

Remembrance of Beers Past

"The past is hidden in some material object...which we do not suspect. And as for that object, it depends on chance whether we come upon it or not...."

– Marcel Proust

For Proust, it was the evocative aroma of the *madeleine* in a teacup that triggered long-buried memories of childhood and days happier in memory than they might have been when actually unfolding. While both you and I have our own triggers, one that stands out particularly for me was a sign posted over the cabin of a scuba diving boat inscribed with the simple and permanent promise:

FREE BEER TOMORROW

This combination of mental tugs may explain much of our present distress. We have too many triggers lying about on the table of younger and wealthier (which does not, my friends, translate automatically to happier) days: The dying tech stocks, the familiar names and faces, the once-outlandish gains in our accounts. And, we have had too many promises of free beer tomorrow cast our way: That earnings will grow and stocks will stabilize two quarters from now is a promise now three years old.

An optimist about the economy and my fellow man, I am. A perpetual chump, Charlie Brown forever trying to kick the football, I do not care to be. I suspect this sentiment is shared so widely as to explain the incredible disconnect between the economy and the stock market.

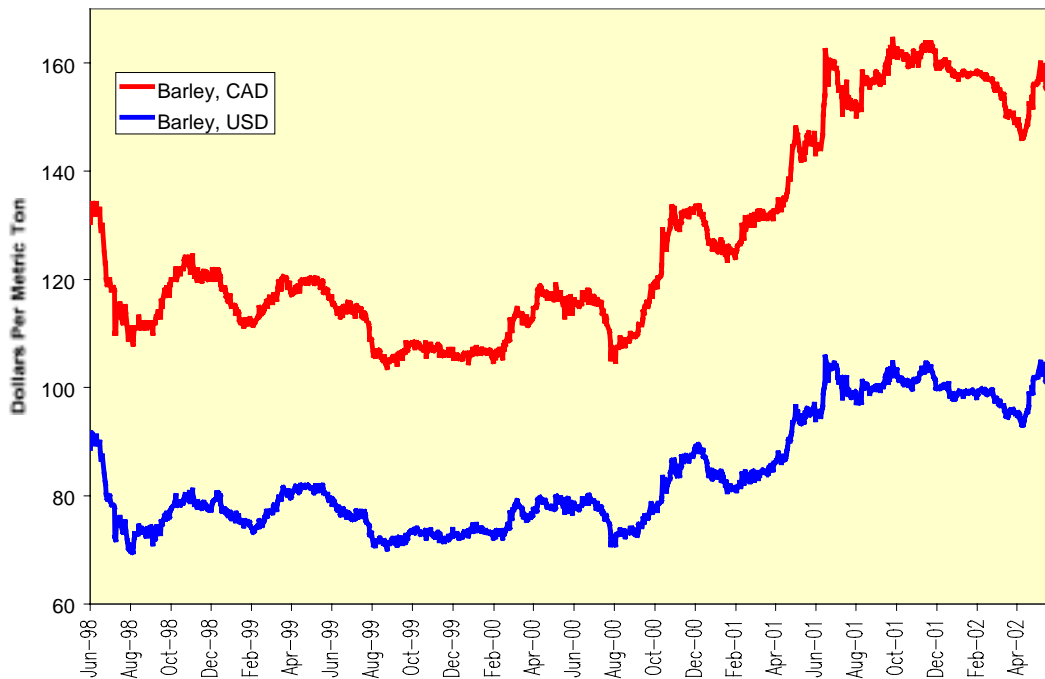
As the calendar now says July, and we're all in need of some hot fun in the summertime, let's turn back to our usual linkages between commodities and equities.

The First Commodity

The earliest archaeological discoveries related to agriculture indicate that barley was domesticated to ensure a supply of grain to brew beer (is this a Guy Thing, or what?). There are three different futures contracts on barley, in Winnipeg, in London, and in Sydney. In no case is there truly a free market in barley as all of the major growers have some form of price and production subsidy. But, since 2002 is shaping up to be the first year with even a hint of higher grain prices worldwide since 1996, it's worth our while to pay attention.

The Winnipeg western barley contract is based not on the top-quality malting barley, (want to learn more about barley? Go to www.ambainc.org, the American Malting Barley Association's site) but rather on the lower-quality feed barley. Beer first, cattle second. It is priced in Canadian dollars per metric ton, which is just like the Canadians. Regardless, it is moving higher and at a pretty good clip, in both currencies.

