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## Investments better than gold

Over the last 24 months, I have been advocating investing in Gold as a safe haven with capital appreciation benefits. Of late, there are emerging opportunities in the commodities space that have the potential to outpace the returns given by Gold over the last 2 years. I am referring to buying food – grains, pulses and edible oils. These opportunities are for the true blue commodities investor with patience and long term view in mind. What is also required is a total disregard for what you hear / read / see around yourselves about these investment opportunities. Opinions that are being brandished around are either from people who would not like us to know the truth (politicians) or from players who are actually non-participants (analysts). For example, when I wrote my piece about asset price bubble a few months ago (carried in DNA Money), a well known money manager called it unduly alarmist and detached from truth. According to him inflation would be under 5 % in India for atleast 2 more years. Food prices would “not run away” and net impact of inflation would be “benign”. Asked for his source of information, he quoted an “ideation” session where people get together and write on a white board with black marker pens. The fact that the truth was out there in the subzi mandis was alien to him. I fear similar misconceptions exist in majority of minds as people get swayed by assurances from politicians, media reports about reduction in custom duties on food grain imports and elaborate plans on govt-to-govt import arrangement of rice. The fact that Thailand and Vietnam have stated their inability to export any more rice to build their own buffer stocks seem to have evaded public memory. Ask the filipinos for details!

### Consider this –

- Every new automobile put on the streets takes away 4 hectares of land which could be otherwise used for cultivation. There should be no prizes for guessing in which part of world cars are being bought in highest numbers – Asia. Most populated, under nourished continent which badly needs food. The disparity between the haves and have nots will only grow.
- Or did you know that it takes 10,000 litres of water to cultivate a kilogram of wheat. Heavily populated countries like China and India which are industrializing at a rapid pace and face water table depletion prefer to import their food grain requirements, thereby pushing up international prices of agri commodities. China is likely to be a net importer of 80 Mn tons of wheat next year. On a conservative estimate.
- Rice is cultivated by flooding the fields with water. In a depleting water scenario, rising population and changing climate, Japan is joined by India and China among other countries which will be net importers of Rice.
- As protein under nourishment hits the developing economies, soya milk, soybeans and soya nuggets are increasingly gaining popularity. Soya Dal is mixed with chana dals to drive prices lower. However, as consumption keeps mounting, the prices can only be halted temporarily but not driven lower. Upsides are inevitable.
- Crushed soya beans (after extracting oil) are used to feed animals as quality food. The poultry and meat industry needs increasing amounts of soybeans as rising standards of living promotes a meat diet for snob value. Other

animal feeds include wheat / rice bran, what it means for prices of wheat and rice is a simple matter of back-of-the-envelope calculation.

- Here is a shocker – one of the leading resource depletion experts in the world calculates that water tables have depleted by as much as 40 % in the last 2 decades. Non replenishing aquifers in some parts of India and China may just see us through upto 2025. We will increasingly use oil drilling technology to dig deeper and deeper for water! My reports on water and my “alarmist” views are frequently stated for our investors. The self replenishing aquifers are not being allowed sufficient time for rejuvenation as mankind draws water in increasing quantities. The scenario is worrisome to say the least. We must turn to rain water harvesting, water recycling and sea water desalination in earnest to avoid the inevitable.
- The authorities are trying to postpone (it’s inevitable actually) the panic by drawing on the buffer stocks of grains and supplying the markets. Like forex valuation, global commodity markets are pretty sharp about the aggregate buffer stocks left with the authorities and price commodities accordingly. The more the buffer stocks are depleted, the faster grain prices will spike higher.
- No fertilizers aren’t helping. Japan, China, India and Australia are countries that are reporting marginal or nil increase in yields even though fertilizer usage is stepped up significantly. Think of it as an automobile – you cannot go any faster after pushing the accelerator pedal down on the floorboard.
- Unlike oil, bullion, metals and equities, mankind cannot survive without food. In the coming years, food (and allied industries) is likely to occupy center stage even in the investment arena. Food shortages, hoarding by large producers (Thailand & Vietnam are examples of leading rice cultivators) are likely to be pressure points for conflicts and military action. Food / food related crimes are expected to be the cause of more deaths than terror attacks in the coming decade (source – Rand Corp – USA – leading think tank worldwide).

If the above has been depressing enough, there are also some bright rays of hope out there – buy agri commodities (difficult in India as deliveries are a pain in the neck) even futures will do. I feel incurring cost of carry will still give you profits as I expect food price inflation to be anything but benign. Your only worry should be an over zealous bureaucrat who bans trading in food grains in a bid to curb inflation. But then bans would be enforced if prices really run away, so you would still be left with money on the table. Within this space, wheat and soybeans are top of my mind space. If you are not a commodities guy (or girl), go for shares of companies that trade in food grains, water supply / management, farm equipment and seeds. Gold was USD 780 / ounce this time 24 months ago, it’s at 1145 \$ / ounce, thereby returning 47 % in that duration. I have a feeling agri commodities are likely to outpace this performance in a similar time frame.

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The analyst is the author of the best selling book – “A Traders Guide to Indian Commodity Markets” – the first technical trading guide for commodity markets in the country.