



Monthly Global Research Newsletter

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MARKET OUTLOOK FOR EUROPE, RUSSIA AND INDIA

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

During the last 30 days, the European debt crisis has begun to seriously impact the global financial system. The interconnection between a possible Sovereign debt default and the banking system at large is such that it is now apparent that a systemic banking failure has become a real possibility in Europe. Consequently, increased international cooperation is needed, as policymakers attempt to find a solution to the growing potential crisis.

EUROPE

- Two key points took place during the period under review, both of which served to highlight the complexity of the European debt crisis.
 - First, the German Constitutional Court, while endorsing the country's action to date regarding the provision of financial help to indebted member states, it has ruled out a further aid provision until a constitutional amendment is passed by the electorate to allow such further aid. Given the growing opposition by the German people to giving more money to indebted euro zone countries, there appears, at this time, little chance of such a constitutional amendment being passed. And, accordingly, the risk of a sovereign default occurring in the euro zone has been greatly enhanced.
 - Secondly, the downgrading of two major French banks due to their Greek debt exposure has highlighted the crucial fact that if a Sovereign debt default occurs, commercial bank liquidity in the euro zone will be severely impacted. Increased funding problems have already started to emerge in Europe.



- The Sterling's recent fall to its lowest level since January 2011 highlights the difficult conditions prevalent in the UK economy. Unemployment has recently risen at its fastest pace in over two years as austerity measures further reduce public sector jobs. High inflation continues to impact real disposable income.
- Due to heavy August rains in Germany, Poland and Scandinavia, a major French analyst has again cut its estimate for EU soft wheat output to 129.0 million metric tonnes (mmt). Additionally, the obvious loss in quality caused by these rains has resulted in the analyst cutting the milling wheat share of this total by just over 3 mmt to 83.5 mmt. Conversely, the analyst also believes the rains should help ensure a near record EU corn crop of 61.7 mmt, which is nearly 700,000 mt higher than the current USDA estimate.

RUSSIA

- Finance Minister Kudrin has recently emphasized the importance of oil and gas prices to the state's budget. Even with a 2011 average oil price of \$108 per barrel, a 2.7% budget deficit is forecast this year. A balanced budget requires oil prices to average over \$116 per barrel. If oil prices fall by 20%, economic growth could decline by 50% and serious funding issues would emerge for the Russian economy, particularly since both defense spending and pension subsidies are projected to increase. Money market deposit rates have just increased by 0.25% to 3.75% to encourage savings, as the Ministry predicts more difficult global economic conditions.
- Parliamentary elections will take place in December, and the vote for a new president will occur in March 2012. Russia still awaits the announcement of the presidential candidates. In what has been considered to be a pre-election gesture, President Medvedev has recently announced a cut in pension contributions.
- Having secured a clean sweep of the latest Egyptian wheat tender, Russia continues to aggressively undercut all competing wheat exporters in its apparent determination to recover the lost ground resulting from last season's export ban. Given suggestions that Russian grain production is a lot higher than current government estimates, that approach would appear to make sense.
- The USDA has estimated the Former Soviet Union's wheat crop at 107.4 mmt vs 81.0 mmt last year.