



Getting you there.



Is the World running out of food?

The case for agricultural commodities as an investment class is becoming more compelling and, not surprisingly, there are a number of new products coming to the market which allow investors access to this arena.

The world's population is growing at a rapid pace and, given the advances in medical science and the economic development in Asia and more latterly Africa, it is likely to continue expanding for the foreseeable future. The forecast for the global population is that it will reach 9 billion by 2050 compared to 6.5 billion at the end of 2006. The most significant area of growth will be in the emerging markets which will have an additional 1.3 billion mouths to feed.

Why invest in agriculture?

The economic development in Asian countries, particularly China and India, has led to a mass movement of people out of rural farming communities into the major cities. This has been the main driver behind the recent stellar price rises in metals and infrastructure related assets.

However, what has been largely ignored until now are the changes people make to their lifestyles once they have resettled into the cities. With more access to western influences, such as television and the internet, people are changing their attitude towards diet which historically has been centred around vegetables and rice. Now people are looking to include more protein and dairy products in their daily food intake and this is putting a considerable strain on current supply levels. The increase in the requirement for meats such as pork has led to higher demand for animal feed, the supply of which cannot meet current levels of demand never mind future increases. With Soya beans being one commodity which is primarily used for animal feed, as well as margarine and cooking oil, we would expect prices to remain buoyant as demand stays high.

Other commodities such as coffee are also experiencing a huge increase in demand as people in emerging economies have developed a taste for the beverage. In countries such as Brazil, this has led to less coffee available for export, leading to higher prices.

Another reason for the recent rise in the level of interest surrounding agricultural commodities has been the dramatic increase in the use of biofuels, particularly in the US where large amounts of the farming industry used for wheat and corn have now been turned over to the production of ethanol, which can be used as fuel in cars. In Brazil, significant numbers of sugar plantations are now producing cane for biofuel production as well.

It is not yet certain whether using biofuels actually benefits the environment to the degree anticipated, due to the amount of energy required to convert the grain into fuel in the first place, but the current high level of demand is likely to continue at least in the short term, and with more and more farming land being used for this function, it is likely to lead to a shortfall in other commodities which are sacrificed in order to produce the products needed for this "green" fuel.

Weather conditions can also have a major impact on farming and the onset of global warming could have a devastating effect on crops, with rain or drought wiping out entire harvests in a matter of days. The fine line between a successful harvest and a poor one could be down to just a few days of favourable weather conditions. As weather patterns become more unpredictable every year this could cause severe problems in certain sectors of the market.

Why not just plant more?

The land available for farming is decreasing on a global scale due to urbanisation and desertification and these are not problems which are easily solved.

Over-farming of land in developing countries has led to large areas becoming useless and it will take many years to repair the damage done or prepare new areas for farming.

It is therefore unlikely that the global shortage of agricultural commodities can be solved quickly by increasing the amount of land being used.

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