



TOP FARMER WEEKLY PERSPECTIVE

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BULLISH ENTHUSIASM FADING?

After showing life early last week, agriculture prices have since sunk with crude oil leading commodity markets downward. Corn futures began Sunday night, August 24, with a gain of 22 cents but finished the day down more than 6 cents. It appears that the wind has been taken out of the sails on most commodity markets as fund liquidation continues, and money appears to be steadily leaving commodities.

Yet, when looking at the big picture, emerging world economies (with strength primarily predicated in the highly populated countries of China and India) is helping to fuel demand-driven markets. These markets are not about to go away. World coarse grain crops will be on the rebound this year, but from a historical perspective, supplies will still be critically tight. In other words, there is no room for error. You will see markets move up and down in a highly volatile fashion. This is typical in tight supply, demand-driven markets. On down turns, the market may be reflecting increased crop potential, but price declines are likely to be short-lived as the market will then begin to focus on the year ahead and the need for large crops.

We believe agriculture is three to five years away from seeing enough increase in world inventory before tight supplies are alleviated.

If you are reading the news, you will find the bears come out in a hurry when prices go down. They provide all the reasons why the markets will never rally back.

Conversely, when markets are moving upward, you will hear all the reasons why prices can never go down. What you are really seeing is a commodity market in flux. Stronger demand, tightening world inventories and a shrinking world make for more volatile markets.

The key is not to become too negative on down turns. At the same time, recognize that higher prices, as seen this last year, will also curb demand. Once the market finds a top and begins to move lower, speculative buying interest runs from the market. As producers, you need to be prepared to sell into rallies but at the same time not panic on declines. Feed buyers need to be more aggressive buying on price declines, especially near harvest, securing long term needs.

If you have questions or comments, contact Bryan Doherty at Top Farmer at 1-800-TOP-FARM ext. 129.