isn't even an "oil shortage." It depends what is meant by "oil." Nigerian Bonny Light, the refiner's dream fuel, is not available at its stated production rate, because terrorists attacking offshore installations have forced cutbacks amounting to a million barrels a day. Light, sweet crude—the kind deliverable under WTI or Brent contracts—is available—at a price. Heavy, high-sulfur crude is in oversupply: Iran has millions of barrels available for immediate delivery, but buyers are few. And, if the more venomous of the oil-hating NGOs get their way, oil from Canada's oil sands will either be choked off at the minesite (or wellhead), or banned



**Never, it can be said,
have so many sent
so much money each
week to so few.**

from entry into the US—to save the world from global warming. (They have already inserted a provision in a bill that forbids the Pentagon from buying petroleum products refined from Canadian oil sands. Barack Obama wowed the Mayors' convention in Miami by pledging he'd get the nation off "dirty oil" that harms the environment, and his staff have confirmed he was thinking of Canadian oil sands' product. But he's a big backer of subsidies for US corn ethanol and a big booster of tariffs to keep out Brazilian sugar-based ethanol, so he's being consistent.)

Regardless of how this oil squeeze plays out, it will have lasting impact on financial markets and on the distribution of financial wealth. The buildup of wealth in the Gulf states is on a scale unprecedented in world history. Their SWFs and foreign exchange reserves grow by more than \$500 million every day. These funds have become a major component of global savings—and a crucial component of total global financial power. Ironically, SUV users are contributing to overall global savings at a time of shrinking liquidity. Gulf State SWFs are probably getting \$50 to \$90 to invest out of each barrel of oil produced. What is unfolding is daily draws—at rising rates—on consumers in the advanced nations in a sustained transfer of wealth to relatively new economies. Never, it can be said, have so many sent so much money each week to so few.

Most of the commentary on the world's most-discussed topic—\$140 oil—is about its impact on global economic growth and inflation.

As speakers at the conference co-sponsored by the Bank of Canada and the Haskayne School of Business observed last week, the sky-high oil price could be a transitory event that is largely self-correcting, it could be an inflationary shock, or it could mark the onset of a sustained period of much higher inflation. References to 1970s-style stagflation abounded.

There was scant support for the election year witch hunt in Congress: that pension fund speculators are responsible for soaring oil prices. That one previously obscure hedge fund manager could have such impact is a measure of how desperate lawmakers are to (1) find another villain than just the oil companies, and (2) to "do something" about the issue that's suddenly tops on voters' list of concerns.

Basic Points

Who is this Michael Masters who has so bedazzled Washington?

As Dennis Gartman, *Business Week* and some clients have noted, his hedge fund (based in the splendidly tax-free Virgin Islands) is heavy in airlines and General Motors. More importantly, *his big bets on those companies are through Call Options*. In other words, he's positioned perfectly—and perilously—to prosper if oil prices should sink suddenly amid a sea change of opinion that “it was all about pension fund speculators.”

There's nothing illegal about “speaking to one's book.” Even the imperious George Soros has been known to do that. However, this new superstar who has lit up the halls of Congress with a conspiracy theory-style explanation for the pricing of the biggest commodity might have convinced any doubters that he was merely performing a public service had he included an appendix to his presentation showing how he and his clients stand to win should Congress be rushed in to enacting a law that would probably trigger a sharp selloff in oil prices. Although most people we've talked to think that would be a brief event—and one certified expert says it would be followed by a huge rally that would take oil past \$150 because of disorderly market conditions—it would doubtless be wondrously good for voters' appraisal of Congress, and Congress's appraisal of Mr. Masters.

Since the pension funds don't buy actual oil—they buy near-month contracts and roll them—they couldn't be responsible for such a huge, sustained rally. Although the value of their total exposure may seem large to some Congresspersons, it is (at \$240 billion) less than the stated cost of just one of the mortgage bailout bills that Congress is passing. Moreover, the amount of new money into the commodity funds this year is less than \$50 billion—hardly enough to carry oil to stratospheric levels on its own.

That said, Congress is behaving more reasonably to blame TIAA-Cref and other big pension funds than arguing—as have Senators Barbara Boxer and Dick Durbin—that the “huge” compensation packages for oil company CEOs are behind \$4 gas. Even John McCain, who should know better, speaks demagogically of “obscene” oil company profits and scolds the industry for not spending more on alternative fuels. Unlike the Democrats, however, he is in favor of letting the industry begin drilling offshore, where many billions of barrels likely lurk—and he is in favor of building nuclear plants.

