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## Daily Commodities Report 4<sup>th</sup> August 2010

### U.S. wheat up nearly 1 pct after falling 2 pct on Tuesday

\* Uncertainty over Russia, Ukraine wheat output supports

\* Corn, soy tick up; favourable crop weather seen

U.S. wheat futures bounced back on Wednesday, rising almost 1 percent as concerns over production in the drought-ravaged Black Sea region returned to the market following a dip in the previous session.

Corn and soybean futures, which have been pulled up by the rally in the wheat market, also edged higher, but forecasts of mainly crop-friendly weather in the U.S. Midwest capped gains.

Chicago Board of Trade wheat dropped nearly 2 percent on Tuesday, after surging to a 22-month high a day earlier, as traders felt the market had already factored in the damage caused by the severe drought in Russia.

"Fires are devastating the area and temperatures are going to be high and there is no guarantee that it's going to stop," said Peter McGuire, managing director of CWA Global Markets in Sydney.

Russia cut its grain crop forecast in line with analysts as the worst drought in 130 years spread to more regions, with no letup in sight over the coming week, although Deputy Agriculture Minister Alexander Belyayev was quoted as saying grain export restrictions were unnecessary.

The drought in the Black Sea region is expected to affect world wheat trade, with key exporters such as Australia and the United States gaining market share as drought-stricken countries reap smaller crops. Traders said some Black Sea shipments to Asia had already been held up.

Still, analysts have started wondering if there was more room for wheat to move higher after its biggest monthly rise since at least 1959 in July.

"We need to see 10-15 million tonnes of reduction in production around the world for this rally to be sustained and hold at these levels," said Luke Mathews, commodity strategist at Commonwealth Bank of Australia. "Otherwise, I won't be surprised to see a pullback a little bit."

Chicago Board of Trade wheat was up 0.8 percent at \$6.85- $\frac{1}{4}$  a bushel by 0342 GMT.

Funds had piled into the wheat markets as the Black Sea region drought kept worsening, but traders said funds were less active on Tuesday.

The market is also keeping a close watch on Egypt which is seeking 60,000 tonnes of optional-origin wheat for Sept. 1-10 shipment.

In its previous tender on Saturday, Egypt, the world's top wheat importer, made its largest international wheat purchase in a month, buying 180,000 tonnes of Russian wheat. Prices were more than \$60 per tonne higher than a month ago.

