The Insider Trader

Issue 9 ***July 2007***

Markets at a glance

Trendspotter Signals

Dow Jones (DJ)
Sell

S&P 500 (SP)
Sell

FTSE 100 (X)
Buy

DAX (DY)
Buy

£/US$ (BP)
Buy

US Dollar Index (DX)
Sell

Crude Oil (CL)
Buy

Gold (GC)
Sell

Coffee (KC)
Sell

Orange Juice (OJ)
Sell

Sugar (SB)
Buy

Dates to watch July 2007

19th July- US options expire

How to trade the coming Food Crisis

Why your shopping basket is costing more and what you can do about it

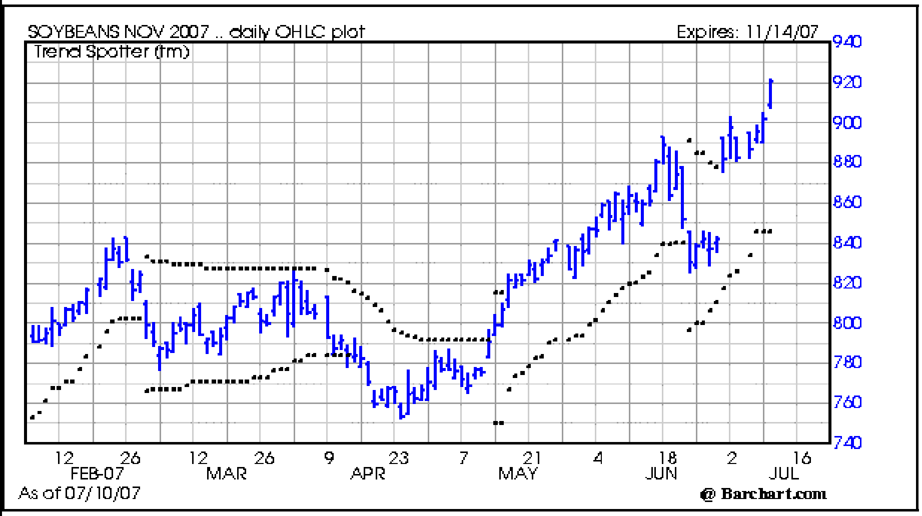
In case you have not noticed the price of food is on the rise and I dont see a change in the trend any time soon. Whilst Wheat, Soyabeans, Corn, Palm oil, Pork Bellies and other commodities dont make massive headlines you would be foolish to ignore the opportunities in these markets. Most commodities can be easily be traded via major spread betting companies and you can also buy exchange traded funds (ETFs).

The price of everyday items such as milk, eggs, chicken, pork, corn and butter are all sharply up over the last few years. Corn is up over 100% causing riots in the streets of Mexico as the price of Tortillas a basic food sky rocket. Search "Mexico tortilla crisis" if you want to know more.

As you will know from my past columns I have been a bull on commodities since 2003 and I continue to see higher prices especially in the grains, meats and soft commodities.

Now before I go on you may think that profiting from higher food prices is a bit unethical and its a case of evil capitalist profiting from the poor however youre not going to stop the trend and if you feel guilty then why not give a percentage of your profits back to charity.

November Soyabeans breaking out to new highs. We could see a short term sell off but the trend remains UP



So whats the story?

Its a combination of events which have come together. Firstly, the increase in population and the increase in the middle class in China and India. As people become more affluent they want to try new foods and richer foods. Its a fact that the calorie intake goes up as a population becomes more developed and we also see an increase of processed foods.

Then we have the changing climate, although it now seems that the Australian wheat crop has been saved thanks to some late rains, on the whole global farming is becoming more difficult because of climate changes. The costs of farming are also increasing due to higher oil prices. Also the higher price of grains affects the price of cattle, as feed costs move up which of course now affects the price of milk and dairy products. The **Council on Agricultural Science and Technology** estimates that it takes around 3 kilograms of grains to produce 1 kilogram of meat.

I envisage that more farmers will get out of rearing cattle which short term will cause downward pressure on the prices of Cattle, Lean Hogs and Pork Bellies as more meat comes to slaughter, however, once this overhang clears up I see much higher meat prices going into 2008.

