

October 2011 Market Report

The economic problems in the EU continue to put pressure on commodity and financial markets worldwide. Commodity prices remain more driven by demand concerns and speculator activity than supply effects, with declines seen in a range of markets from plastics to softs and vegetable oils.

UP	Down
Frozen Conc. Orange Juice (ICE) +19%	Cocoa Butter (UK) -19%
Peanuts (US) +10%	Butter (NZ) -9%
Sugar (LIFFE) +5%	PP (Asia) -9%
Brent Crude Oil (ICE) +5%	Soyabean Oil (R?dam) -7%
Maize (CBOT) +5%	NBSK (EU) -6%
Nickel (LME) +5%	Lamb (UK) -4%

Soft Commodities

Cocoa beans rose (+4%) on ICE but prices were unchanged (0%) on LIFFE. Cocoa powder was stable in the UK but cocoa butter saw a sharp fall (-19%) as there is currently strong competition in this market amidst reports of good supply. Ivorian cocoa deliveries are reported to be well ahead of last year, when the civil war affected the situation. Arabica coffee rose (+1%) on ICE, lifted by the news that excess Colombian rains could result in its lowest crop in two years. Robusta coffee fell (-7%) on LIFFE despite a steep 47% decline in Vietnam's year-on-year exports. Vietnam is said to have plenty of Robusta after heavy stockpiling in the hope of raising prices over the past year. Refined white sugar rose (+5%) on LIFFE and was also up (+9%) on ICE, despite signs that India may permit sugar exports soon. Sri Lankan tea prices rose (+8%) due to strong demand for this origin as a result of the drought that affected Kenyan output. There was a rise (+5%) for Kenyan teabag grades (fannings), offsetting some seasonal falls in Kenyan loose tea, where recent short rains helped prices to decline slightly.

Oils & Fats

Soyabean oil fell (-3%) on CBOT as the US harvest is progressing well ahead of last year's, and prices fell further (-7%) in Rotterdam. South America carried over a large stock of soyabeans into the 2011/12 season and global supplies could be sufficient to cover demand at least until early 2012. Sunflower oil ended down in both Rotterdam (-6%) and Argentina (-9%), weighed down by the bumper sunflower crop expected this season in the Black Sea region. Palm oil was also down in Rotterdam (-7%) and Malaysia (-4%) as world production over the past months turned out better than expected, rising 12% year-on-year to 26.4m tonnes. Rapeseed oil fell (-3%) in Rotterdam. A shortage of rapeseed will dominate the European market this season, with EU output forecast to decline 8% year-on-year. Palm kernel oil fell sharply (-15%) in Rotterdam as September stocks reached their highest level since March 2009, while coconut oil fell (-8%) following palm kernel declines in spite of low supplies. Olive oil rose (+1%) in Spain.

Grains

Feed grain prices will likely to remain a key driver of the grain market this season and high prices may act to ration demand for feed. US maize prices rose (+5%) on CBOT. The latest USDA forecast has revised US maize output down by 1% from last month, however, increased output from Ukraine and China is likely to offset the smaller US crop. Feed wheat fell (-3%) on LIFFE due to greater availability of wheat compared to maize supply. Milling wheat prices fell (-4%) on LIFFE while prices rose (+2%) on CBOT. Global wheat production has been revised upwards from last month's estimates to reach 681.2m tonnes in 2011/12. Barley prices fell in the EU for both malting (-6%) and feed (-2%) quality. EU barley production estimates have been forecast slightly up from last season. Oats were up in the US (+3%) and Finland (+1%). Thai rice prices were up

(+1%) influenced by the new Thai government's rice price guarantee. Vietnamese rice was up (+4%). Durum wheat of Italian origin fell (-5%) as supply remains ample.

