

Agricultural Futures Pointing Higher

“Out here in the fields / I fight for my meals...” – Pete Townsend, “Baba O’Riley

I doubt The Who had the 1970s agricultural surge in mind when they released their classic *Who’s Next* in 1971 as the infamous Great Grain Robbery of 1972 and the soybean embargo of 1973 did not occur until later, and as anyone who saw Messrs. Townsend and Daltrey at last year’s Super Bowl can attest, had they had such powers of clairvoyance they might have opted, per “[My Generation](#),” to die before they got old.

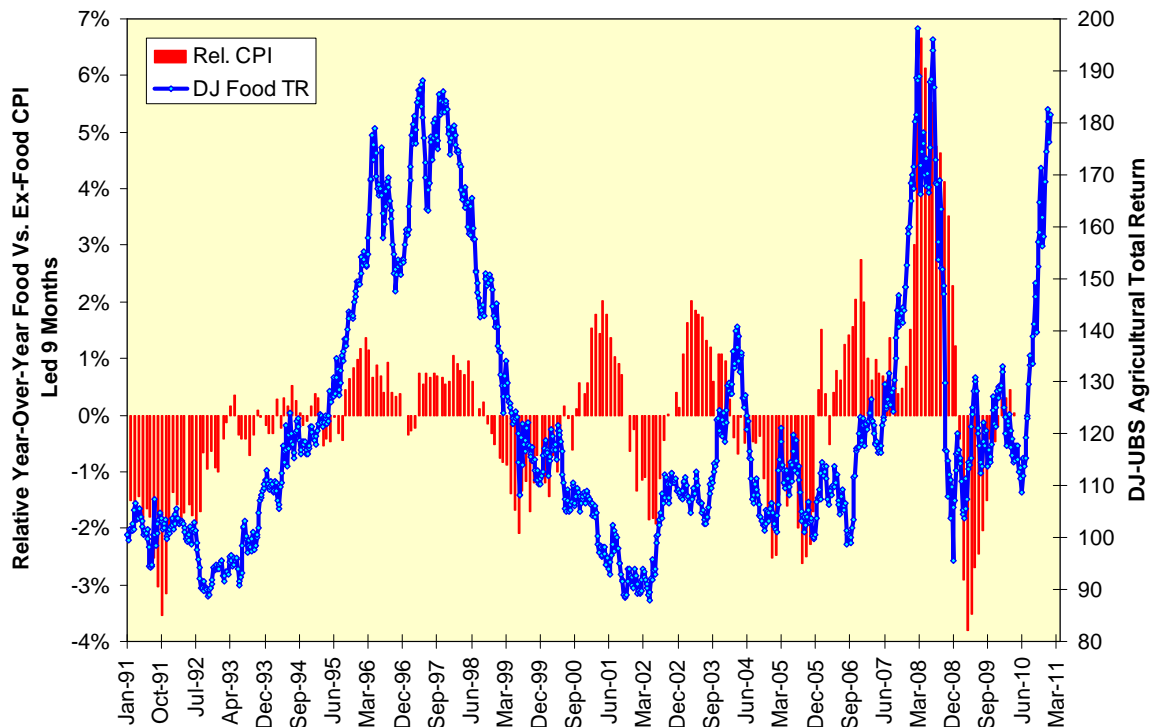
We will not be going out to the fields to fight for our meals just yet, but we certainly will be paying more for the privilege of strapping on the feedbag in 2011. As noted [last week](#) in the context of global food prices, the CPI for food is going to outpace for its Ex-Food cousin.

Bring me a consumer who does not eat!

Agricultural Index

Let’s switch the basis of comparison from the UN Food & Agriculture Organization index to the Dow Jones-UBS total return index for agricultural commodities. This index includes futures on contracts on coffee, corn, cotton, soybeans, soybean oil, sugar and wheat and extends back to January 1991. Over the past two decades it has led the relative rate of food inflation by nine months on average.

