

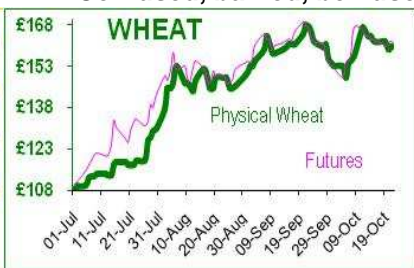
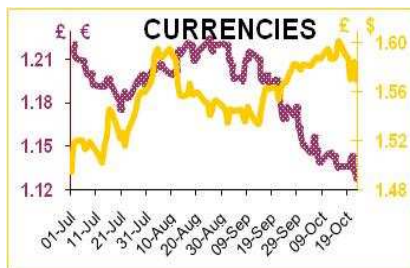


Dedicated to Poultry



Humphrey Feeds Weekly Commodity Report w/e 22-10-10

Confused, baffled, bemused, bewildered ...

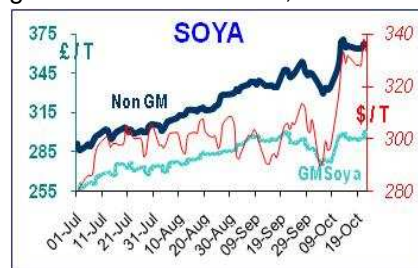


Lets start with the USDA ... who announced 20% higher maize stocks than expected [shock], and then a week later predicted a yield of 155.8b/acre about 2.5% less than expected [horror]. The markets whiplashed twice in different directions. The USDA do not have an entirely spotless reputation in terms of getting their sums right; so which figures were right, and which were wrong? There are four scenarios, all with very different

outcomes for the market. Rumours are flying about that the USDA have got the yields wrong, and intend to correct it on their November report. So does the trade cover cereals forward on the basis of the current facts of incredibly low carry-over stocks at the end of the year, or do they wait for the announcement of a mistake and the world heaves a sigh of relief? Or worse could be to come ... if the USDA announces even lower yields in November, then this market will explode. UK Nov futures wheat are now trading sideways at about £162.

The UK govt announced their cost-saving plans this week. Forex trading was relatively subdued. But beneath the surface, a currency war is in progress. The Brazilian finance minister complained that his country is a victim of an international currency war that is artificially inflating the Brazilian real. Japan accused China of buying Japanese government bonds to make the Yen artificially strong, putting its exports at a disadvantage. The US is complaining that China is a 'currency manipulator'. And if the US does start QE2 (second round of Quantitative Easing), then they will be perceived as deliberately driving down the value of the \$. The weakness of the \$ is helping struggling US exporters and lifts global equity markets and commodity prices. But if commodity prices lift, China's import bill could rise massively. And as rising commodity prices increase the risk of inflation, some interpret the recent change in Chinese interest rates (5.25 to 5.50%) as a pre-emptive counter. The Eurozone is also worried that US QE2 will trigger a devaluation spiral, resulting in higher EU inflation, and higher interest rates. The \$ has already fallen 20% against the € since June, and German exports are falling as a result.

A little over one month into the 2010/11 marketing year, sales of US soyabeans have already reached 23.3mt tonnes, or 56 % of the USDA's projection for the entire year, compared with an average of 38%. So the USDA could raise the exports and reduce the carry-out next month. Last week's US soya sales were a massive 2mt, YTD sales up 14% on last year, against USDA's projected 1.5% increase. China's crush margins are still hugely profitable as demand continues to grow, so it is difficult to see any downside; particularly if the USDA figures for soya are right and if La Nina throws a wobbly in South America. Beans are currently trading at \$12/b, and an eventual level of \$15/b is being mooted. GM soya is trading at £292 ex port. NonGM soya is not being offered in the south of England but is about £65/tonne more plus £11/tonne extra haulage from Liverpool or the East Coast.



So we have dodgy data, a currency war, a South American weather market, still-hungry Chinese buyers, and a discontinuous supply of non-GM— all in all a very uncertain and volatile future. Those willing to place large bets could make massive money over the next few months; but they could also lose several fortunes. Is it a bubble, or is it real? The market is equally full of scaredy cats and testosterone-fuelled high-stakes gamblers. As a trader said this week 'Crazy, crazy, dangerous days'.

The Government Hospitality Advisory Committee on the Purchase of Wines (GHACPW) has bitten the dust in this week's cull. The Foreign Office quango, established in 1922 (a very good year?) comprising four masters of wine may have been abolished, but its functions will be continued in some form. Perhaps the Japanese Embassy could help? An audit of 51 of Japan's 211 diplomatic missions found some had enough wine to last 30 years. The mission in Paris had secreted 7,896 bottles of wine, but only consumed 268 bottles in the previous year. Their sommelier said they only served wine that cost more than ¥50,000 (£389)/bottle. It is doubtful if any of the missions stocked Thai rice spider whiskey which has aphrodisiac properties.



Regards

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