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**...oil went to a major
new high despite
significantly decreased
consumption in the US.**

**The world has truly
changed.**

Although Congress is united in insisting that the US must achieve “Energy Independence,” and even George Bush has mouthed that demagogic phrase at times, the Democrats expect that ethanol and other biofuels, plus solar and wind power will provide the energy needed without any drilling offshore or in Alaska—or commissioning new nuclear plants.

The Democrats’ zero tolerance for offshore drilling is based on fears of oil spills, a concern dating back to the Exxon Valdes breakup, caused by a captain partial, we learned, to gin. We recalled that tragedy last week when the Supreme Court finally settled the upward limit of the punitive damages claim against XOM. (The story on trading floors at the time was, What did the skipper of the Exxon Valdes say to his first mate? Answer: “No, you idiot, I said *Tanqueray* on the rocks!”) Since then, the industry has learned a lot about operating offshore. Katrina, the once-in-two-centuries storm, smashed right into the heart of the oil and gas operations in the Gulf. Although there was severe damage, and production was slashed for months, there was no significant oil spill.

The Chinese, under license from Cuba, will soon be drilling just off the Florida Keys. If they make a significant find, is it too much to hope that the next President and Congress will reconsider a policy based in emotion-driven dogmatism?

One noteworthy aspect of this unexpected leap: for the first time, oil went to a major new high *despite significantly decreased consumption in the US*.

The world has truly changed.

4. Recession in the US and Other OECD Nations

One of the equity bulls' arguments has been that a great time to buy stocks is during a recession.

Well, yes...

But timing is more than usually important if the US (and some other OECD economies) is entering a recession. The time to buy is at the bottom of a recession, when stock prices are down sharply, and before monetary ease's magic has begun to show results.

Right now, there is no agreement that the US—or any other major economy—has actually entered recession. All the confidence surveys conducted in the US, Britain and even Germany show that businesses and consumers are as gloomy as they have been since 1982: and the real yield on the 10-Year Note was 12% back then. It's a *negative* 14 bps now. It's like comparing the Spanish-American War to World War I.

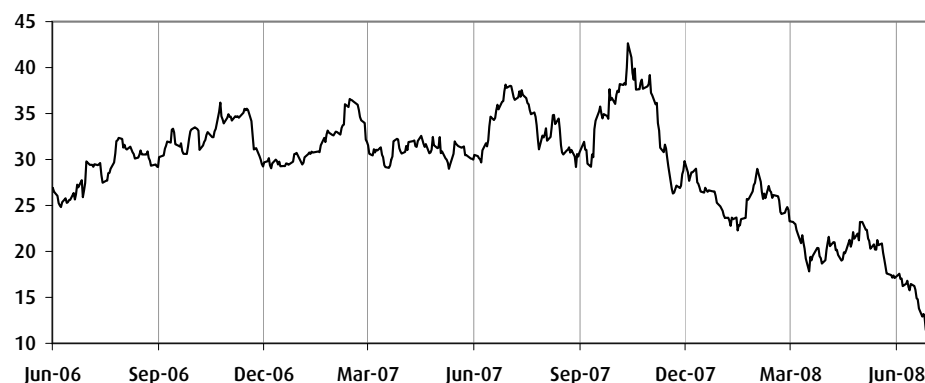
This downturn began with the bursting of the housing bubble. Congress is doing all it can to prevent house prices from falling far enough that a new class of homebuyers can emerge. On the affordability standard, median prices in cities nationally are still too expensive for lower middle-class buyers.

Meanwhile, the unwinding of the excesses in commercial real estate have just begun, which means that the cranes now dotting the landscape in the cities will soon be as rare as whooping cranes. That means that many high-paid construction workers will soon be joining the unemployment rolls.

How can one be convinced that the recovery is coming soon—as the Fed assured us in announcing it was leaving rates unchanged?

Here is a particularly bleak chart:

**General Motors (GM – NYSE)
June 2006 to June 2008**



**...the cranes now dotting
the landscape in the
cities will soon be as
rare as whooping cranes.**



**...this was destined
to be a very different
kind of slowdown...**

GM is back to where it was in 1955, three years after “Engine Charlie” Wilson was alleged to have said, “What’s good for General Motors is good for the country.” (What he actually said was, “I have always thought that what was good for the country was good for General Motors.”) Al Capp satirized him as General Bullmoose in the musical *Li'l Abner*, in the song, *What's good for General Bullmoose is good for the USA*.