Agricultural Futures Pointing Toward Relatively Higher Food CPI



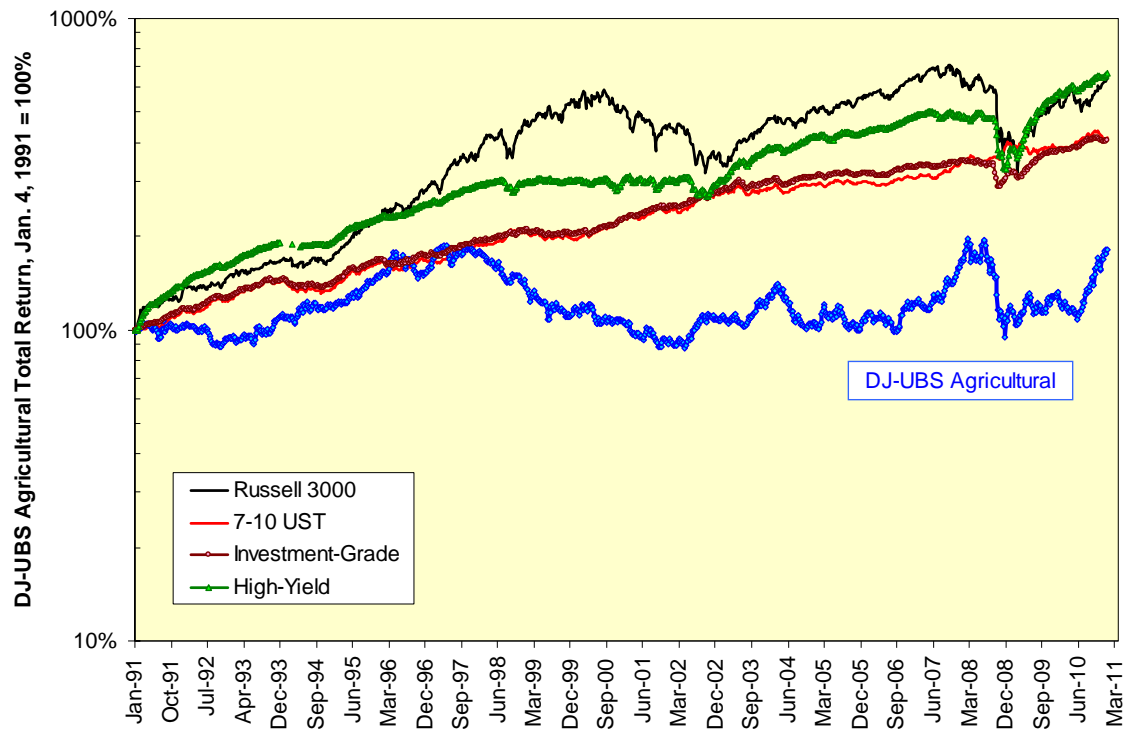
The last time agricultural futures surged, in 2008, the relative rate of food inflation in the U.S. advanced like clockwork. That food price surge was accompanied by riots worldwide to protest the rising price of rice in Bangladesh, tortillas in Mexico, etc. Perhaps they did not receive the memo about what is core and what is not. There are no riots to report at the moment, but there are stories about shortages of onions in India and high cooking oil prices in China.

To Invest Or Not?

A colleague used to joke about the “dirt/wheat” spread wherein farmers bought dirt and sold wheat. For the most part this assessment has been valid over human history as we are now approaching a global population of 7 billion, the vast majority well-fed by historic standards. The implication is food as an investment leaves something to be

desired, and this is true despite the recent surge in prices. If we map the DJ-UBS index against those for the Russell 3000, 7-10 year Treasuries and both investment-grade and high-yield bonds, we see the agricultural index brings up the rear and by a wide margin. Mankind is quite good and responding to higher food prices by producing more.

Agricultural Returns Still Trail Financial Returns Badly



However, there are long-term and short-term trades. For the short-term, and at least until the Northern Hemisphere crop conditions become apparent, instruments such as the Powershares DB Agriculture Fund can be a good way to play a trend with solid fundamentals at the moment. After all, people have to eat in a non-core sort of way and both the Southern Hemisphere crops and Northern Hemisphere carryover from 2010 are known.