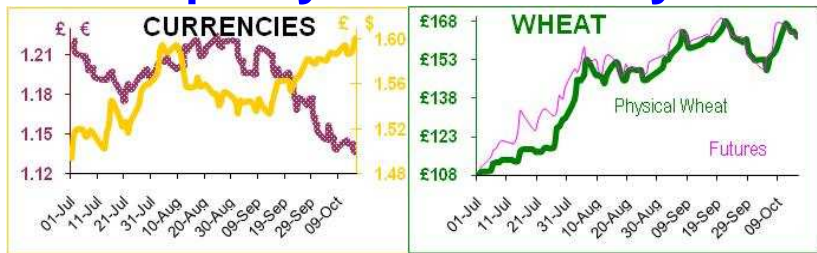




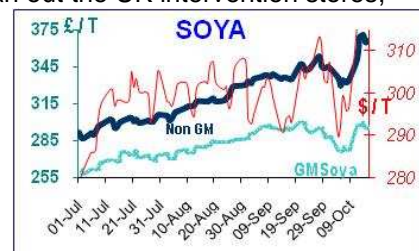
Humphrey Feeds Weekly Commodity Report w/e 15-10-10



After last Friday's close at £167, November futures drifted down about £5 this week. The world is a confusing place; markets are volatile, and clarity is as rare as Rocking horse manure. That said, this year, global wheat supplies appear to exceed demand, but surplus stocks are generally in the wrong location. The US and Australia—at opposite ends of the Earth—have plenty of stocks, everyone else is short - either because their main suppliers dried up (Russia and

FSU) or because they have stupidly exported it all. Globally maize supplies appear to be lower than the combined demand for food, feed and fuel; which means that users who normally use maize may have to swap to using wheat. In which case, wheat may also be in short supply. So there is no real reason to expect any cereal prices to fall substantially, in fact even at these heady levels (£162.50 Nov futures) the upside still feels greater than the downside. The UK and France are top of the stupid league. According to Defra & the HGCA, the UK has an exportable surplus of 1.3mt this year. Trade estimates of the UK wheat exported by end of December vary from 0.7mt to 2.5mt. Since August, in sterling terms, UK wheat has been £25-30 cheaper than French wheat. UK wheat exports have been so competitive because of a weaker £ against the €, nearly a six-month low this week, making UK wheat cheaper for European buyers. The French allegedly have an exportable surplus of 11mt (to non-EU countries), and the French grains board FranceAgriMer believes that 11.5mt will be exported this year, and they face a much lower carryover of about 2mt. Some conspiracy theorists are betting that some of the larger grain companies will clean out the UK intervention stores, leaving their own stores in a monopoly supply position.

Soya importers are finding it difficult to source non-GM soya. Most of the non-GM comes from Brazil, and their harvest was in April-ish. We are nearing the end of the harvest year, and non-GM is more difficult to find for several reasons. First, one of the traders bought huge amounts of non-GM at inflated prices at harvest to supply pent-up demand from the end of the previous season – this took much of the surplus out of the market. Second, due to the increasing amount of GM soya being grown in Brazil, there have been more rejections at the crushing plants due to cross contamination. As a result the differential between GM and NonGM soya is currently nudging £65/tonne, which is adding >2p/doz eggs. From a compounders viewpoint, if the all supermarkets were to drop the non-GM requirement for poultry then it would be wrong to hold a long position. [Some supermarkets have already dropped the requirement, others appear to be hovering]. Dry weather is delaying soya planting in Brazil, which could mean increased demand for US soya in JanFebMar, and possibly even more difficulty obtaining NonGM soya in Q1.



The food and fuel debate is simmering, but as maize prices have risen dramatically and crude oil is only \$82/b, then the biofuel boys should be hit the hardest. Two weeks ago, the Deputy Assistant to the President for Energy and Climate Change Policy, Heather Zichal, addressed the Renewable Fuels Association in Washington. She made a number of interesting points: the federal government is the largest consumer of energy in the US economy and it intends to reduce its greenhouse gas emissions by 28% by 2020; the Navy intends to replace half of its energy use from alternative sources by 2020 and recently tested a F/A-18 Green Hornet jet at supersonic speeds on a biofuel blend; the POTUS (President of the US) wants to triple biofuel production by 2022 – 36bn gallons in 12 years – so the Recovery Act included \$800m funding for ethanol fuelling infrastructure, biorefinery construction, and advanced biofuels research. She also referred to maize-ethanol as the first-generation process, and wants to 'accelerate the creation and rapid deployment of advanced biofuels' (presumably non-maize sources). She said that biofuels will reduce the US dependence on foreign oil, create jobs, protect the environment, and invigorate rural economies. On Thursday this week the US EPA approved the use of E15 fuel containing 15% ethanol (up from 10%) in cars registered from 2007; further underpinning the maize price.

Rocking horse manure? Hen's teeth? Unobtainium. A spherical egg?? A chef in Cornwall found a spherical egg in his Free range box of eggs! A prize to the first reader to identify the farm of origin! Have a good w/e.



Regards

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