

Commodities Report

May 26, 2010

	<u>Close May 26, 2010</u>	<u>May 12</u>	<u>2 week change</u>
<i>Dec Corn</i>	3.91	3.92	- .01
<i>Nov Soybeans</i>	9.10	9.35	- .25
<i>July Wheat</i>	4.62	4.91	- .29
<i>July Soymeal</i>	271.00	279.40	- 8.40
<i>June Hogs</i>	81.65	85.90	- 4.25
<i>June Cattle</i>	90.80	96.00	- 5.20
<i>June Cdn \$</i>	93.92	98.00	- 4.08
<i>US \$ Index</i>	87.24	85.00	+ 2.24
<i>June Gold</i>	1220.00	1245.00	- 25.00
<i>July Crude Oil</i>	71.51	80.15	- 8.64
<i>US 10 Yr Notes</i>	121-05	118-26	+ 2-11
<i>TSX Stocks</i>	11543	12138	- 595

Lots of red ink and volatility in the commodity chart over the past two weeks. Only the US dollar index and bonds showed gains, as the world remained worried about possible fallout from the European Union's debt problems. China is also trying to slow inflationary pressures in their country, which would also slow world growth.

Corn held in the best, as rumors continued to circulate about how large Chinese purchases of US corn would be. Many are now talking about 5 mln mt., as it was reported that last year's corn crop there was only 140 mln mt., compared to 155 mln according to USDA.

A bushel of corn in China is over US\$7.00, despite the government selling off millions of tonnes of reserves. The government strictly controls imports, and it would be very profitable for them to bring in the "cheap" US corn. The main reason, however, would be to get their feed costs under control, and squash the inflationary bubble in corn there.

Spring weather has mostly been favorable for planting and early crop development in the US and Ontario. Some meteorologists are still suggesting a hot, dry spell is likely this summer, as the Pacific Ocean swings from El Nino (warm waters off S America) to La Nina (cool waters).

The Canadian dollar lost 4 cents over the past 2 weeks, as commodity currencies came under pressure. The Australian dollar, for instance, fell from over US\$.93 to under .81 in 6 weeks, as China is their main trading partner. While markets have generally been deflating lately, inflationary pressures appear to be lurking not far away.

The cash soybean price has been spinning sideways. If soybean futures rise, so does the Canadian dollar, depressing basis; and vice versa. The fact that prices haven't dropped

more is a minor victory, in my opinion, considering the weather so far, and the weak outside markets.

Corn is another story. The drop in our dollar has not helped local corn basis at all. End users appear to be well covered on their short term needs, and so have no reason to increase their bids. Even bids for later summer have not improved. It's good Chicago corn is holding up, or prices would be even worse now.

Livestock prices took a hit lately, after the historic rise over the past 10 months. This proves again that even bull markets will have corrections. The fundamentals remain positive on the supply side, but the demand side is questionable, especially if the world economy would go into another recession.

This worry is also responsible for crude oil losing 20 percent in 4 weeks. It's amazing that pump prices have barely budged. Toronto stocks dropped 5 percent since my last report, in very volatile trade. Fear has definitely crept back into investors' psyche lately.