



World Monitor

Bi-monthly Report up to May 16, 2008

- ❖ Chinese companies will be encouraged to buy farmland abroad, particularly in Africa and South America, to help guarantee food security under a plan being considered by Beijing. A proposal drafted by the agriculture ministry would make supporting offshore land acquisition by domestic agricultural companies government policy. Beijing has policies to boost offshore investment by state-owned banks, manufacturers and oil companies but offshore agricultural investment has so far been limited to a few small projects. (Beijing looks at foreign fields in push to guarantee food supplies, Financial Times, May 9, 2008, p. 1)
- ❖ Joseph Glauber of the USDA blamed biofuels for increasing prices on corn and soybeans. Mr. Glauber said that turning crops into fuel not only increases food prices but also atmospheric CO₂. To create just one gallon of fuel, ethanol slurps up 1,700 gallons of water and 51 cents of tax credits. And still can't compete against oil without a protective 54-cents-per-gallon tariff on imports and a federal mandate that forces it into our gas tanks. The record 30 million acres the U.S. will devote to ethanol production this year will consume almost a third of America's corn crop while yielding fuel amounting to less than 3% of petroleum consumption. (The Biofuels Backlash, Wall Street Journal, May 7, 2008, p. A18)
- ❖ At a time when Americans are squeezed at the grocery store, they will now see more of their taxes flow to the very farmers profiting from these high food prices. This year U.S. farm income is expected to reach an all-time high of \$92.3 billion, an increase of 56% in two years, making farmers and growers perhaps the most undeserving welfare recipients in American history. The \$300 billion farm bill perpetuates the so called Hurricane Katrina gambit that allows farmers to lock in price-support payments at the lowest possible market price, and then sell their crops later at the highest possible price, and then pocket the high price and a payment from the government for the difference between the two. They in effect get paid twice for the same bushel of wheat. (Who Wants to Be a Millionaire?, Wall Street Journal, May 14, 2008, p. A20)
- ❖ The U.S. economy expanded at 0.6% annual rate in the first quarter. But excluding inventories and exports, the economy shrank at a 0.4% rate. (GDP Expands Slightly Amid Gloomy Signs, Wall Street Journal, May 1, 2008, p. A13)
- ❖ Moody's Economy.com estimates that 1 in roughly 12 American families with mortgages – four million families in all – already owe more than the current value of their homes. They are said to be “underwater.” Moody predicts that by early 2009 nearly 1 in 4, or 12



million, homeowners will be “underwater.” Most will continue to pay mortgages on time, many won’t. (Keeping Families Above Water, Wall Street Journal, May 8, 2008, p. A2)

- ❖ **The city council of Vallejo in California voted unanimously to file for bankruptcy, sparking a downgrade in some of its municipal bonds and prompting fears that other cash-strapped local governments might emulate it. Vallejo, near San Francisco with a population of 117,000, faces an estimated \$16 million budget deficit for the fiscal year that starts on July 1.** (US city council files for bankruptcy, Financial Times, May 8, 2008, p. 27)
- ❖ **The economic downturn and efforts to crack down on illegal immigrants in many U.S. communities are prompting fewer Latin American immigrants to send money back home. A survey by the Inter-American Development Bank, found that the percentage of immigrants who report sending remittances to their country of origin has dropped to half in early 2008 compared with 73% two years ago, even though migrants continue to flock to the U.S.** (Fewer Latin Migrants Send Money Home, Poll Says, Wall Street Journal, May 1, 2008, p. A4)
- ❖ **ExxonMobil, long regarded by its peers and investors as the most successful international oil company, is beginning to show signs of weakness, revealing that it is struggling to grow oil production and to squeeze profit out of its refining business. The world’s biggest energy group announced a first-quarter record profit of \$10.9 billion but its oil production fell almost 10% in the first three months of this year and refining profits slumped.** (Exxon oil production struggles for growth, Financial Times, May 2, 2008, p. 1)
- ❖ **Crude oil prices could surge to \$200 a barrel in the next two years, according to the Goldman Sachs analyst who three years ago correctly predicted a price “super-spike” above \$122 a barrel, boosted by supply disruptions in Nigeria, lower output in Russia and continued robust demand in China.** (Analyst warns of \$200 crude oil, Financial Times, May 7, 2008, p. 15)
- ❖ **Renault, Nissan and Bajaj Motors of India are to jointly build a \$2,500 car to compete with Tata Motors’ Nano cut-price family model. The car, called ULC for “ultra low-cost,” will be made at a new 400,000 capacity joint-venture plant in Chakan, Maharashtra.** (Renault, Nissan and Bajaj plan \$2,500 rival to low-cost Tata car, Financial Times, May 13, 2008, p. 15)
- ❖ **India’s Tata group is moving to launch a full-service bank should restrictions preventing industrial groups from owning stakes in banks be relaxed.** (Tata ready to create bank arm if rules ease, Financial Times, May 2, 2008, p. 17)
- ❖ **The three-dozen-plus construction projects and work related to the Olympic Games, such as expanding Beijing’s subway, have given Chinese contractors a forum to showcase the techniques they have learned from cutting-edge designs of Western architects. Last year Chinese construction companies won international contracts worth \$78 billion, up 17.6% from 2006.** (Building on The Games, BusinessWeek, May 5, 2008, p. 48)

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