



How To Play The Agriculture Boom (DBA, MOO, YUII, HOGS, CGA, ALN)

March 23rd, 2011



The media continues to focus their attention on Japan's earthquake/tsunami/nuclear disaster, the U.S.-led intervention in Libya and ongoing unrest in the Middle East.

What's moved from the foreground, however, is a series of unrelated riots that have erupted over the past few months in the Middle East and Asia ... not for democracy ... but for food!

Poor and hungry people have taken to the streets in Tunisia, China, India and Algeria to protest rising food prices. Hundreds have been injured and some protestors died.

Unfortunately, a large number of the world's population goes to bed hungry each night. Josette Sheeran, the executive director of the United Nations World Food Programme, calls it the "silent tsunami."

More disturbing is the fact that the problem is getting worse. The Worldwatch Institute estimates that 1.02 billion people were "undernourished" in 2009, a 12% increase over the previous year. **ONE OUT OF EVERY SIX PEOPLE ON EARTH IS UNDERNOURISHED.**

I don't know what it is like to go to sleep on an empty stomach, but I can imagine how desperate I would be to feed my children if we ever faced a food emergency.

Humans have had to deal with food shortages and price spikes for centuries — most recently in 2008 during the global food shortage that triggered riots in 30 countries including Haiti, Mexico, Indonesia, Egypt, Senegal and Bangladesh.



Algerians took to the streets to protest rising food prices.

The problem is that the poor, urban residents of emerging markets can spend up to half of their income on food and they quickly run out of money to feed their families when food prices spike.

Food prices have jumped to an all-time high, according to the Food and Agriculture Organization of the United Nations (FAO). In fact, the FAO food index, comprised of 55 various food products, is higher today than it was when the food riots broke out in 2008.

“We are entering a danger territory. There is still room for prices to go up much higher,” said Abdolreza Abbassian, the chief economist at the FAO.

This isn't the first time we've seen surging food prices. Historically, those spikes in food prices have been caused by supply problems — flood, fires, drought, disease or freezing temperatures.

Russia's Wheat Supply Dropped 40%

In the summer of 2010, Russia suffered record high temperatures. It was so hot and dry that 300 to 400 new fires were starting every day. That record Russian heat wave has shrunk Russia's grain harvest from 100 million tons to 60 million tons, a 40% drop. In response, Russia banned grain exports and wheat prices soared 60% in two months.

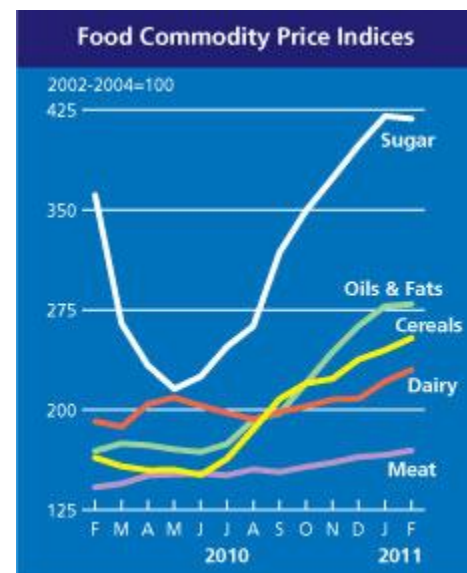
This time is different in that the price increase is from the demand side of the equation. Rising incomes and surging demand from rapidly growing emerging markets are creating a huge increase in demand for meat and dairy products that require more grain to produce.

First of all, food is an essential commodity for life. And since the world's population is three times bigger in 2010 than it was in 1950, the demand for food is exploding.

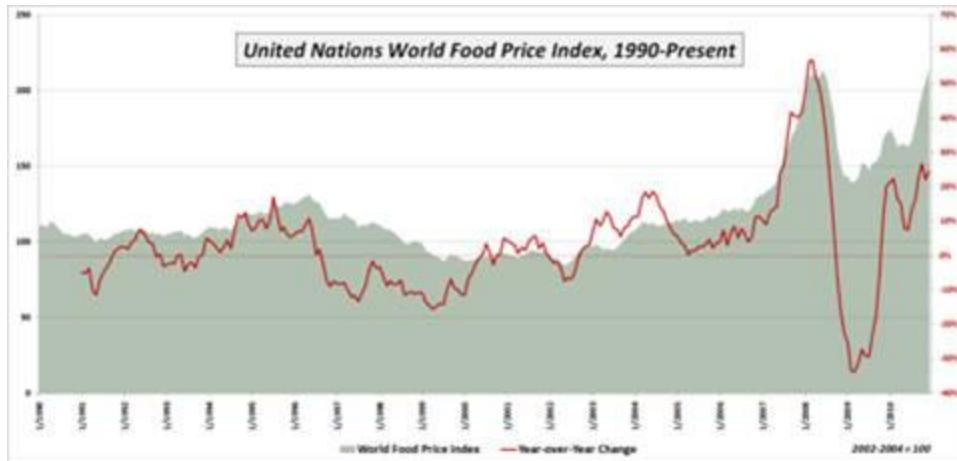
Global population now sits at 6.8 billion but the United Nations expects that number to grow to 9.1 billion by 2050. To meet that growth, global food production will have to rise 70%!

That is a lot of mouths to feed, but the amount of food each mouth is eating is also increasing. The average human consumes about 2,600 calories a day, but the UN expects that number to climb to 3,000 by 2030.

That may not sound like much, but it becomes a mammoth number when multiplied by billions of people. The world's daily caloric intake is going to surge from 17.1 trillion calories to 24.6 trillion per day.



Source: *FAO.org*



Source: Seekingalpha.com

Feeding that growing number of mouths is already big business, but it is going to get much bigger as the demand for better diets and more protein is just beginning. I believe that you've only seen the early stages of an agricultural boom, and that it will be one of the most profitable sectors you can invest in.

I wrote about two food ETFs to consider (see accompanying box) to profit from the agricultural boom, but there are a handful of companies listed right here in the United States that will give you exposure to the booming Chinese food market.

PowerShares DB Agriculture Fund (NYSE:DBA) is more of a pure food commodity play as it invests in a basket of agricultural futures such as corn, soybeans, sugar, cattle, cocoa, coffee, cotton, lean hogs and wheat.

Market Vectors Agribusiness (NYSE:MOO) invests in agricultural commodity producers such as Deere & Company, Potash and Archer Daniels Midland.

Yuhe International (NASDAQ:YUII) grows and sells what are called day old broilers. In other words, one day old baby chicks that are sold to poultry producers.

Zhongpin Inc (NASDAQ:HOGS) and Tianli Agritech (NASDAQ:OINK) are pork producers/distributors in China.

China Agritech (NASDAQ:CAGC) and China Green Agriculture (NYSE:CGA) are two major Chinese fertilizer companies.

American Lorain Corp (NYSE:ALN) may not sound like a Chinese company but it is. ALN produces microwavable convenience store food as well as frozen vegetables, fruits, fish, and meats.

Now, those are just the Asian food stocks that are listed here in the United States. There are hundreds more listed on the Hong Kong, Tokyo, Seoul, Singapore, Jakarta, and Malaysian stock exchanges, and that is where you will find the best opportunities.

I'm not suggesting that you rush out and buy any of these stocks today. You need to do your own homework and decide whether any of them are appropriate for your personal situation and financial goals. However, if feeding the world's growing appetite is a sector that you want to include in your portfolio, these are stocks very worthy of your attention.



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