

The case for Agriculture

Eyal Davidov – Private Banking

The world's population has more than doubled since 1950, from about 2.5 billion to 6.7 billion people. By 2050 there will be over 9 billion people on the planet, creating a growing ongoing demand for food.

Inventories of soft commodities are at the lowest levels they have been in decades.

The market believes these are just two factors out of many which will send soft commodity prices soaring in the future.

Based on these forecasts we believe it is impossible to ignore resources-rich nations that have commodities to sell the rest of the world. Below a list of some of these countries together with a few investment tools which will provide an appropriate exposure:

Chile has copper... lots of it. The iShares MSCI Chile Fund (ECH) is up 42% year-to-date.

Russia has oil... and controls quite a bit of it. The Market Vectors Russia ETF (RSX) is up 13.24% year-to-date.

Brazil has just about everything from iron ore to gold to coffee to soy. It's no wonder that the iShares Brazil Fund (EWZ) has returned 121% in 2009 and is up 3.04% year-to-date.

China for instance, owns large stakes in Australian and Brazilian metal producers. China recognizes its needs for iron, copper and steel. Not surprisingly, SPDR S&P China (GXC) is also up 11% year-to-date.

List of countries by agricultural output 2009. Output is in millions of US\$.

Rank	Country	Output
1	 China	520,352
—	 European Union	312,498
2	 India	210,116
3	 United States	171,075
4	 Brazil	96,016
5	 Japan	81,089
6	 Russia	57,774
7	 Spain	48,313
8	 France	48,167
9	 Australia	40,885
10	 Italy	38,129

Spain – The Final Straw

David Reed – Treasury

Confirmation of an EU/IMF bailout for Ireland gave an initial boost to the euro. However, this was swiftly followed by a reversal. There are fears that the Irish government's 4-year austerity plan will be insufficient. "Bailout 1" may be followed next year by Bailout 2". The opposing political parties need to support the plan. That is still far from certain. And of course, the credit rating agencies have muddied the waters with a further downgrade by Standard & Poor's of Ireland's sovereign debt.

These events have raised concerns about peripheral European countries that could need assistance from the European Financial Stability Facility (EFSF) and is sapping investor confidence in the European currency.

How long will this uncertainty continue? The spotlight has already spun to Portugal and Spain. Rating agency Moody's commented that while Spain is fundamentally strong, they do have concerns about Portugal because of the banking system's reliance on funding from the ECB. So far, the Euro is paying the price.

Spain presents the largest potential systemic risk for the euro-zone. Spain does differ from Ireland and Greece in several important ways, most of its debt is financed domestically and so far foreign demand for Spanish debt has remained relatively strong. That can easily change.

One concern that is now beginning to surface is the actual EFSF itself. When a country applies for aid they no longer contribute to the fund. Italy and Spain are the third and fourth largest contributors to the fund. If Spain has to apply for aid, Germany and France will be shouldering much of the burden, since almost 50% of total funding is contributed by these two countries alone. Germany's Angela Merkel has already pointed out the severity of the situation and the danger to the entire euro-zone.

With every bailout, the fund is shrinking and the enormous buffer that was originally set up to impress and reassure the markets is not as grand and reassuring as it appeared at first. Spain could well be the final straw.

For further information please call +44 20 7408 4931/4 or email privatebanking@israeldiscountbank.co.uk

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