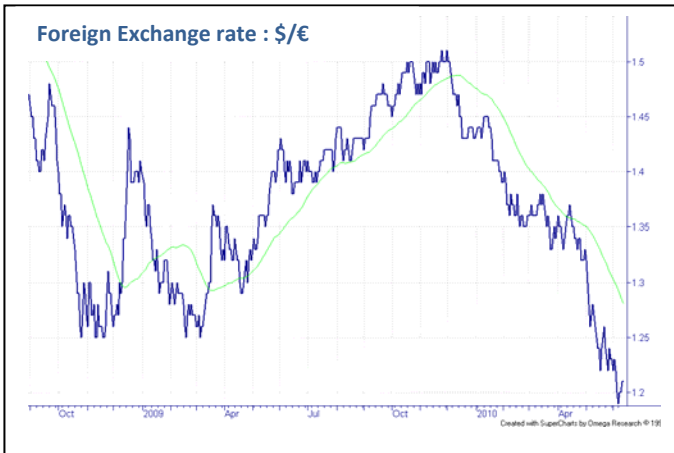
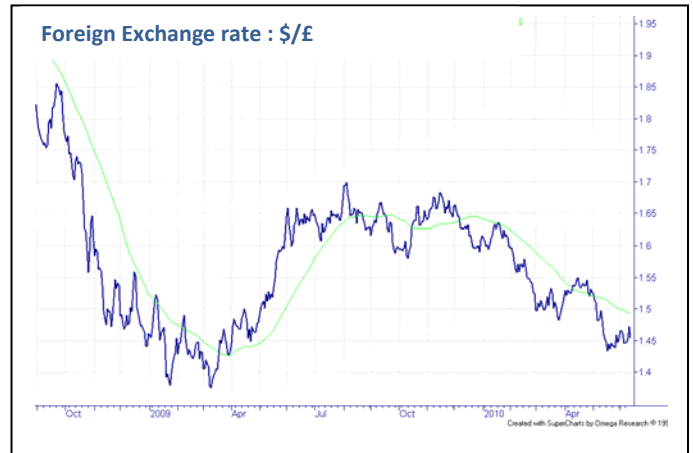




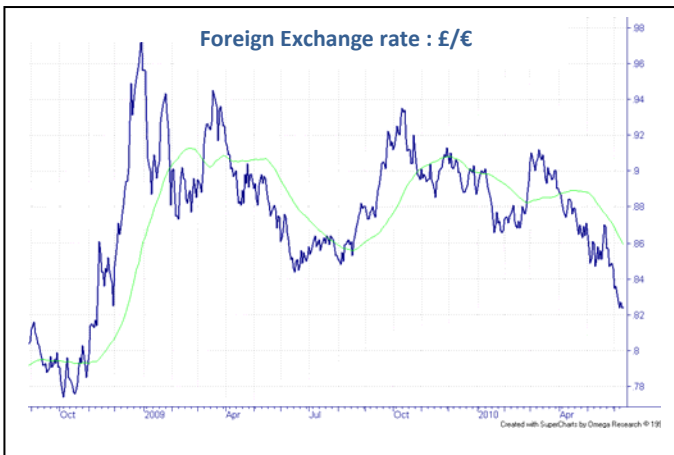
## The News in Pictures



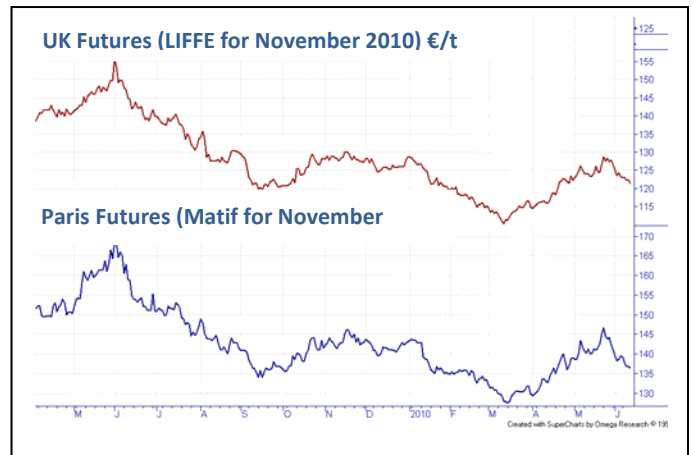
This chart tracks the \$/€ and shows the weakness of the € following the Greek bail-out. A weak € implies lower prices in Chicago without much change in Europe. It raises European costs against the international market but it makes EU grains more competitive in the export market and makes French wheat sales into intervention less feasible.



Over the last six months, the \$/£ rate has shown renewed \$ strength as the world seeks a 'safe haven' in US bonds. For the UK, however, most farm inputs are priced in \$ and so a strong \$ v £ could raise UK farm costs, squeezing margins against the weaker grain markets that we have seen this year. Farm budgets need to separate costs by currency.



If we close the triangle and look at the movements of the £/€, this shows the £ following the \$ higher against the €, emphasising further € weakness. But as the £ pushes higher here, the value of money expressed in €uros goes down in £ terms. So, the Single Farm Payment (SFP) to UK farmers is reduced, affecting about one-third of all UK farm incomes.



Here we look at the prices of London v Paris Wheat Futures, expressed in Euros. This shows the link between THE UK and French markets: UK wheat must price itself competitively against French wheat into the Mediterranean, or we cannot secure enough exports of UK grain. So if the £ goes up, the price of wheat has to come down!

