



Humphrey Feeds Weekly Commodity Report w/e 31-12-10

The end of the year is a time for review, and possibly a time to rub down that cloudy and sometimes useless crystal ball. This week, stuffed full of turkey, we have done a bit of both:

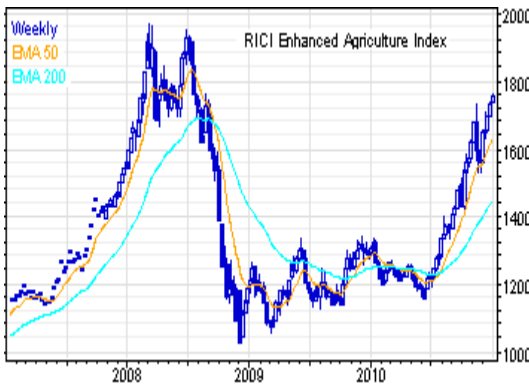
Looking back:



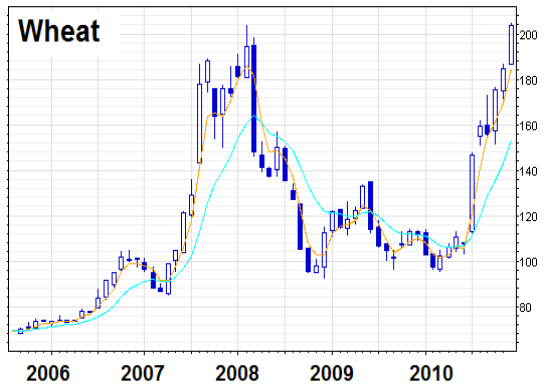
You do not need to tell anyone in farming that commodity prices have risen dramatically, most livestock farmers are suffering badly due to the reluctance of the supply chain to pass these price rises on. But it is not just agricultural commodities that have risen in value. The general basket of commodities has lifted this year, as reflected by this graph of the **US CRB index**



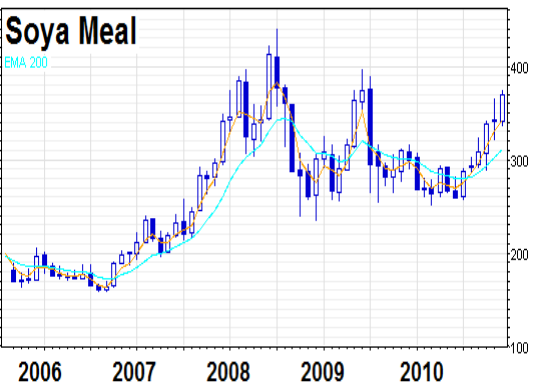
Gold and Silver have lifted sharply, well where else are the wealthy supposed to keep the money?



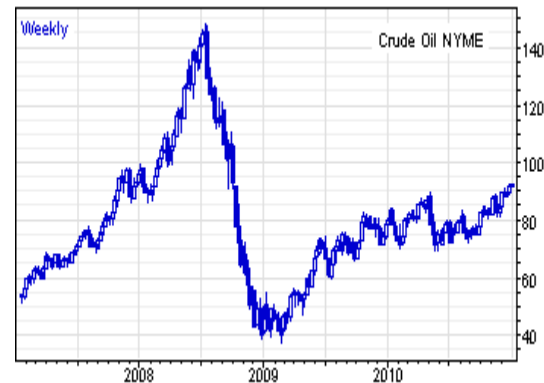
The **RICI enhanced agricultural index** reflects a basket of agricultural commodities, and clearly that has risen spectacularly, even if unlike Liffe wheat, it is not yet higher than the 2007 spike



Speaking of **wheat**, here is the last 5 years of wheat, which shows how in the last couple of days trading, wheat has surpassed the 2007 spike. Next stop.....?



Soya is not far from its 2007 spike peak either, but at that time the premium for Non GM soya was not the £70 it is today!

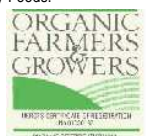


Crude oil: A solid base is being formed from which an assault of the 2008 highs is commencing

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Looking forward:

We consider some likely scenarios and issues that may arise next year.

Raw material prices. The grain trade are long, and will make very good profits this year. As wheat hits an all-time high (£197 in 2007), we have had more people trying to sell us wheat than ever before. There may be an attempt by a few players to corner the UK old crop wheat market later this year. Arable farmers were advised to avoid socialising with livestock farmers this festive season, as current wheat prices are not sustainable. Soya and maize still look if they have upside potential. Will the UK run out of old crop wheat? To what extent will the dryness in Argentina affect the soya crop?

Price spike. Studies of food price spikes are now taking place, with predictions of future price action, and the likelihood of future spikes. As the global population and prosperity of the BRICs increases, so does demand for consumer goods and meat; supply and demand becomes pinched and volatility results. It is more likely than not, that food price spikes will become more common, so that prices will remain supported at much higher than historical levels.

Biofuels. There is insufficient maize to satisfy the demand for food, feed and fuel. In an ideal world, the prices for food should be higher, thus ensuring food is a priority over fuel. But as crude oil is also a limited resource, the only real solution is for bioethanol to be manufactured from non-food sources. The current high cereal prices should stimulate planting and yields.

The weather. Global warming and La Nina. I am still not sure that I believe the global warming story. It is a good hypothesis, and the weather currently appears to be volatile. But whether this is the inevitable result of a long-term trend, or whether statistically it is in the long tail of a normal distribution curve, for me the jury is still out. La Nina is a fact, and is stirring up trouble in South America and Australia. Crop yields are dependent on the weather, and as the weather becomes more volatile, so do yields.

Oil and energy prices. Volatile weather means more energy required for heating and air-con. Higher demand for energy, means higher prices. Higher prices stimulate and support biofuel production, which means more cereals and oilseeds required for bioethanol and biodiesel, which means higher commodity prices. A vicious cycle similar to 'Rags make paper, paper makes money, money makes banks, banks make loans, loans make beggars, beggars make rags'.

GM and Non-GM. If Non-GM is meant to be 100% GM-free, then Non-GM is a myth. As farmers continue to discover the benefits of growing pest-resistant GM crops (they can sleep at night), the issues of cross-contamination at farm, elevators, transport and processing plants get worse so that 100% GM-free is nigh impossible. The supply chain is fragile and close to breaking. The only real choice for Non-GM is organic.

Currency. Double-dip? The global economic crisis means that countries are in pitched battle, competing to survive, using numerous weapons including devalued currency to stimulate exports. The Eurozone is under threat. The chances are that there will be a set-back sometime in 2011, and the arguments will start about whether it constitutes a double-dip. The funds are likely to put more money into commodities next week as a hedge against inflation, and because of the profit potential as demand levels could exceed supply. If a double-dip is encountered, watch out for a whiplash as the funds as they dash for cash.

China & Russia. Metaphorically, China is the biggest *mouth* on the planet. And it is hungry for all commodities, including food. As prices rise, so does the risk of inflation. China (and Russia) need to avoid inflation and food riots, so need to tackle food prices with sensitivity [is that possible?].

Legislation. The EU Cage ban has 'caused' a surplus of UK eggs, as UK free range expanded in anticipation of a 'gap'. Many EU countries have not invested in free range. Will Brussels enforce the ban?

Regards

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