

# Commodities Report

July 21, 2010

	<u>Close July 21</u>	<u>June 9</u>	<u>2 week change</u>
<i>Dec Corn</i>	3.94	3.59	+ .35
<i>Nov Soybeans</i>	9.79	8.97	+ .82
<i>Sept Wheat</i>	5.88	4.45	+ 1.43
<i>Dec Soymeal</i>	285.00	253.00	- 32.00
<i>Oct Hogs</i>	75.65	72.95	+ 2.70
<i>Oct Cattle</i>	94.95	88.75	+ 6.20
<i>Sept Cdn \$</i>	95.38	96.92	- 1.54
<i>US \$ Index</i>	83.59	87.92	- 4.33
<i>Dec Gold</i>	1185.00	1232.00	- 47.00
<i>Sept Crude Oil</i>	76.51	76.33	+ .18
<i>US 10 Yr Notes</i>	123-14	120-28	+ 2-18
<i>TSX Stocks</i>	11498	11482	+ 16

Grains are sharply higher compared to my last report six weeks ago. The largest gain was in the wheat market, which rallied \$1.43 per bushel or 32 percent. This happened despite USDA predicting the largest US carry-out in US wheat since 1987.

While North American wheat stocks are high, the same cannot be said for other areas, The Eastern European crop (Russia etc) was hit by one of their worst droughts in a century. Crop estimates keep dropping, with many estimates under 75 mln mt, versus 97 mln last year. Russia has been a large exporter the past two years.

Western Europe has also been too hot and dry, particularly Germany and France. Western Canada and the US Northern Plains were unable to plant 10-15 mln acres due to excess rains. Even what was planted will suffer lower than normal yields. In all, the world likely lost up to 30 mln mt of production. Suddenly, the only wheat surplus is in the US.

What also precipitated the counter- seasonal grain rally since July 1 was the June 30 US grain stocks and acreage reports. Old crop corn stocks were nearly 300 mln bu less than traders thought; proving that their January 2010 report of record yields was in error. Corn acres were also 1.4 mln less than expectations.

A record corn yield in the US will only stabilize the carryover. A sub 155 average yield will put corn into rationing mode. Despite that, corn has been the weak link in the Chicago grain complex. Corn is now undervalued on a relative basis in Chicago.

Locally, old and new crop corn basis has dropped 10 to 15 cents over the past 6 weeks also. There is more corn out there than I expected for this time of year, and new crop prospects look promising. There is little reason for end users to raise their bids in the short run.

Weather will be the markets' focus for the next month. Forecasts into early August are for above normal temperatures, but with normal to above normal rains. It is a bit of a surprise to me that markets generally have held in as strongly as they have. However, the crops are not in the bin yet, and the record demand must still be satisfied.

Most crops locally are in good or excellent condition. A few areas have had an excess of rain, but overall bumper yields in corn and soys are certainly possible. Wheat yields were also strong, with most in the 90 bushel range. Harvest has been a challenge, however, as it seems to rain every other day, and humidity is constant.

Livestock markets were stronger, especially cattle. The Canadian dollar lost ground,, but did firm when the Bank of Canada raised rates a quarter point. The US dollar also lost ground, as the Euro recouped some of its recent large losses. Crude and stock markets were unchanged. Long term interest rates eased, as US reports showed a deteriorating economy there.