

## Market Comments

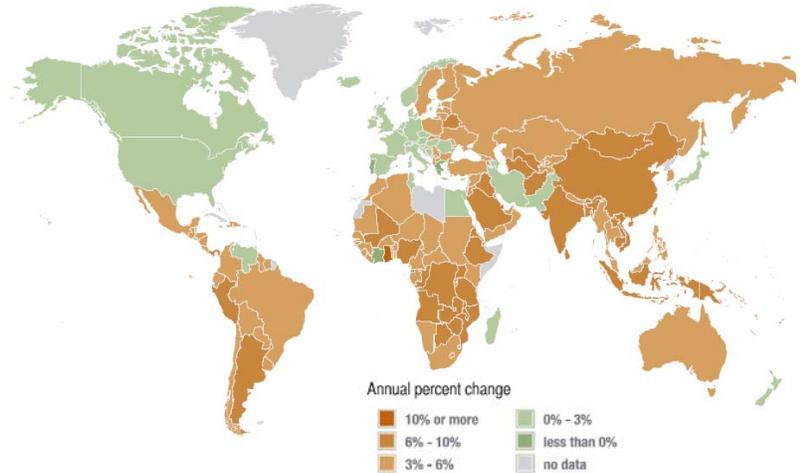
### Agricultural and broader commodity markets were sharply lower on Wednesday as traders reacted negatively to events in Greece and ongoing uncertainty about the future of the European Union.

The issue is not new and it has been percolating for some time. There was some hope in May 2010 that, as Germany and large EU economies put together a unified front and cobbled together a US\$1 trillion package, it would be enough to assuage fears in the credit markets. It worked for a while. However, it is becoming increasingly obvious that the troubles plaguing some of the weaker members of the EU will not go away given the constraints a fixed currency regime places on them. In the case of Greece, cutbacks in spending have further deteriorated the economic situation, which in turn has created the need for more cutbacks, and so the downward cycle continues. In our view, the real issue with the European Union is cultural and political as much as economic. The ultimate goal of the EU was to create a political union, the citizens of which “imagined” themselves as part of this greater community. Let’s not forget that the nation-state was born in Europe and ultimately it appears that the national bonds are infinitely stronger than bureaucrats in Brussels could foresee. The citizens rioting in the streets of Athens are doing so as Greeks first, rather than members of the EU.

At this point only a few people are talking about a breakup of the EU but that number is growing. All the countries involved have a lot invested in this project and the costs are incalculable at this time. Commodity markets, including agricultural commodities, focus on growth as a broad demand driver. The chart above was put together in April by the International Monetary Fund and it illustrates their expectations for 2011 GDP growth on a global scale. At this time, a number of events have taken place that could significantly impact that outlook. In North America, economic growth for 2011 was pegged at 2.8% for the US and Canada. Q1 growth in the US was 1.84% while in Canada it was 3.9%. Whether one looks at purchasing, investment or labor trends, the **fear is that US growth will remain constrained therefore weighing on overall commodity demand.** The broader EU GDP was expected to grow by a meager 1.8% but even that forecast may be dragged down by growing credit problems for countries in the periphery such as Greece, Portugal and Ireland. And as EU GDP deteriorates, more cutbacks may be needed which would further erode economic growth. Much of the orange (strong growth) coloring in the above chart comes from Asian and South American countries. Countries like Brazil and China have been growth drivers but even there issues are emerging. China is on an upward economic trend but, in the short term, we could see bumps in the road. Much of the Chinese growth is driven by exports to the US and EU and as those economies slow down, so will Chinese growth. Inflation in China has increased sharply and Chinese authorities are struggling to balance growth with financial stability. Broad commodity markets and particularly agricultural commodities have been on a bull run for sometime. The drivers for that run (expanding populations, industrialization of developing economies, strained resources) are not going away. In the short term, however, we will likely see a lot of volatility as the global marketplace struggles to find a middle ground between politics, economy and culture.

## Forecasts for World GDP Growth in 2011

Source: IMF, April 2011 Outlook



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