

Drivers and backgrounds

THE WHEAT MARKET IS IN CONSTANT FLUX. THE TIMES OF LOW PRICES AND CONSTANT ANNUAL CONTRACTS ARE OVER. BAKING+BISCUIT INTERNATIONAL TALKED TO **EUGEN WEINBERG**, SENIOR COMMODITY ANALYST AT THE COMMERZBANK, FRANKFURT, ABOUT THE REASONS BEHIND THIS



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+ bbi: Mr. Weinberg, what has triggered the enormous price increases on the food commodities' markets in the past year? The reasons given such as growth of population and increasing standards of living are hardly unexpected. Even the crop failures have been known about for a long time. Why did the price hikes come so suddenly?

+ Eugen Weinberg: The drought in Australia and the record low level of stockpiles have certainly been catalysts for these increases. However, other factors have also contributed. These new factors, in my opinion, include the demand for bio diesel and the changes in eating habits – this is highlighted, in particular, in the emerging markets of Asia where the consumption of meat and oil is on the rise - and last but not least the demands from investors.

+ bbi: Has all this become apparent since 2007?

+ Weinberg: The first signs of a shortage were seen in September 2006 when Australia experienced one of the most severe droughts in its history. The crop failure induced a stockpile decline worldwide. This happened again one year later. At the same time, the demand for bio diesel rose as a result of high oil prices. This changed the global market for agricultural commodities.

+ bbi: After the first upswing, the prices on the stock exchanges did not develop linearly. Again and again some downswings were seen, for example at the end of November 2007. Who or what drives the daily business and what do the traders worldwide react to?

+ Weinberg: Traders react to weather forecasts, crop progress, future crop expectations and the distribution of

cultivation areas. Added to this, there are some traders who act for chart technical reasons, and not to forget the investors. Their actions are hard to predict.

+ bbi: How much of an influence, in this context, are speculative transactions and money migrating from other countries in order to yield short-term profits?

+ Weinberg: This cannot be quantified. But one thing is for sure: money returning from the stock market and other declining markets have also contributed to the price increase. Since the beginning of 2008, an estimated 50bn USD went into the commodities market. This increased the volume of investments into raw materials from 150bn to 200bn USD. When dealing with the commodities business, many banks are giving grain a much higher proportion than ever as this market is young and vivid; it is easy to explain and easy to sell.

+ bbi: Who buys or hoards the most wheat today?

+ Weinberg: Currently China and the US are the largest producers; the largest exporter is the United States. In the future, much more can be expected from the former Soviet Republics. In the past, there were few reasons for investors to enter into the agricultural markets as it was much easier to make money with oil.

+ bbi: The demand for bio diesel is mentioned as a reason for shortages in grain and corn. How significant, in your opinion, is this in terms of price development?

+ Weinberg: The demand has a high influence because this market is highly dynamic. Most countries have passed direc-

tives prescribing that bio diesel should have a higher share of the fuel market. This not only applies to the EU and the US but also to China, Thailand, Brazil and other countries. It is expected that the demand for the raw materials needed for bio diesel will rise within the next five years by 20% annually. However, this is not the main influence. Changing eating habits have the largest impact.

+ bbi: Rising prices for wheat have resulted in a booming business for the manufacturers of agricultural machines and equipment. Cultivation areas are expanding. Will this again channel the price into lower and shallower waters?

+ Weinberg: Of course, one could reason that the increase in the demand for machines, fertilizers etc. will result in the growing of more grain. However, the costs are higher than before. For example, the prices for fertilizers have quintupled within the space of a few years. We can observe a development here that is similar to the last gold rush: It is not only the gold diggers who get rich but also the producers of shovels. Wages, prices for agricultural land, machines, fertilizers, pesticides, transportation etc. have seen an enormous increase. However, the prices for agricultural products have not risen accordingly, which partly reduces the margins for the agricultural producers.

+ bbi: In the past months we have seen a lot of protectionism. This time, the EU was not at the fore front. Do you see this as a risk which might force the market to wild eruptions or will this settle down the price debate?

+ Weinberg: ctually, much of what is happening on the market is not logical; neither hoarding nor protectionism. The latter one will cause a decline in export from those countries and the world market prices will continue to boom. In the long run, the effect is that the farmers in those countries cannot benefit from the world market prices but still have to carry the increasing costs for production means. In the short term this might level the grain prices in these countries, but in the long run, it will contribute to a general price increase for agricultural products.

+ bbi: What is your forecast for the crop in 2008?

+ Weinberg: Currently, that is the million-dollar question. The prices for agricultural products do not develop homogeneously. If it is a good year for one, the others will have a backlog demand. In the previous year, the prices for wheat have doubled, and those for corn have risen by only 15%. This results in wheat not being grown on account of the demand for corn. The result: a corn shortage and a price increase. Furthermore, the prices will also affect the prices for livestock and meat. Currently, farmers are slaughtering their cattle because they cannot support the high costs for feedstuff. In the long run, this will lead to an increase in meat prices. Investors have not yet discovered this market as there are only a few specialists and tools available at this point in time. However, this will develop into an interesting market with much potential.

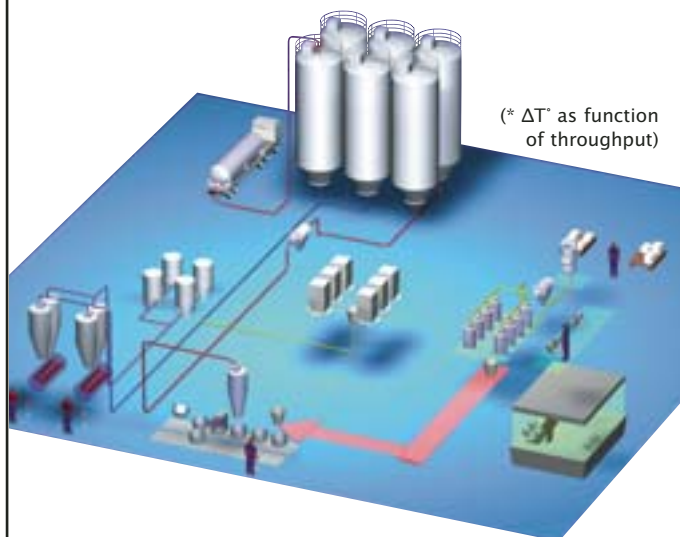
+ bbi: Thank you, Mr. Weinberg. +++



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