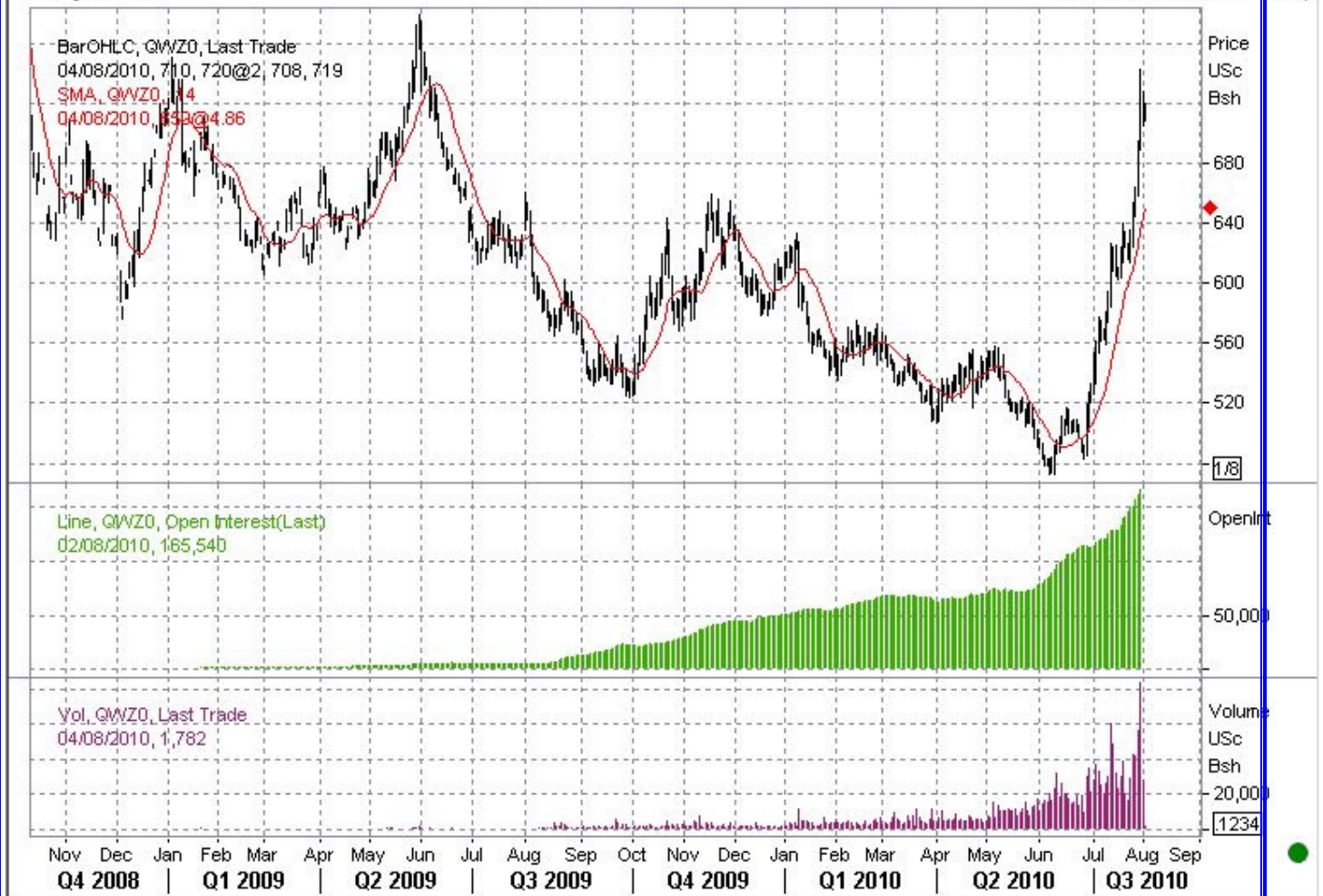
Corn and soybean markets ticked higher. CBOT September delivery corn gained 0.2 percent to \$3.90- $\frac{1}{4}$  a bushel and August soybeans added 0.1 percent to \$10.55 a bushel.

More storms will move across the upper U.S. Midwest this week, adding moisture to soggy crop fields and causing localized flooding, while the dry southern belt will see some relief rains, a forecaster said.

"Despite the heavy showers in the western Corn Belt, crops are still in mostly good condition," said Telvent DTN forecaster Mike Palmerino, referring to weekly state crop reports issued Monday afternoon.

## Daily QWZ0

14/10/2008 - 06/09/2010 (CHG)



### US DECEMBER WHEAT

#### Tropical Storm Colin downgraded to depression -NHC

- \* Chinese economy to slow further in 3rd qtr -think tank
- \* Coming Up: U.S. EIA inventory report; 1430 GMT

Oil fell on Wednesday for the first day in five as a rally that powered prices to three-month highs near \$83 a day earlier lost steam, while industry data showed U.S. gasoline stockpiles rose unexpectedly last week.

The dollar hovered near a three-month trough against the euro following Tuesday's data showing U.S. consumer spending and incomes were flat in June and the index for pending sales of previously owned homes fell to a record low.

U.S. crude for September fell as much as 53 cents to \$82.02 a barrel and was down 32 cents at \$82.23 by 0648 GMT, after touching \$82.64 on Tuesday, the highest intraday price for a front-month contract since May 5. On Monday it topped \$80 for the first time in three months.

"The market is taking a breath," said Clarence Chu, an energy trader at Hudson Capital Energy in Singapore. "I can't rule out that it will rally again. The way it broke through \$80 was very bullish for sentiment."

Front-month ICE Brent, which this week traded at a premium to the U.S. benchmark for the first time since mid June because of summer maintenance at North Sea oil fields, shed just 13 cents to \$82.55.