GM is not just in trouble because of SUVs and other cars: it’s in trouble because its finance subsidiary that prospered for so many decades through auto loans got into mortgage financing big—and badly. So GM is an encapsulation of the whole recession/slowdown debate.

We reiterate our view that this was destined to be a very different kind of slowdown, because the Inventory-to-Sales ratio was at an all-time low of 1.25 months as of year-end, and because the plunge in the birth rate after 1971 means that there will be no explosive rise in youth unemployment—traditionally the age cohort most vulnerable to a recession.

But we believe strongly that the three previously discussed interlocking, overlapping and mutually reinforcing trends—the financial crisis, food and fuel inflation—mean that the challenge for the Fed and other policymakers is more daunting than in all previous postwar recessions except 1982.

Furthermore, this is the first recession in which demographic decline is an influence—both for good and for bad effects. We have already discussed why the relative paucity of young people seeking work compared with, say, 1974, is a boon for the economy. However, the percentage of the population that is young people with jobs who are ready to leave home is a prime demographic in housing demand—and that number is lower than in earlier recessions. Admittedly, it is better in the US than elsewhere in the OECD because of the high percentage of Latinos in the 15–35 age groups.

Basic Points

Summing up, we remain unsure whether this will unfold as a recession and recovery, or prolonged slowdown and eventual recovery. For many job categories in the financial community, it's a deep recession. For many autoworkers, it's a deep recession.

But the economists say it doesn't qualify as a recession.

For investors, we think the prudent course is to treat it as a recession until proved otherwise. Stay overinvested in commodity stocks whose earnings and performance are tied to stronger economies in the Third World, and stay underinvested in financial stocks until they start to demonstrate the kind of strong relative performance that means it's time for the "All Clear" whistle to sound.

What about the effect on the economies whose powerful growth has driven the commodity bull market? As stock markets in China and India confirm, the rumbustious growth that seemed to blast past all forecasts is easing. Maintaining food and fuel subsidies at a time when growth in exports to OECD economies is suffering poses huge problems for these and other Third World powerhouses. However, as the newly negotiated prices for iron ore, coal and potash confirm, these economies are still much stronger than the OECD—and they still need stuff.

...these [Third World powerhouses] are still much stronger than the OECD—and they still need stuff.



...the risks outweigh the rewards for most North American equity groups—particularly the banks.

INVESTMENT ENVIRONMENT

Milton Friedman told central bankers that their most important task was to anchor inflation expectations at low levels. Once the business community and consumers concluded inflation had nowhere to go but up, then the behavioral shifts would put near-intolerable pressure on the central banks.

Ben Bernanke bravely continues to assert that inflation will “moderate later this year and next year.” But, as *The Wall Street Journal* thunders in its lead editorial on June 26th, “According to the Conference Board’s June survey of consumer sentiment, Americans believe inflation over the next 12 months will be 7.7%. That’s up from 6.8% in April, 5.4% in February, 5% last September, and the highest in the last 20 years.”

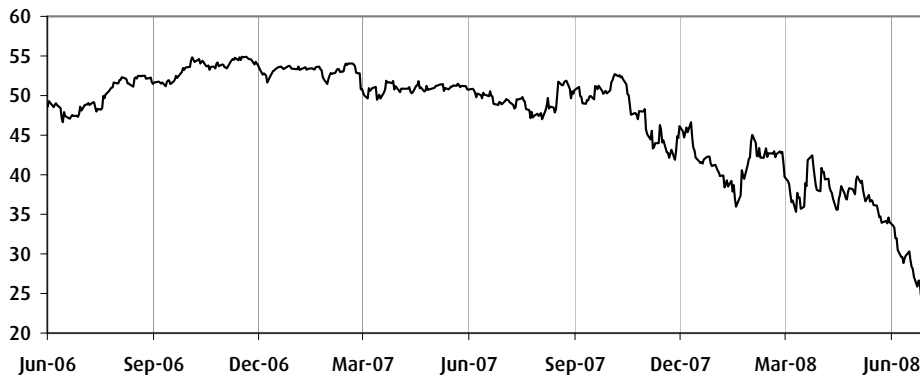
As we wrote last month, once commodity inflation hits, it is crucial that central banks crush it before it works its way into the system. The Fed famously failed to do that under Nixon, Ford and Carter, so Paul Volcker had to wrestle inflation to the ground with a powerful bearhug. (The expression “wrestle inflation to the ground” has been used by various politicians who were not equipped physically or intellectually to carry out their boast. Volcker was not only 6’7”, but he had the intellect and wisdom to back up his Brobdingnagian size. He crushed inflation by crushing money growth. He didn’t set inflation targets—he set monetary targets, believing, with Friedman, that inflation would only go away when excess monetary growth had become extinct. After Volcker retired, inflation targeting quietly crept back into the policy chambers at leading central banks. Volcker has publicly condemned inflation targeting recently, without mentioning any central bankers by name.)

