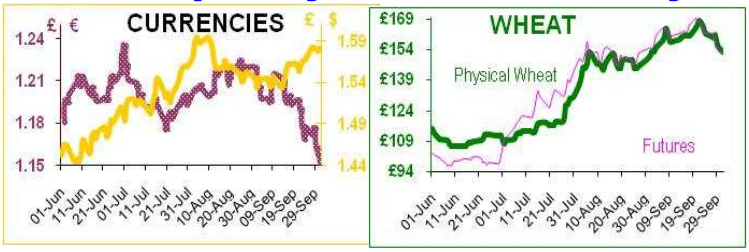
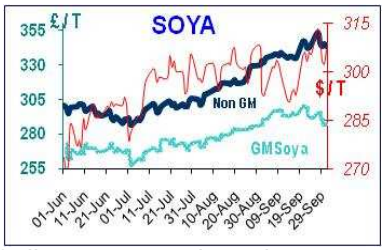
Humphrey Feeds Weekly Commodity Report w/e 1-10-10



Good old Newton was right … a body remains in a state of rest or uniform motion unless it is acted upon by an external unbalanced force [Remember F=ma ?]. Or in other words, 'what goes up must come down'. Wheat hit the apogee of its orbit at £171.50 on the 20th September, has averaged with huge volatility around £164 for this month and weakened in the last eight trading sessions, averaging -£2.30/day, closing at £153 on Thursday night. In that time frame about 20% of the November futures contracts were sold. Unfortunately the relationship is not linear, otherwise we might have been tempted to predict a price of £60.50 (£153-18.50 x 5) on the day of expiry. The problem is that as wheat prices fall, both the mass (number of contracts initially 5262, now 4256) and the Forces (USDA, weather, currency, grain outlook) are changing. And $s = ut + \frac{1}{2}at^2$ does not seem to work? So where will the bottom be? If I knew, I would be on a beach in Barbados, not here on the 4th floor of a feedmill! However the maths seems to indicate that we cannot rely on the sell-off to force prices much lower, and as the funds are still in control of our markets – they have sufficient power to defy gravity. Why did the funds sell? Well it is the end of a quarter, and it rained in Russia, the Black Sea, and South America. But the end of one quarter is the start of another, and there is talk of a Californian $132bn pension fund that is about to invest $2.5bn in commodities.

French wheat has been leaving the country so fast, that it is thought that exports must slow in the New Year, due to lack of supplies. However in the past 10 days, French wheat prices have fallen further and faster than in the UK, mainly because of a stronger € against the $, which makes it more expensive to use the $ to buy EU commodities and slowing exports. As the EU has exported so much wheat, the whisper is that the EU will release some grain from its intervention stores. Defra said that the UK wheat area rose by nearly 9% to 1.9mha in 2010, supplanting barley.

The FAO raised its estimate for world wheat production by 4mt to nearly 650mt in 2010-11. The German trading giant Toepfer International, lowered its forecast to 643mt, and the Rabobank stood still on its previous estimate of 639mt. The USDA came up with a surprise on Thursday, as they declared old crop US maize stocks (Sep10) to be 1.71bb (1.67bb last year); the market had been half-expecting a figure close to 1mb, at which point the Pamploma bulls would have raced down Wall Street. The USDA is notorious for its poor maths, so now we have a bearish indicator which no-one believes; best guess is that some new crop was erroneously included in the data. Whether right or wrong, the USDA figures are the best available, and the funds sold 22,000 contracts or 2.8mt on the day.



Soyabean prices hit $11.3/b this week, a 14-month high. There's no logic to this soya market, it's just tied up in the bullish cereals sector, and needs to have a high price to compete in the 'battle for acres'. Apparently our Brazilian farmers also 'need' CBOT soya to be $11/b because it can cost $75/t to move soyabean meal from the interior to port. In terms of soya supply there is a plentiful supply – the US harvest looks good and Brazil has the rain it needed. The global acreage of GM soya keeps growing, as farmers sleep better knowing that their crops are less susceptible to pest damage. This year the ISAAA (International Service for the Acquisition of Agri-Biotech Applications) estimates that 77% of all soya acres planted (69mha) will be GM. Brazil used to be a NonGM, but farmers began to smuggle GM across the border from Argentina (99% GM) and by 2001, 16% of the acreage was GM. Since then GM became legal in Brazil, and today 76% of the acreage is GM (up from 71% last year). In the UK GM soya is £282, NonGM is £338 ex port.

In 1485 Leonardo da Vinci sketched a diagram for an ornithopter – an aircraft that flies by flapping its wings. Over the centuries people have tried and failed to build a working model. A student at the University of Toronto has allegedly built and flown an *ornithopter* called Snowbird using carbon fibre and balsa wood – it has the wingspan of a Boeing 737 and weighs less than 43kgs. Initially towed by a car to get lift-off the 'bird' flew for 19 seconds and flew 476 feet. In 1903, the Wright brothers' fixed-wing powered flight lasted 12 seconds and flew 120 feet, so that is 100 years of progress!

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