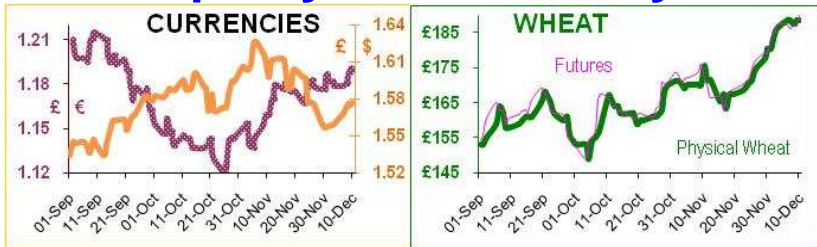




Humphrey Feeds Weekly Commodity Report w/e 10-11-10



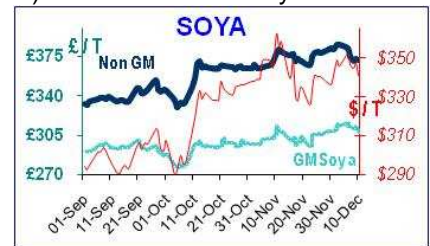
We had thought that UK wheat prices were starting to stabilise at around £180 for May futures, but since mid-November, May wheat has been in an upward trend, and is now about £191. The Rabobank has been making recommendations for commodity investors, and cites three drivers for wheat prices: dryness in key winter wheat growing areas; unsustainable pace of EU exports; and strong

commercial buying. It predicts that prices will get stronger in early 2011 because it 'believes that the market overestimates the ability of traditional wheat exporters to fill the gap from the Black Sea region'; and as EU prices must rise to 'dramatically slow its exports to ensure ample stocks in the pipeline ahead of next season's harvest'. France will export 13mt this season; and we thought their exportable surplus was 11mt. If so, both the UK and France have exported more than their surplus, so are digging into last year's carry-over. At least two importers believe that the UK will run out of wheat before harvest, so are offering maize Jan-Jul.

In global terms, feed wheat plays second fiddle to milling wheat. The heavy rains in Eastern Australia are adversely affecting the quality of milling wheat; it is estimated that the region will produce 16mt of which 50% will be feed grade [for clarity the whole of Australia is expected to harvest 26mt of wheat]. The Russian crop was planted in dry soil, so there are question marks about its quality and quantity. US hard red winter wheat was also planted in dry soil. The Middle East and North Africa have to import wheat to supplement their own crops, but suspicions are growing that they are also suffering from drier conditions than normal, so that they may need import more. Bottom line: the implication is that milling wheat might be tight next year. In theory, the US is best placed to make up any shortfall, and as of Nov 25th have already agreed exports of 23mt wheat (15mt last year), and is likely to export 34mt this marketing year.

Argentina may be only the third largest exporter of soya, but it is the second largest exporter of maize. If dryness in Argentina continues, then world supplies of maize could get tight. A group of US Senators are recommending a reduction in ethanol subsidies and import taxes, as they realise the effect that 'food to fuel' is exerting on global food prices and supply. However, US legislation forces bioethanol (E15) into petrol, irrespective of whether a subsidy is in place; and as sugar is also at record highs, there are no cheap alternatives. Argentina is also in discussions with Russia to supply 3mt of maize. Russia's problems are well-known, but only this week did we realise that as Russia's drought is the worst in 130 years, so their coarse grain production (cereals other than wheat and rice) is the lowest for 20 years.

Chinese demand for soya is the single most important factor for global oilseed prices, and despite policy changes, Rabobank does not expect a significant slowdown in China's demand for soya, concluding that US supplies are ample, but there is doubt about South America's ability to maintain a continuous supply from May to October. The Rabobank cites three drivers for soya prices: Chinese demand; a tight US soya balance sheet; and La Niña. In trading terms, we expect both soya and wheat prices to be extremely volatile due to end-of-year positioning by the funds. GM soya is £300 ex-port, Non-GM is £65/t more. Today's USDA supply & demand report was neutral.



The Battle of the Little Bighorn or Custer's Last Stand took place in June 1876. The only flag flown by Custer's 7th Cavalry that was not captured by the Indians is to be auctioned today in New York. The pennant, complete with bullet holes and bloodstains, is expected to fetch up to £3.2m. Custer appears to have been over-confident, spilt his forces, and had little knowledge of the strength or location of his enemies, led by Sitting Bull and Crazy Horse. In ball-park terms some 600 cavalry men attacked 1800 Indians and so sustained 50% losses. The full history of this battle is beautifully illustrated in Sotheby's catalogue: <http://www.sothebys.com/minisite/pdf/N08705/flash.html#/1/>

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