We remain of the view that the risks outweigh the rewards for most North American equity groups—particularly the banks.

Basic Points

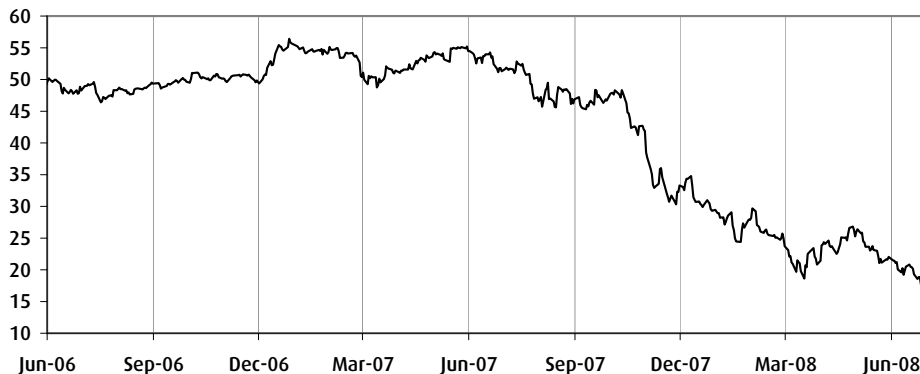
A year ago, Bank of America and Citigroup were ranked highly by most bank analysts. How are the mighty fallen:

Bank of America (BAC – NYSE)
June 2006 to June 2008



Among those who have been given the biggest paychecks and the biggest perks are men who made the biggest blunders in modern banking history.

Citigroup (C – NYSE)
June 2006 to June 2008



I remember being on CNBC last August and telling the interviewer that investors should buy the commodity stocks and sell the big banks, such as Citigroup. She interrupted me to read out a strong “Buy” recommendation on Citigroup that had just been issued by some well-known analyst. I was not given a chance to reply.

I cite that exchange because, even though it was obvious that the financial system was in severe turmoil, the Wall Street elites still looked at the big banks as core investments and looked down their noses at commodity stocks. It was hard for them to face the fact that the biggest names in the biggest financial corporations had betrayed their stockholders, employees, America, and the global economy.



That they are disgraces to capitalism is obvious....they are greater challenges to capitalism than all the socialist editorialists in the land.

Free markets are all about risk and reward. Capitalism is ordinarily the best of systems because it rewards those who make the biggest contributions to profits and growth, and punishes those who make bad decisions, or abuse the system.

Not this time.

Among those who have been given the biggest paychecks and the biggest perks are men who made the biggest blunders in modern banking history. Compared to them, Congress looks smart and virtuous.

They have imposed a terrible burden on Bernanke—and on the most vulnerable workers across the American economy. Yes, their stockholders have suffered, but few regular readers of this publication have lost money from the collapse in those stocks. The readership self-selects: our viewpoint is so contrarian that only a small minority of investors could stand to work their way through our prose.

But we are all involved in the travails of an American economy that has been pushed to the limits by the bad behavior of all those wealthy and powerful men.

That they are disgraces to capitalism is obvious. That they don't seem to realize just how appalling their behavior has been is a sign of their moral vacuity. That they have been paid egregious sums of money and have not once offered to repay funds which were paid to them based on their misrepresentation of the actual risks they were assuming and the misstatements of real earnings of the companies they led shows why they are greater challenges to capitalism than all the socialist editorialists in the land.

As Friedman wrote: the main challenge to capitalism is capitalists; the main challenge to socialism is socialism.