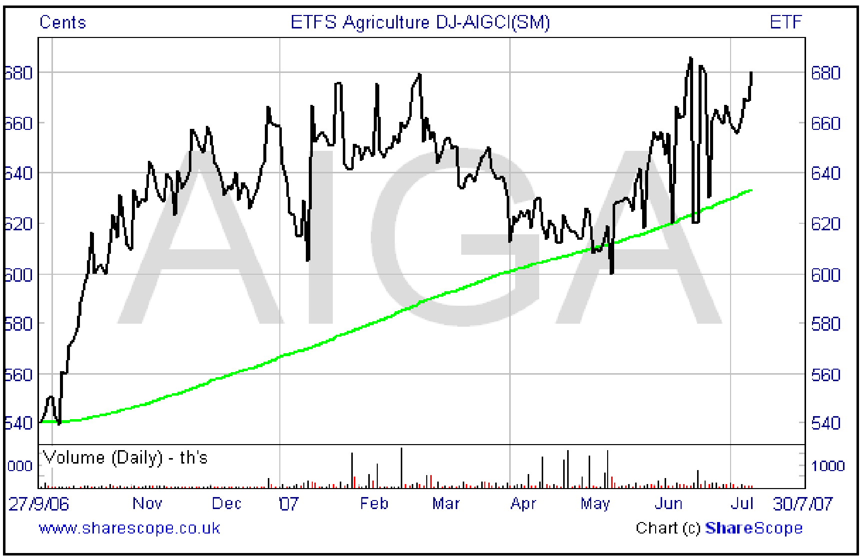
The final major factor is in my view the worst idea that the US government has come up with in recent years and thats starting to use food as fuel. In short the US wants to become less reliant on importing oil. The energy bill being debated in the US Senate would mandate that 36 billion gallons of ethanol be produced for transport fuel by 2020. President Bush is more or less on board since he proposed a 35 billion gallon mandate in his last State of the Union speech.

It takes 450 pounds of corn to make enough Ethanol to fill a 25-gallon petrol tank. Whilst it may sound like a good idea and all very green, burning food to feed big 4X4 cars is not the solution, the solution is to cut down on consumption and use less fuel, not try and find a quick fix. Of course, getting the US government to see sense is not going to happen, also all those voting farmers are cashing in on the higher grain prices so its a vote winner as well. On the subject of Ethanol, you can read mixed research on whether Ethanol is energy positive or negative i.e. it takes more energy to make a gallon of Ethanol than you get out, my own view is that its not that efficient.
Higher food prices hit the poorest as they spend the highest proportion of their income on food. For the last few years thanks to some government subsidy, competition from major supermarkets and an increase of efficiencies in retailing and farming, food prices have been kept fairly stable and in fact we may have even become accustomed to lower prices, however, those days are well gone. Price increases will have to be passed on. A trick that manufacturers can use to disguise higher prices is to reduce the size of a packet, so you would get 700g of cereal instead of 750g but its still a price rise.

Now down to trading. I have already featured Palm Oil (I have ben long since 2003) and Soyabean oil (see May 07) in the past and I still remain bullish on both. Also I like Soyabeans (See chart) You can spread bet Soyabeans or you can look at buying an Exchange Traded Fund. See

You could look at buying the DJ-AIGCI Agriculture Index (AIGA) currently trading at $6.50. This would give you an exposure to Soyabeans (25%), Cotton , Sugar, Coffee, Soyabean oil,

A Great way to get exposure to soft/grain commodities without worrying about rollovers, stops or day to day fluctuations.

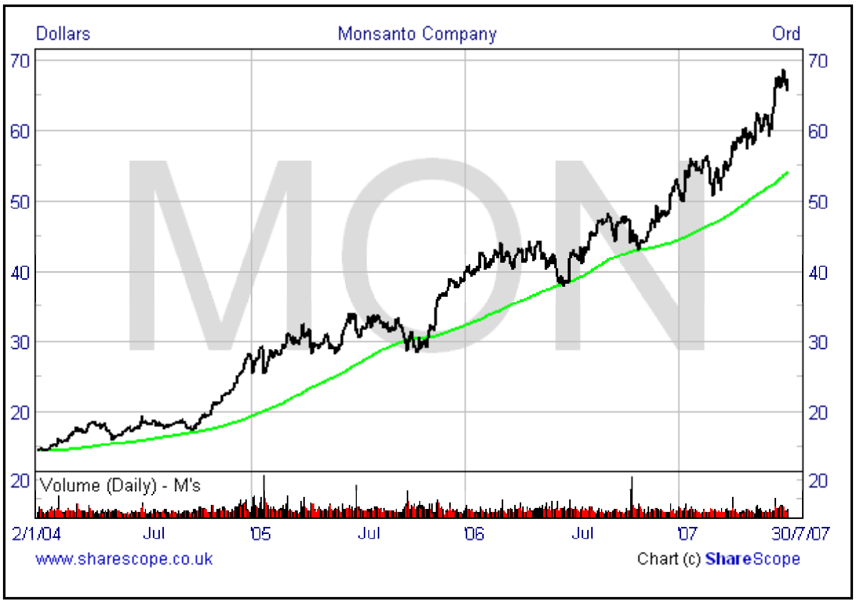


and Wheat all in one trade. Remember you can buy ETFs via any stockbroker just like a share, and you can buy them in pounds.

