

Commodities Report

Sept 1, 2010

| | <u>Close Wed Sept 1</u> | <u>July 21</u> | <u>6 week change</u> |
|-----------------------|-------------------------|----------------|----------------------|
| <i>Dec Corn</i> | 4.46 | 3.94 | + .52 |
| <i>Nov Soybeans</i> | 10.06 | 9.79 | + .27 |
| <i>Dec Wheat</i> | 7.09 | 6.19 | + .90 |
| <i>Dec Soymeal</i> | 294.00 | 285.00 | + 9.00 |
| <i>Oct Hogs</i> | 75.00 | 75.65 | - .65 |
| <i>Oct Cattle</i> | 97.75 | 94.95 | + 2.80 |
| <i>Sept Cdn \$</i> | 95.00 | 95.38 | - .38 |
| <i>US\$ Index</i> | 82.53 | 83.59 | - 1.06 |
| <i>Dec Gold</i> | 1246.00 | 1185.00 | + 61.00 |
| <i>Dec Crude Oil</i> | 76.95 | 78.09 | - 1.14 |
| <i>US 10 Yr Notes</i> | 124-26 | 122-20 | + 2-06 |
| <i>TSX Stocks</i> | 11997 | 11498 | + 499 |

Grains gained since my last report 6 weeks ago. Growing conditions were highly variable over the period, raising uncertainty about where final yields will end up. With record demand expected for corn and soybeans, the margin for error is relatively small.

The US Delta and eastern grainbelt has been hot and dry. Iowa and parts of Illinois have seen near record rainfall. Early yield reports have been disappointing. However, the northern areas (Minn, Dakotas) will likely have their best crops ever.

USDA pegged corn at 165 bu/ac and soys at 44 in their Aug report. Many think these will be the highest estimates for the year. USDA updates the numbers on Sept. 10. Harvest will be earlier than normal in most areas.

Production problems in Europe have supported grain prices recently. Russia and Germany are unlikely to export any grain this year. Argentina and Australia are also dry, so southern hemisphere supplies could also be less than normal.

Ontario, like the US, will have a wide range in yield. Areas to the north and east have fared better for moisture than areas to the south and west. Where rain is lacking, crops are deteriorating quickly with the excess heat recently.

Funds have been large buyers of grain futures. They are currently long a record number of contracts in corn and soybeans, and near their all time high in wheat. This is potentially negative should moving averages turn lower, and liquidation results.

The Canadian dollar dropped marginally through August. Despite that, corn basis fell 20 cents. There was more old crop corn out there than most people thought there would be, and harvest is likely to be a month earlier than normal.

One of the biggest bull market recently has been in bonds. Rates are nearly as low again as the extreme hit in late 2008, when the US banking crisis hit. Economic reports from the US have been dismal lately. US existing home sales fell 27 % to the lowest in 15 years, despite relatively cheap prices and the lowest interest rates in decades.

Gold also continues to gain, as uncertainty about paper currencies persist. Crude was weaker, as inventory levels remain high. The TSX stock index rose 4 percent over the past 6 weeks in very choppy trade.