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Ever heard of rapeseed oil? Chances are you've eaten it and used it as vegetable oil, protein meal, animal feed, and biodiesel, as well as lotions and massage oils. This nebulous commodity has drawn attention in the financial markets because its price has skyrocketed in recent months, along with better-known commodities such as corn and copper.

Commodities are widely-traded products of uniform quality, with no particular advantage to buying from one producer or another: there's no "brand name" bushel of barley or pork belly. Prices are set only by supply and demand. Which of these is creating the run-up in price?

The short answer is: demand. One explanation is that the world as a whole, and China in particular, has been growing much faster than expected and consuming lots of raw materials as it does so. Most economists do not see signs of this growth abating. This feverish consumption could mean that demand for commodities will outpace supply for years to come.

A more cynical explanation is that financiers have been bidding-up commodity prices on the "bigger sucker" theory: They are betting that prices will keep rising and a "bigger sucker" will pay even more for the commodity in the future, regardless of the intrinsic value of the asset. Of course, this trading is done mostly through the futures market because speculators don't really want to take possession of 100,000 bushels of wheat or 10,000 live hogs.

At BIC we're not quite so cynical. The world economy is indeed growing at a healthy clip and the raw materials to fuel this growth must be bought on the open market. We see the prices of most commodities continuing at high levels in the near future, although Economics 101 teaches us that they will eventually abate. Miners will extract more zinc and copper, ranchers will raise more cattle, and farmers will plant more corn, wheat and rapeseed, thus increasing supply and driving down prices.

Although raw speculation is a foolish way to invest, commodity futures may have a rightful place in many portfolios. Commodities can indeed be a good hedge, since their prices are generally uncorrelated to the performance of stocks and bonds.

Your financial advisors will not be throwing wads of cash to fuel the commodities fire, but the run-up is an investment theme we can't ignore: Higher corn syrup prices mean that expenses at Coca Cola will increase, higher oil prices mean Chevron can charge more for gasoline. We are carefully analyzing how the price of corn, crude, and rapeseed oil affect your financial assets and how to wisely use this trend to your advantage.

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	January 26, 2007	December 29, 2006	Percentage of Change
DOW JONES	12,487	12,463	+0.19%
S&P 500	1,422	1,418	+0.28%
NASDAQ	2,435	2,415	+0.82%
10-year Bond YIELD	4.879%	4.71%	+3.58%*

*When yield goes up, prices go down