

By **Benedicte Gravrand, Opalesque London:**
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De-correlated agricultural market is good for diversification but not for long-only investing - BlueGold, Dreyfus

It is important to remember that the agriculture market (ags) is much smaller than the energy and other commodities markets, said Olivier Pairault, portfolio manager at the Swiss offices of BlueGold Capital management at yesterday's Jetfin conference on commodities and energy in Geneva. And the other important thing to remember is that it is best to look at the micro trends when dealing with this market - rather than the macro ones.

So this sector has really followed its own path almost completely unaffected by the credit crunch, in its own macrocosm where fund managers worry more about the weather and the producers than what goes on in the financial markets.

To exemplify the de-correlation of ags to other commodities, Pairault quoted sugar, which was subject to two peaks in the 70s and 80s (coinciding with less "stock to use"). This year and last year, stocks to use went down again. Part of the reason is that India's production decreased as the government forced prices down, a deal unfavourable to farmers. Also, stocks of sugar in Asia used to be high, leading to low prices, but not anymore.

"Sugar may move again into surplus by the end of 2010, but prices may remain high however."
— **Olivier Pairault, portfolio manager at the Swiss offices of BlueGold Capital.**

Pairault commented that speculators do help this market by giving good price for futures (for producers) and helping the market get more supply - as they don't take delivery. "Professional long-only investors probably overall lose money in this market," he commented, "it is unusual that they squeeze it."

Bluegold Global Fund, a \$1.5bn commodity hedge fund incepted in Feb-08, gained 209% last year and is up around 60% so far this year.

Ags offer an excellent diversification, said Francis Featherby, chief analyst at the Swiss offices of Louis Dreyfus Commodities, part of the Louis Dreyfus global group (of around 27,000 staff). They are not correlated, and this can be seen when comparing copper, which is up 105% YTD, to wheat, which is down 23% YTD.

With regards to wheat, 2007-08 had poor crops and high prices; 2008-09 saw more plantations and high harvests, with inventories rising, therefore an over-supply and a fall in prices.

"Weather is a dominant factor in agricultural commodities,"
— **Francis Featherby, chief analyst at the Swiss offices of Louis Dreyfus Commodities.**

Other problems include potential lack of liquidity, and cost of rolling forward in continuous contango. "A lot of commodities markets are in contango at the moment," he said.

"Contango" describes a situation where, and the amount by which, the price of a commodity for future delivery is higher than the spot price, or a far future delivery price higher than a nearer future delivery.

Featherby concluded that the de-correlation of the agricultural market is good but being long-only is not always a good thing.

The one-year old LD Commodities Alpha Fund is up about 9% YTD, with around \$400m in AuM. It is the group's first foray into alternative investments, and it is planning more launches next year, Featherby told Opalesque.