Investors should assume that the punishment being administered to the American financial system by the market itself still has a long way to run.

INVESTMENT RECOMMENDATIONS

1. This is a Bear market on Wall Street. Like other bear markets, it is being led by the Financial stocks. Until they start to outperform on relative strength, the market's primary trend is down.
2. Canada went to another new high last week. This year will be the seventh straight year that Toronto has outperformed New York. At some point, those Canadian investors who, afflicted with the national inferiority complex, are so eager to sell Canadian stocks to buy the big US names discussed on CNBC will realize just how expensive their bad habit really is.
3. One reason for Canada's outperformance is that Canadian bank stocks have been so strong compared to their US counterparts. A decade ago, the price to book comparisons favored US banks. In recent years, it has been "No Contest." As of last month, (according to the great Hugh Brown), the ratio favoring Canadian banks over US banks went to a new high. That means, for Americans, if you must own banks, go North.
4. Gold gives three signals: inverse performance to the dollar, an inflation call, and a warning if a financial crisis impends. Gold shot through \$1,000 an ounce at the time of the Bear Stearns vaporization: many investors (including us) thought the Bear was, with Goldman, one of the two well-managed investment banks, so its demise meant further collapses. When Bernanke managed to avert further crashes, gold retreated to \$850. It is once again signaling that there is stormy weather ahead on Wall Street, just as there is stormy weather on the plains.
5. That stormy weather across the Midwest keeps destroying crops and sending grain and soybean prices skyward. Remain overweight the fertilizer, farm equipment, and seed stocks. They are no longer cheap, but, unlike most other equity groups, they offer powerful earnings growth stories—even if the US and Europe go into recessions.
6. Remain overweight the oil and gas stocks. We think the upside potential for natural gas now exceeds that of oil, which is vulnerable to a downside correction, particularly if Congress passes a law that forces pension funds to disinvest in commodities. We still think that is unlikely, because it would not only be bone-headed, but it would set a terrible precedent, and would undermine the basic theory underlying ERISA.



7. The mounting propaganda campaign against the Alberta oil sands could inflict real harm. We do not recommend that clients invest in companies that are still far from production, but do recommend that clients stay overweight the producers. If the US actually decides to ban imports of Alberta synthetic oil, then their production will be sent to China. Americans would then be even more dependent on Venezuela, Nigeria, and the Gulf states.
8. Although the US economy is weak, we do not believe that the US bond market is attractive. We think the major central banks will be forced to tighten policy. Canada has already shown that it is leery of further easing; the ECB and the Bank of England will soon be tightening. If Bernanke keeps focusing on saving Wall Street's Worst, then US inflation will climb faster, and the dollar will sink faster.
9. The economies offering good economic growth *and* good demographic growth are all outside the OECD. Most of their stock markets soared last year and have gone into a funk this year. We worry that food inflation, coupled with high energy prices, will pose great challenges to some of the rising stars internationally. In particular, we are concerned about India, which is most vulnerable among the large economies if severe weather should trigger \$9 corn and wheat. Brazil is the major emerging economy whose stock market has remained strong, and that actually benefits from crop failures abroad.

