



Monthly Global Research Newsletter

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MARKET OUTLOOK FOR CHINA AND ASIA REGION

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*The following is an overview of the Chinese and Asian economic, political and crop situations as of **September 16, 2011**. This report is intended to be informative and does not guarantee price direction.*

The key Chinese and Asian event over the last 30 days has been that inflation in China decelerated to 6.2% in August, easing concerns of further tightening amid the global economic slowdown. China's central bank has held rates steady. India has hiked rates again by another 25 basis points to attempt to tackle stubbornly high inflation. As expected, Thailand also raised its rates. The new Japanese cabinet is focusing on ways to stimulate the economy.

CHINA

- Soybean oil and meal prices have been rising since mid-to-late August. Edible oil and meat consumption have entered the peak season from September to December, as traditional holidays arrive and winter approaches. Also, the higher pig-on-feed level will likely push up soybean meal consumption. After struggling with negative crush margins and retail price caps on edible oils for eight consecutive months, the business climate for China's oilseed processing industry may improve further.
- Food safety issues have once again been cast into the limelight following media reports that a "significant portion" of used cooking oil is being recycled and returned to dining tables across China. The government has repeated its pledge to crack down on the problem, and this could further boost Chinese edible oil consumption in the long run.



- China's inflation slowed to 6.2% in August from 6.5% in July, mainly due to a more moderate increase in food prices. The decrease was widely expected by the market. Some government and People's Bank of China officials say that the risk of inflation remains high, but the market consensus is that further monetary policy tightening is unlikely, since a slowdown in growth might have an adverse impact on the Chinese economy.
- The USDA estimates China's 2011 corn crop at 179 million metric tons (mmt) vs 173.0 mmt last year. It estimates China's 2011 wheat crop at 117.0 mmt vs 115.2 mmt last year. It estimates the 2011 soybean crop at 14.0 mmt vs 15.1 mmt last year and soybean imports at 56.5 mmt vs 52.0 mmt last year.

OTHER ASIAN COUNTRIES

- Inflation remains a problem for Asian countries, but most of them are biding their time as there are signs that inflation is coming down and the risks of a global economic slowdown are increasing. Exporting countries, such as Korea and Taiwan, are more focused on the economic situation.
- India is facing a bigger challenge, since inflation remains at high levels despite a series of interest rate hikes. Favorable rains during the monsoon season have helped prevent the economy from slowing down too much despite higher interest rates.
- Japan's Prime Minister Kan finally stepped down after dismal approval ratings. New Prime Minister Noda is enjoying a honeymoon period and has gained voter support despite the resignation of one of his ministers. He has taken a firmer stance on the movement of the yen and has repeatedly said that the government will work with the central bank to prevent further appreciation. The reconstruction effort is expected to keep moving the economy forward, but a global slowdown and strong yen pose risks to growth. Moody's cut Japan's rating one notch to Aa3, which was anticipated.