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* * MEDIA RELEASE * *

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Are Ag Commodity Futures Financial Market Instruments?

Markets for wheat and oilseeds have recently touched all-time highs while corn is nudging 11-year highs. Oilseeds have led the rally as demand growth collides with tightening inventories. But is there more at work?

According to ProFarmer Managing Director Richard Koch, 'the enormous wealth generated in both traditional and emerging economies over the past 5-10 years has led to ever-larger pools of speculative capital. Literally trillions of dollars move around global markets via vehicles known as investment funds, exerting enormous influence on markets that they choose to invest in.'

What do they have to do with agricultural markets?
There were about 150,000 open contracts on the Winnipeg canola market to the end of November, with 100,000 open contracts in January. Who is holding almost half the long position in the January contract? – The funds. 'Make no mistake'; added Mr Koch, 'the funds are at the heart of the current bull rally and the huge increases in market volatility.'

With soyoil, this market believes it is a member of both the Chicago soy complex and the energy complex traded in New York. The energy complex is driven by the crude oil market, which has taken over the mantle (at least according to some) of a geopolitical hedge in times of turmoil from the historically significant gold market. So, is soyoil in a transition from an agricultural production hedge instrument to a large-scale international investment product?

'Over the last two years, open interest in global vegetable oil markets has increased exponentially', according to Mr Koch. While most media attention has focussed on ethanol, most world economies are diesel-based, placing more emphasis on the production and/or import of biodiesel. Since no biodiesel contract has been created, hedgers and traders searched for a commodity market and in early 2007, attention turned to Chicago.

Since then the front-month soyoil contract and the spot-month crude oil contracts have been moving almost in lock step as crude oil has rallied to a high of $99/barrel and soyoil to 47¢/lb. 'In other words', explains Mr Koch, 'soyoil has changed from a grain contract to an energy contract (i.e., from an agricultural derivative to a financial derivative).'

What does this evolution mean to the rest of the grain markets?
As one farm commodity market starts to move, others follow tend to follow. International investors looking to hedge against rising inflation buy crude oil futures and now soyoil. The lift in soyoil improves returns from soybeans and encourages growers to increase soybean plantings.

Demand for corn from the ethanol and feed sectors is also growing, so this market begins to rally to keep its price ratio with soybeans near levels that might dissuade widespread switching to soybeans. All other grains are running hard to catch up. So, for possibly the first time ever, financial markets (crude oil, etc.) and grain markets have been linked via the mysterious transitional commodity – soyoil.

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Background Information:

ProFarmer is Australia's leading independent supplier of Agricultural commodity market information and strategic advice. ProFarmer offers national coverage of all broadcare commodities through its network of analysts with over 50 years of combined experienced. The flagship ProFarmer Newsletter and Market Update is read by over 2,000 of Australia's top farmers weekly. ProFarmer also offers advisory, consulting and training services.