Japanese equities fell on Wednesday after Wall Street stocks paused a day earlier, having reached their highest level in 2-½ months at the beginning of the week.

Disappointing earnings from Dow Chemical and Procter & Gamble on Tuesday and the weak U.S. macroeconomic indicators were weighing on share prices.

Investors sometimes turn to commodities to preserve value at times of declining financial markets. A weaker greenback also boosts the purchasing power for oil by developing nations where demand is surging.

"For the last couple of days it has been all dollar-driven," Chu said. "All the data indicates that the U.S. recovery is slowing down, most likely because of the end of the stimulus package."

Euro zone and U.S. non-manufacturing indicators will provide further direction for prices later on Wednesday, while government statistics on oil inventories and demand from top consumer the United States will follow at 1430 GMT.

U.S. crude stockpiles dropped by 776,000 barrels in the week to July 30, statistics from the American Petroleum Institute showed late on Tuesday, compared with analysts expectations for a 1.4 million barrel draw.

The nation's gasoline supplies posted a surprise increase of 2.3 million barrels, versus forecasts for a 400,000-barrel decline, while distillate fuel stockpiles including diesel rose 1.1 million barrels, roughly in line with expectations.

China's economy will cool further in the third quarter as fiscal stimulus starts to fade and the restocking cycle draws to a close, a government think tank said on Wednesday.

Annual gross domestic product growth will slow to 9.2 percent from 10.3 percent in the second quarter and 11.9 percent in the first, the State Information Centre said in a report published in official media.

Tropical Storm Colin degenerated into a low pressure area as it encountered wind sheer in the western Atlantic Ocean, the U.S. National Hurricane Center said in its latest advisory late on Tuesday.

The disorganized system, which was not expected to regenerate in the near term, was not seen as a threat to Gulf of Mexico oil and gas production, with most computer models showing it tracking east of Florida and toward the Southeast U.S. coast.

Elsewhere, a militant group linked to al Qaeda claimed that a suicide bomber from its organisation was responsible for an explosion on a Japanese supertanker last Wednesday near the Strait of Hormuz.

### Gold gains to 1-week high, charts improve

\* Coming up: U.S. ISM non-manufacturing PMI Jul; 1400 GMT

Gold extended gains and rose to a one-week high on Wednesday as speculators bet China's demand would increase and poor U.S. data sparked concerns about the health of the global economy.

Higher prices sparked selling from jewellers in Asia, while China's decision to allow more banks to trade in the precious metal underpinned sentiment and helped bullion stay above the 100-day moving average.

Spot gold rose \$7.75 to \$1,193.10 an ounce by 0240 GMT, but was still around 6 percent below a lifetime high of \$1,264.90 struck in June.

"I think this is mostly related to the news we heard from China," said Dick Poon, manager of Heraeus in Hong Kong. "But there's not much going on the physical side. Physical buying has slowed down a bit at the moment."

The People's Bank of China said on Tuesday it would allow banks to hedge bullion positions in overseas markets, urge banks to lend more to domestic gold firms looking to go abroad, and actively develop more yuan-denominated gold derivatives.

China is the world's largest producer of gold and its second-largest consumer after India.

"It looks like (there is) some buying from investors because jewellers are in fact selling back their holdings," said a dealer in Singapore.

"I guess the market is bullish because China is opening up the market, so there will be more opportunity to invest. It's a good sign."

China has opened bullion markets to active trade in the past decade, including allowing gold to be traded freely on the Shanghai Gold Exchange. Gold hoarding was initially outlawed in 1949 when the Communists took power.

U.S. gold futures for December delivery rose \$8.1 an ounce to \$1,195.6 an ounce.

Japan's Nikkei average slipped more than 1 percent on Wednesday, with exporters down on a combination of a strong yen and after U.S. stocks slipped on weaker-than-estimated data on consumer spending and housing. [.T] [.N]

The dollar hit an eight-month low against the yen on Wednesday, extending losses as weak U.S. data and talk of further monetary policy easing by the Federal Reserve pushed down U.S. Treasury yields.

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