Ingredients

Ingredient prices showed mixed movements in October. In dried fruit, Turkish dried apricots were up (+5%), dried figs rose (+3%) and raisins fell (-2%). For nuts, US peanut prices continued to climb (+10%) as drought conditions in the American mid-west have cut US peanut yields and this year have drastically lowered the potential exportable US supply. Argentine peanuts were slightly down (-2%) as increased planting has helped to raise the South American supply. After unfavourable weather, a Turkish hazelnut crop of just 0.4m tonnes is expected for this season; Turkish hazelnut prices rose (+8%) while hazelnut paste was up (+5%) on concern about the lower supply forecast. Italian pine nuts were unchanged. Spanish almonds fell (-1%). Desiccated coconut prices were down (-9%), and cashews fell (-10%). Tapioca starch rose (+3%) as there is a chance floods in Thailand may hamper supply. Spices, on the whole, were stable with black and white pepper in the EU holding firm, nutmeg was unchanged, cloves fell (-1%) while ginger was up (+1%). Turmeric rose (+1%). Essential oils were mostly firm, but there was a seasonal fall for Indian mentha (-8%) from the high market prices seen last month.

Fruit

Apple prices fell (-2%) in the EU, as good quality French and UK fruit is coming through, along with pears down (-4%) on average in the EU. Oranges rose (+2%) in the EU as volumes remain very low. Brazilian limes ended down (-9%) as supply improved. EU lemon prices were also down (-4%) with plenty of Turkish and Spanish produce available. Bananas rose (+4%) in the EU as production in the Caribbean has fallen due to lack of sunshine affecting production. Raspberries prices declined (-18%) in the UK due to good volumes of Spanish and Mexican fruit coming in. Frozen concentrate orange juice was up (+19%) on ICE supported by low inventories in the US, with stocks 46% lower year-on-year as the 2010/11 season ended. Apple concentrate rose (+5%) in China as the high fruit prices are limiting availability for processing.

Vegetables

Potato prices in the five main EU producing countries fell (-17%) on average. As the season progresses potato supply is still ample to meet demand despite the wetness of the summer restricting lifting in certain areas. Onions fell (-17%) in the EU due to an increased onion area planted and higher yields have been seen in the UK and the Netherlands. Carrots rose (+3%) in the UK as cold temperatures in the north of the country have reduced the crop size for the time of year. Broccoli prices fell (-11%) in the UK due to increased supply. Turnips were down (-17%) in France and Germany, swede in the UK also ended down (-12%) as produce comes into season. Tomato prices rose sharply (+29%) for all types in the EU as the cooler and darker season starts. Salad peppers fell (-27%) as the changeover from Dutch to Spanish produce was in progress this month and good quality and availability has been reported so far.

Meat & Poultry

Beef prices continued to rise (+2%) in liveweight cattle futures on CME, while South American beef prices generally weakened with Brazilian liveweight prices (-1%) and Uruguayan deadweight prices (-5%) both down. EU beef deadweight prices rose, with French (+3%), German (+2%) and Dutch (+1%) beef all up. Firm demand for EU beef from export markets, particularly Turkey, combined with lower domestic and imported supplies, has resulted in continuing upward pressure on prices. New Zealand lamb rose (+1%) due to continued high demand from Asian markets. EU lamb ended up on average (+1%), on a country basis prices rose in the Netherlands (+2%) and France (+3%) but fell in the UK (-4%) and Germany (-1%). Pig prices stabilised in the EU, with EU deadweight pork reference prices up (+1%). EU pork prices have been supported by increased export demand, with trade to South Korea more than doubling over the year to date due to domestic foot and mouth troubles. A general shrinkage in pig breeding herds throughout the EU has also firmed prices. EU piglet prices recovered slightly (+1%). Deadweight chicken prices in the EU fell (-1%). Brazilian liveweight chicken prices bounced back (+5%), with Thai liveweight prices also up (+2%). Chinese market prices for chicken weakened sharply (-17%). For fish, Norwegian farmed Atlantic salmon have fallen back (-8%) with export volumes 20% up from this time last year. Supplies of Chilean salmon continue to recover after last year's disease-related problems.