**Market Tip: Follow information on current market prices and trends at [www.hgca.com/markets](http://www.hgca.com/markets)**

## **News about the Funds and other Investors**

The Funds have been running a continuous wheat short in Chicago and other markets for some time now, in recognition of the healthy stocks and good growing conditions. Against this they have bought some Chicago corn and soya meal. Despite the growth of bio-diesel in the USA, they have also been carrying a small bean-oil short. Outside the grain markets, the Funds are still short the Euro, whatever Mrs Merkel says, and for some time they have also been long of crude oil and short of natural gas.

Despite its high price, most investors have held on to their gold as it rallied through \$1,200 per oz. Gold is often used as a hedge against inflation but it is also a 'safe haven' investment where large uncertainties exist, as they do at the moment.

Strong Chinese demand for raw materials has contributed to the Fund interest in grains and oilseeds but it has also promoted the purchase of copper and aluminium futures. Metal production takes a significant time to expand capacity - a bit like farming - and so, despite recent weakness, metal price levels have stayed well above 2009 levels.

Commodity Funds compete with investments in Equities and Government Bonds and here we have a mixed result. Stock markets, having been strong during 2009, have peaked in the last two months and are now weaker, showing signs of concern about company profits moving forward if Governments are going to restrict expenditure and insist on more regulation.

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### ***Glossary of terms:***

*A futures transaction is one committing to delivery in the future but is cash-settled when reversed. Buying a commodity or currency gives a 'long' position which will profit if the market price rises; a sale gives a 'short' one, profiting from a fall in price. A 'safe haven' is parlance for a low risk place to park funds during uncertainty.*

## ***The Link with the Energy Markets***

Crude Oil prices are currently driven by the investment community's view of the world economy. The current view within the oil business is that there are plenty stocks and current prices are encouraging new investment in new sources. That this is not without risk is shown in the recent fiasco following the accident to BP's Deep Horizon rig in the US Gulf. This confirms that environmental concerns are going to inhibit a wholesale expansion of oil exploration, and so security of supply, for many countries and companies, remains an issue.

BioFuels continue to excite Governments around the world as a means of addressing both fuel security and CO<sub>2</sub> emissions. Despite pressure from eco-warriors, we can expect to see the support for biofuels continue, particularly in the USA and EU. The worries about land-use change expressed over the last few years are beginning to abate and this is likely to encourage Governments, including the new UK Government, to move towards higher levels of inclusion of biofuels in road fuel. (The USA is considering a move from 10% to 15% blending rates of ethanol). Sustainability, however, will remain an issue and the UK Renewable Fuel Agency (RFA) is currently examining the quality of import supply chains used to meet the UK obligation. This could assist the development of UK biofuels, particularly ethanol from wheat.

Nitrogen Fertilisers show an increasing share of supplies going to Urea, being manufactured from natural gas in countries with gas resources but small populations. This confirms the link with raw energy costs (although gas prices do not always follow crude oil) and provides farmers with the ability to link purchases of their inputs with simultaneous sales of some of their grain, locking in a margin.

## **Background Noise**

Policy: The new UK Government has yet to make strategic statements on Farm Policy. Within Defra there are signs that the Environment/BioMass story will benefit from the Lib-Dem link. No doubt the UK position will become clearer over the next few months.

Already it is clear that new agriculture policies are coming. The US is accelerating biofuels but the EU will focus on food and the environment for CAP reform in 2012/3. No cuts though, Dacian Ciolos The new EU Ag Commissioner (from Romania) has already said that the current CAP budget is justified. His main focus will be on ensuring food security and stable incomes for farmers with more equitable direct payments across the EU and convergence between regions. In his stated objective of 'developing modern market mechanisms that correct market failures and price fluctuation, and avoid crises that affect whole sectors' he is building a licence to manage markets directly once more. Some mechanism relating tariffs to prices and stock-levels seems likely.

The General Economy continues to be clouded in uncertainty and there is concern that all that Government money has stabilised the world but not necessarily protected it from further disruption. Interest rates are set to stay low for a while – into 2011 anyway, but it is much more difficult to make an objective assessment of currency movements. Actually, all major countries need to devalue to promote exports but they can't all do it at once. We can expect to see sequential weakness of the \$, £, Yen and €. Right now the Euro has dropped leaving the £ to strengthen. As world trade moves on, this should change. The trick is work out where we are in the devaluation cycle.

## ***Farmer Action Points to think about***

- As we approach harvest, farmers need to assess their yield expectations and look at their storage and sales programme for the new season.
- Choosing the right sales period or pool against expected farm cash-flow is important. Instead of 'selling spot for cash' farmers need to factor in forward sales to match their expected cash needs.
- Most markets are currently paying a premium for forward sales and so this should also be considered in all farm planning. Why wait to sell spot if the forward market is at the right level today?
- Most farmers still wait to get their SFP in £. The recent strength of the £ means that we need to keep a careful eye on the rate of £ v € and get ready to change this policy to give farmers more control over farm revenues.
- Farmers need to be proactive in their grain marketing: monitor the daily futures prices and get a regular market update.

***Disclaimer: This note does not comprise commercial advice. While every effort is made to ensure accuracy, neither Farmway, CFM(UK)Ltd nor Alastair Dickie can accept any liability for errors or omissions. You can contact Alastair on 07711 534980, or email: [aldickie@aol.com](mailto:aldickie@aol.com)***