

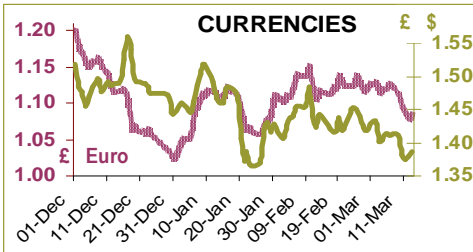


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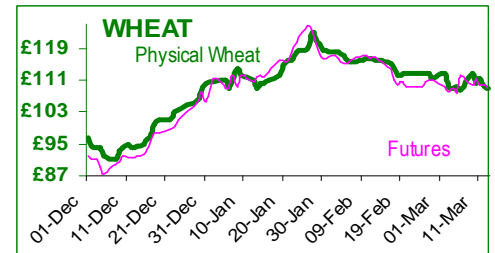
## WEEKLY COMMODITY REPORT W/E 13-3-9



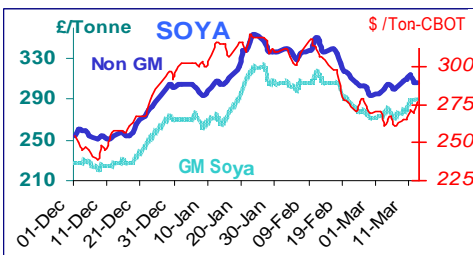
First we lower interest rates to close to zero – that does not work. So then we try ‘quantitative easing’ – printing money – to increase the money supply. So the cost of borrowing money is low, and the availability is high, ergo the world should borrow money and spend it – stimulating world trade. If the UK was the Starship Enterprise, to break free of the space-time continuum we would be firing all phasers and the engines would be straining at full power. If and when we do break loose, we will need to throttle back from warp 7, otherwise it will be boom and bust.

Talking to a banker this week, he said it might be a decade before the banks lend money to the same level as the recent past.

The USDA raised world wheat stocks from 120 to 156mt, or 24% of annual use giving a distinctly bearish tone. And speaking of Bears, the Russians are still desperate for cash and winning every wheat tender offered. In the UK and EU there is still a large exportable surplus to move; but there is also a financial incentive (futures) to carry the wheat forward into the next harvest year. This is the first time we have seen a year where prices will increase at harvest! [Try explaining that to a supermarket!]. As we are now being driven by currency and biofuel, maize prices are important. The USDA increased its world ending stocks from 130 to 145mt, about 20% of annual usage. Maize prices seem to have bottomed and look slightly bullish on the back of Obama’s new mandate for ethanol use.



World soya stocks were reduced from 53 to 50 mt, or 22% of annual use. South American soya production is expected to be down by 7% in spring 2009 (compared to 2008). US soya production is expected to be up by 10% (so more GM this year). Argentine farm exports generate \$7bn/annum in taxes and 66% of foreign income; farming employs 33% of the population. Allegedly the drought reduced production of grains and oilseeds by 30mt, and 1m cattle died. It’s a make-or-break issue for the government and for the farmers. This simmering issue is likely to boil over.



China is having problems with poultry. A combination of bird flu and a fall in demand for chicken due to the credit crunch means that poultry numbers have fallen by 33% in the last month. Apparently many farmers did not restock after the Chinese New Year. Consequently the Chinese tried to sell soya/cancel some US cargoes as previously reported. This does not tell the whole story as China has imported 16.4mt of soya this year (11.5mt last year). Apparently a number of small feed mills have closed, and the bigger ones have reduced their capacity by 20%.

In 12th century Winchester, a medieval cleric who falsified his masters’ books was punished by castration and blinding, a penalty at the time equivalent to death.

Somehow we linked this with Bernie Madoff!

What does the future hold? Qatar’s 21st century sovereign wealth fund (which invested \$1.8bn in Barclays, and owns shares in J Sainsbury and London Stock Exchange), intends to invest in agricultural commodities, water and energy from August this year. The Gulf funds consider themselves oil and cash rich, but food-poor. We therefore predict yet another fund-driven and volatile year.



Regards  
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