Basic Points

APPENDIX

USDA Agricultural Outlook

World Supply & Utilization of Major Crops, Livestock, & Products

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	<i>Million units</i>									
Wheat										
Area (hectares)	215.7	217.9	215.2	215.2	210.2	217.6	218.8	212.2	217.5	224.9
Production (metric tons)	586.7	582.9	583.1	568.7	553.8	625.7	620.8	592.0	606.4	656.0
Exports (metric tons)	113.4	101.5	105.7	105.6	108.6	110.8	116.3	110.7	109.6	117.5
Consumption (metric tons)	585.0	585.0	587.1	605.2	588.6	606.9	624.2	615.4	620.4	642.0
Ending stocks (metric tons)	209.5	207.5	203.4	166.8	132.1	150.8	147.5	124.1	110.0	124.0
Coarse grains										
Area (hectares)	299.0	296.1	301.0	293.0	306.9	300.2	301.7	304.5	316.8	313.0
Production (metric tons)	878.0	863.0	895.1	875.6	916.3	1,016.1	979.8	982.6	1,067.1	1,070.6
Exports (metric tons)	104.9	104.1	102.0	102.1	103.2	100.9	107.1	116.8	125.7	119.3
Consumption (metric tons)	882.8	884.5	907.4	903.9	945.3	979.1	993.1	1,012.8	1,067.0	1,078.4
Ending stocks (metric tons)	232.5	210.9	198.6	170.3	141.3	178.3	165.0	134.8	135.0	127.2
Rice, milled										
Area (hectares)	155.3	151.7	150.7	146.0	148.3	150.6	152.7	153.7	154.4	155.7
Production (metric tons)	408.9	398.9	399.7	378.1	391.5	400.9	418.2	420.6	427.1	432.0
Exports (metric tons)	22.8	24.1	26.9	28.7	27.4	28.5	30.4	30.8	27.0	27.0
Consumption (metric tons)	399.8	395.3	413.4	407.8	413.7	408.9	415.6	420.5	424.4	428.0
Ending stocks (metric tons)	143.1	146.7	133.0	103.3	81.2	73.2	75.7	75.8	78.5	82.6
Total grains										
Area (hectares)	669.9	665.7	666.9	654.2	665.4	668.4	673.2	670.5	688.7	693.6
Production (metric tons)	1,873.6	1,844.8	1,877.9	1,822.4	1,861.7	2,042.7	2,018.8	1,995.2	2,100.6	2,158.7
Exports (metric tons)	241.1	229.8	234.6	236.4	239.2	240.2	253.8	258.3	262.3	263.8
Consumption (metric tons)	1,867.6	1,864.8	1,908.0	1,916.9	1,947.6	1,994.9	2,032.9	2,048.7	2,111.8	2,148.4
Ending stocks (metric tons)	585.2	565.1	535.0	440.5	354.5	402.3	388.2	334.7	323.5	333.8
Oilseeds										
Crush (metric tons)	246.2	253.9	264.5	269.9	279.1	302.7	318.4	331.2	341.7	--
Production (metric tons)	304.2	313.9	324.9	331.3	335.9	381.5	391.4	408.1	390.8	--
Exports (metric tons)	59.2	66.8	62.2	69.6	67.0	74.4	76.0	83.1	88.5	--
Ending stocks (metric tons)	38.4	40.0	42.3	48.5	44.7	57.1	64.2	73.0	56.7	--
Meals										
Production (metric tons)	167.9	174.7	182.6	186.0	190.4	206.7	216.1	225.8	233.8	--
Exports (metric tons)	46.7	48.5	52.8	53.7	58.6	60.4	65.5	68.3	72.7	--
Oils										
Production (metric tons)	85.9	89.7	92.7	95.9	102.5	111.4	118.3	122.3	128.5	--
Exports (metric tons)	28.7	30.9	33.1	35.8	38.9	42.4	47.1	48.4	51.2	--
Cotton										
Area (hectares)	32.3	32.0	33.7	30.8	32.3	35.7	34.7	34.7	33.6	--
Production (bales)	87.9	89.1	98.7	91.0	96.8	121.4	116.6	122.1	120.5	--
Exports (bales)	27.2	26.3	29.1	30.3	33.3	35.0	44.6	37.3	38.4	--
Consumption (bales)	90.5	90.8	93.6	97.6	97.1	107.4	114.6	121.5	121.9	--
Ending stocks (bales)	51.1	49.3	54.7	47.9	48.2	60.6	62.4	63.0	61.6	--
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Beef and Pork										
Production (metric tons)	139.2	139.6	141.1	146.0	148.7	152.6	157.3	157.8	156.1	158.0
Consumption (metric tons)	139.4	139.3	140.7	145.9	148.8	152.1	156.5	156.8	155.5	157.5
Exports (metric tons)	9.1	9.0	9.1	10.2	10.7	11.4	12.3	12.7	12.8	13.1
Broilers and Turkeys										
Production (metric tons)	55.1	57.9	60.0	62.3	63.1	64.6	67.8	68.8	72.9	76.0
Consumption (metric tons)	54.9	57.4	59.1	61.6	62.5	63.8	67.1	68.5	72.6	75.4
Exports (metric tons)	4.8	5.2	6.0	6.2	6.5	6.6	7.4	7.1	7.8	8.3
Dairy										
Milk production (metric tons)	383.0	389.4	394.4	405.3	409.6	415.7	421.4	427.8	435.7	439.6

Source: USDA Economic Research Service, Agricultural Outlook: Statistical Indicators, May 2008: <http://www.ers.usda.gov/Publications/AgOutlook/AOTables/>

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