Other winners in the higher demand for food category are **Monsanto (MON)** listed on the NYSE. Monsanto is available as a spread bet. Monsanto are a leading provider of seeds to farms for crops such as cotton, corn and soyabeans. The company also provides products to enhance cattle growth.

As the chart shows they have had a strong run and have remained in an uptrend since 2005. Although we could see a pull back to $60, the growth story remains and the price is set to carry on higher.

Another similar company which can also be traded via a spread bet is **Syngenta** (SYT) for the New York listing. Again a strong uptrend. The worlds biggest food processor and seller of seeds, animal feeds and food ingredients is **Archer Daniels Midlands (ADM)** This is a slightly weaker chart but keep an eye on ADM as it could break out to the upside, currently trading at $35.



Weekly Gold: Everything still looks positive with the chart above. We need to get past the next few weeks then we have good seasonal factors with August and September being traditionally strong months for gold. See seasonal chart below

Gold

We have not really been focusing on Gold over the last few months as its been range bound, however, I am now starting to see some better signs. Gold has been making a base with the 200 day moving average acting as good support. I still think that the consolidation could carry on for another month or two but longer term trades should look to start going long December 2007 Gold around the $640 mark as I am looking for a pre Christmas run up back to $720, it could

run up back to $720, it could even come sooner. You can look to spread bet gold or place a fixed odds bet with www.betonmarkets.net You could also look at covered warrants.

Tullow Oil

Tullow Oil plc is one of the largest independent oil and gas exploration companies in Europe. The company has 120 licences in 22 countries, with operations in the UK Southern North Sea, Africa and South Asia. In January 2007, Tullow also bought out Hardman Resources Limited last year. Current production is over 76,000 barrels of oil equivalent per day but this is targeted to rise to over 85,000 by the end of the year.

The recent run up in price is thanks to the discovery of a significant oil in Ghana. Tullow has a good exposure to Africa and Ghana, Uganda and Congo could prove to be far more lucrative than first thought.

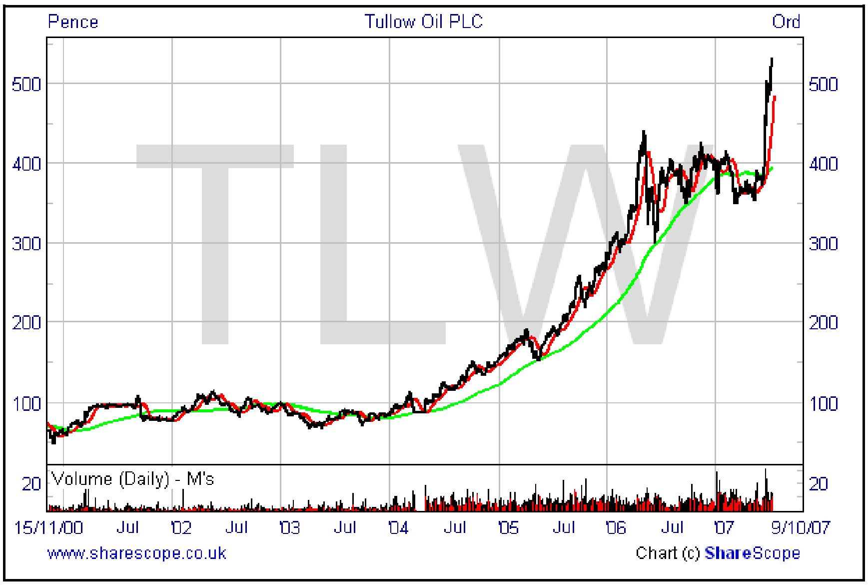
The recent run up from £4 to over £5.20 could see some short term profit taking, however, this move has strength and supported by the stronger oil price and demand for exploration companies. This share could easily be trading at over £9 in the coming 12 months. Also, I think you will see a consolidation in the oil exploration field as majors look to buy growth so it could also be a possible takeover target.

Indices

We are now into the quieter summer months and to be honest I am surprised at how well the Dow, S&P and Dax have held up so far. The last few weeks have however seen more of a sideways ranging market in the Dow Jones with a range of 13,200 to 13,700 holding up.

The market that I see the most possible downside on is the **German Dax** and this could start anytime now and last until October 07. The Dax has now retraced all of its loss and is back at the 2000 high of just over 8,000. Seasonally, the Dax is weak between 1st August and 1st October. On average the Dax falls over 2% in August and falls over 4% in September. You could back this by placing a fixed odds bet with Betonmarkets or by looking at spread betting Dax options.

Thats it for this month, wishing you a successful trading month.



Above: Tullow Oil
Below: German Dax back to 2000 highs but I dont see much more left 8250 tops with a sell off on its way before a second run up before Christmas