



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 **January 24, 2012**. This report is intended to be informative and does not guarantee price direction.*

Since the last review, the European Central Bank (ECB) has implemented a new policy designed to stabilize the growing euro-zone debt crisis. The Long-Term Refinancing Operation (LTRO) offers three-year loans at 1%. In December, the ECB provided 489 billion euros (\$629 billion) to regional banks and further loans will take place this year with a cap of 1 trillion. This substantial injection of funds has kept bank funding operations liquid.

EUROPE

- The euro zone remains in or close to a recession. Germany, the most important constituent country, recorded negative growth for the fourth quarter last year. If the consensus of forecasters for little or no growth this year is accurate, then it follows that tax revenues will fall. The debt problem, as a consequence, may worsen as the year progresses.
- Rating agency Standard and Poor's downgraded many euro zone countries in mid January. Lowering the ratings of France and Austria from triple A also required the downgrading of the European Financial Stability Fund (EFSF) because its rating is tied to the rating grades of its euro backers. Rating downgrades for most countries typically result in increased borrowing costs.
- In the UK, unemployment has continued to increase, and most forecasts expect this trend to persist in the months ahead. Economic figures released during the last few weeks indicate little positive news for the economy, which remains close to a recession.



EU winter crops remain in good condition generally, leaving the markets to focus on South American weather and the impact of the euro-zone debt crisis.

RUSSIA

- Russia saw an outflow of \$84.2 billion in 2011, with \$37.8 billion leaving in the fourth quarter alone. This was triggered by street protests following allegations of voting fraud during the December parliamentary elections. Russian Prime Minister Putin will run for his third presidential term on March 4, 2012.
- The Russian economy remains dependent on high prices for energy and other commodities. Growth in mining and related industries is already slowing in response to the fall in metals prices last year. Heightened political uncertainty has weakened the stock market and the ruble, and Russian inter-bank money market rates have increased.
- Domestic Russian grain prices have increased due to the record export pace, the lack of available supplies of grain near ports and logistical problems from winter conditions. Still, Russian exports nearing 20 million metric tons are approaching the threshold level at which the Russian government pledged to re-introduce grain export curbs. Ukrainian winter crop conditions have shown some improvement, but this is unlikely to prevent the need for replanting a significant amount of acreage with grains in the spring.

INDIA

By Suresh Nair, Head of Commodities, ADMISI Commodities Private Ltd.

The following is an overview of the Indian economic, political and crop situations as of January 24, 2012. This report is intended to be informative and does not guarantee prices direction.

- The Reserve Bank of India (RBI) has cut banks' Credit Reserve Ratio (CRR) rate by 50 basis points to 5.5%. This move was done to ease the cash liquidity crunch in the markets and will inject around US \$6.4 billion into the primary liquidity system. However, there was no change in the interest rate policy. The repo rate under the liquidity adjustment facility remains at 8.5% and the reverse repo rate will continue at 7.5%. The Indian economy has been slowing. The RBI has lowered its projected 2011-12 GDP growth to 7% from an earlier projection of 7.6%.
- India's 2011-12 soybean crop is forecast at 11.5 million metric tons (mmt) vs. 9.5 mmt in 2010-11, according to the Solvent Extractors Association. That tops industry estimates for 10.3-10.8 mmt. Cash soybean arrivals to the market remain slow, ranging between 3,500-4,000 mt daily. They are expected to stay in that range for the near term. Despite projections for a bumper soybean crop, soymeal exports have not substantially risen above trade expectations.