Milk & Dairy

The focus of the world dairy market has switched to the southern hemisphere, with New Zealand experiencing an earlier than normal seasonal increase in milk availability. SMP prices rose (+2%) in Germany. EU SMP exports remain competitive on the world market and this has supported EU prices. SMP prices fell in New Zealand (-5%) on greater milk supply. Butter prices fell sharply (-9%) in New Zealand and were also down in the Netherlands (-4%). EU Private Storage Aid butter stocks fell by 15% to 65,117 tonnes between the 1st of October and the 20th as stock was sold onto the market. WMP fell in New Zealand (-2%) but was up in Germany (+2%), following the SMP markets. Liquid milk prices were up in the UK (+4%) and Italy (+1%). UK milk deliveries in September registered the second consecutive monthly year-on-year decline after a marginal drop was seen in the revised figures for August. Cheese prices were mixed; increases were seen for emmental from Poland (+4%) and Germany (+4%). New Zealand origin cheddar was down (-8%), while UK mild cheddar fell (-2%). EU wholesale egg prices fell on average (-2%), but shell eggs for breaking recovered sharply from last month's fall (+18%) with liquid egg also up (+5%).

Energy

Crude oil prices rose in October as eurozone leaders agreed a third bailout package for Greece. Prices moved up for both Brent crude (+5%) on ICE and light sweet crude (+13%) on NYMEX. Petrol prices in Europe continued to fall (-5%) as declines in crude oil experienced in previous months fed through. EU diesel prices rose (+6%) on increasing seasonal demand for heating oil (+4%), which is produced from the same crude oil fraction. Prices of natural gas saw declines in Bacton (-9%) and ICE (-7%) as milder weather reduced demand and outlook for liquefied natural gas improved. Gas futures also fell (-3%) on NYMEX on rising shale gas supplies. EU coal prices declined (-5%) as utilities were running their stocks down. Electricity prices fell both in Europe (-1%) and the UK (-11%) on lower primary energy costs.

Chemicals & Plastics

EU naphtha fell (-4%) due to last month's crude oil price drops, with EU paraxylene (-7%), ethylene (-2%) and propylene (-3%) all down as a result. EU plastics prices fell slightly over the month as activity has been weak across most EU plastics markets, with LDPE (-1%), PP (-2%) and HDPE (-1%) all down. Some EU producers have been attempting to increase their exports to balance their stock levels, but demand for plastics has weakened sharply in Asia after further credit tightening measures were announced by China. Price falls were seen in the Asian HDPE (-7%), PP (-9%) and PS (-7%) markets. Fertiliser prices were mixed, with US urea down (-8%) but Ukrainian ammonia up (+14%).

Pulp & Paper

Global demand for softwood pulp was weak in the third quarter of the year and producer inventories rose as a result. Delivered NBSK fell in the US (-2%) and Europe (-6%) as lower demand continued to push prices down across European markets. BHK pulp prices also fell in the US (-3%), China (-5%) and Europe (-9%). In the EU, the packaging sector continued to feel a downward pressure amid the global economic uncertainty. Prices weakened for EU kraftliner (-1%), testliner (-5%) and waste-based fluting (-4%). Steeper declines were seen in EU corrugated waste (-7%) as demand has been subdued, particularly from China. Graphic paper and newsprint, on the other hand, were virtually unchanged in the EU (0%).

Metals

Prices were mixed as upward pressure came from the eurozone debt situation, while concerns remained over underlying demand as China's manufacturing activity slowed again in October. On the LME, rises were seen in copper (+4%), nickel (+5%) and tin (+3%), while declines were seen for lead (-1%) and aluminium (-1%). Prices fell in the EU for hot rolled (-8%), cold rolled (-5%) and stainless (-5%) steel, as feedstock costs weakened for iron ore (-15%) and coal (-5%). Steel prices eased in China with hot rolled down (-4%) and cold rolled steady (0%). Increases were seen in gold (+4%), silver (+7%) and platinum (+2%) as continued economic uncertainty encouraged investors to choose less risky assets.

Others

Baltic Panamax Index (+17%), Silver US (+12%), Cotton CN (-2%), Nylon chips CN (-5%), Wool NZ (-6%).