


“Perfect Storm” of Inflation – Food Crisis?




The recent surge in commodity prices seemed to copy those of the mid-1930s or the 1970s. Especially, the run on rice is threatening to disrupt worldwide food supplies as much as the scarcity of confidence on Wall Street earlier this year roiled credit markets. Currently, China, India, Egypt, Viet Nam, four among the traditional rice exporting countries, representing more than a third of global rice exports, as well as Cambodia, have either imposed minimum export prices, export taxes or export quotas/bans. Such moves are expected to reduce rice exported from these countries. Rice, the staple food for half the world, rose to a record \$20.910 per 100 pounds, double the price a year ago and a fivefold increase from 2001. Since food prices are soaring, a wealthier Asia is demanding better food and farmers cannot keep up. These induce a vicious cycle. In short, the world faces a food crisis. Damaged by severe

weather in producing countries and plundered by a boom in demand from fast-developing nations, global wheat inventory is at 30-year lows. Grain prices have been on the rise for five years, ending decades of inexpensive food. In addition, a declining dollar, a shift of investment money into commodities and use of farm land to grow biofuel crops have all contributed to food woes. But population growth and the growing wealth of China and other emerging countries are likely to be more enduring factors. It is widely expected that world population is set to hit 9 billion by 2050, and most of the extra 2.5 billion people will live in the developing world. It is in these countries that the population is demanding dairy and meat, which require more land to produce. According to Food and Agriculture Organization (FAO), international trade in

rice in 2008 is currently foreseen to reach 29.9 million tonnes, 1.1 million tonnes lower than the revised 2007 estimate. The tight supply situations that most exporting countries may face until the last quarter of the year and the associated restrictions on exports lay much behind the anticipated drop of rice trade in 2008. Since January 2008 international rice prices have seen a steep increase of about 20%, according to the FAO All Rice Price Index. For instance, in March 2008 the high quality Thai 100% B was quoted US\$ 546 per tonne, up 13% compared to February and 68% higher than in March 2007. The recent rise in global food commodity prices is more than just a short-term blip as a result of the tight supply and encouragement of biofuels market. 

Microscope

The catalyst for the recent spike in prices of food is coming from the rising energy price, which, in turn, leading to the emerging demand for biofuels market. This market is a new source of demand for some agricultural commodities such as sugar, maize and oilseeds. These commodities are now being grown as feedstock for producing biofuels. According to Food and Agriculture Organization (FAO), significant increases in the price of crude oil allow them to become viable substitutes in certain important countries that have the capacity to use them. Analyses of the links between weekly prices of gasoline, ethanol, maize and sugar, and between diesel and important vegetable oil such as palm, soybean and rapeseed, suggest that there are statistically significant inter-linkages between the relevant markets. FAO, however, found that since 70-80% of the cost of biofuels is constituted by the cost of the feedstock itself, if the feedstock prices begin increasing faster than the price of crude oil, biofuels may cease to be competitive with fossil fuels. Thus, there would effectively be a ceiling above which agricultural feedstock prices cannot rise. 

MARKET BRIEFING


YTD % (local curr)

US DJ	12,609 (-4.9%)
Nasdaq	2,370 (-10.6%)
Euro Stoxx 50	3,795 (-13.7%)
HSI	24,264 (-12.8%)
Japan NK225	13,293 (-13.2%)
China Shanghai Composite	3,446 (-34.5%)
Singapore	3,155 (-8.9%)
India BSE30	15,343 (-24.4%)
Brazil BOVESPA	64,445 (+0.9%)
Aus All Ord	5,663 (-11.8%)
US-10yr Bond Yield	3.54%


As at 04/04/08

Insight: “Technical Analysis”

It was noted that fundamental analysis would take a long-term view of the value of the stock, while technical analysis is more concern with the short-term. Technical analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends. This analysis is based on the premise that price reflects all relevant factors before an investor becomes aware of them through other channels. Technical analysts identify non-random price patterns and trends in financial markets and attempt to exploit those patterns. While analysts use various methods and tools, the study of price charts is

primary. They especially search for archetypal patterns, such as the well-known head and shoulders reversal pattern, and also study such indicators as price, volume, and moving averages of the price. Many analysts also follow indicators of investor psychology, like market sentiment. There are several schools of technical analysis, including school of candlestick charting, Dow Theory, and Elliott wave theory. However, many traders combine elements from more than one school. Technical analysis is frequently contrasted with fundamental analysis, the study of economic factors that some analysts say can influence prices in financial markets. In conclusion, neither fundamental analysis nor technical analysis is more superior than the other. Both have their merits and should be used at the right times. 

A-Z Financial Tools

Participation Certificates are generally used in the context of equities investments. These certificates representing an interest in a pool of funds or in other instruments, such as stock indices and securities, that allow participation in the rise or fall of a security or group of securities. These are effective tool for asset allocation under different investment situations. 



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