Western Canadian Barley

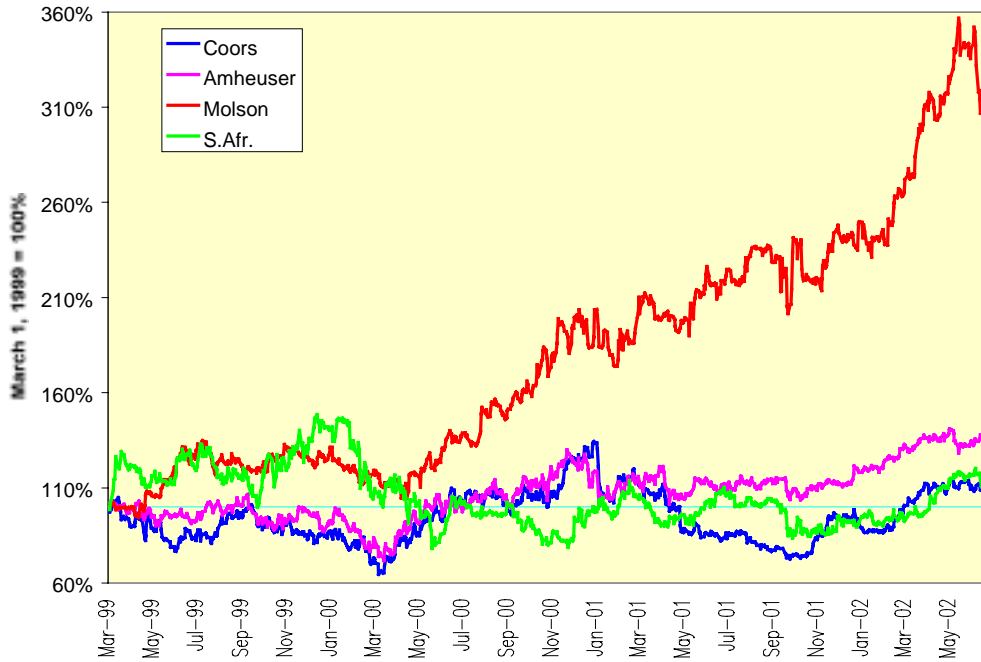


Crying In Your Beer

That this is a difficult market can be underscored by the relative successes of Big Beer, and not only here in the U.S. of A. in this Independence Week, but elsewhere on the planet where folks get in a lather about some 1-0 soccer score. We all know about Anheuser Busch and Coors as domestic brewers. Let's add South African Breweries, which will be acquiring the Miller Brewing unit of Philip Morris on July 31st, and Molson, which runs 24/7 to slake the thirsts of our northern neighbors. The latter two stocks are priced in British pounds and Canadian dollars, respectively, so they should give you a little bit of respite from the sliding greenback.

As a class, the breweries, as Old Economy as it gets, if we still may use that term, have turned in a positive performance, which isn't all that common, since March of 1999. Molson has been spectacular, although they should probably be handicapped in this contest as they get to sell beer in Canada. However, Molson has retreated almost 16% in price since May 14th of this year as even breweries have felt investors' wrath.

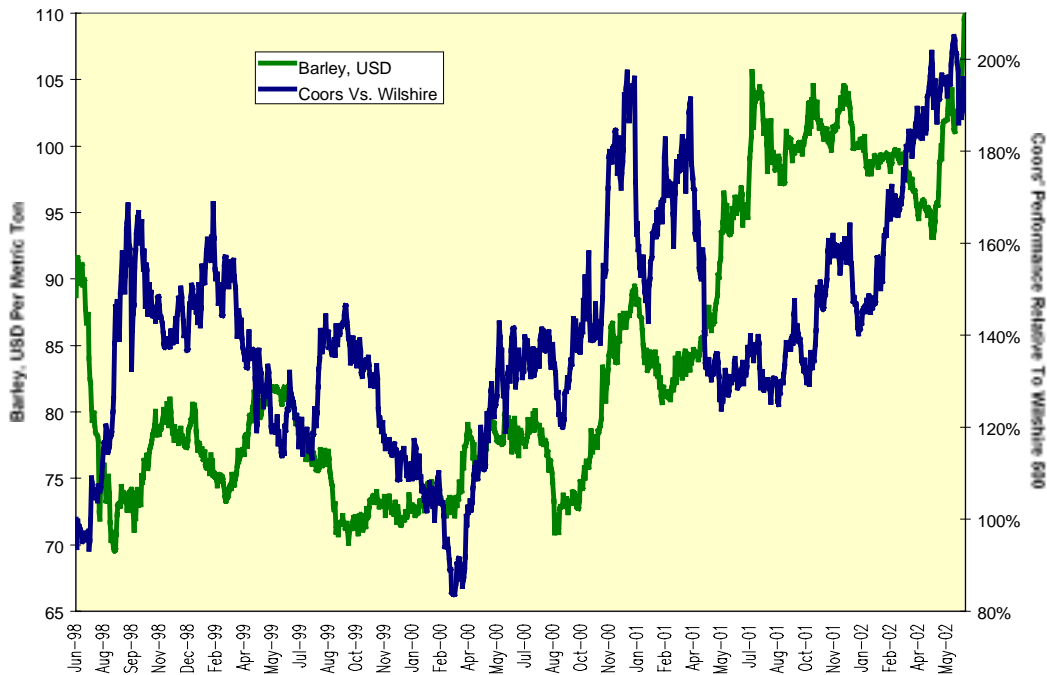
Global Breweries Performance In USD



John Barleycorn Must Die

Have rising barley prices affected the brewers at all? Let's compare the performance of those Rocky Mountain High guys with the teeny-tiny baseball stadium – no 1-0 scores need apply there – to the Wilshire 5000 as a function of barley prices.

Pricing Power: Brewers Pass On Higher Barley Costs



The situation is almost 180 degrees from the normal pattern for a commodity buyer. Instead of the relative performance being hurt by rising feedstock costs, it almost seems to duplicate the cost of barley. We can draw two very encouraging conclusions:

1. Markets rise, markets fall. Beer goes on forever.
2. Brewers can pass their feedstock costs along to beer buyers, a group that surely has its priorities in order.

So as we prepare to celebrate the Fourth of July here in the Land of The Free, crack open a few cold ones in honor of brewers – they have the most reliable business model ever developed – and be grateful for barley and its role in creating civilization as we know it.

And, if you want to make the trade self-financing, buy both the brewers and the barley futures. It's been easy to do worse.