



KMI EXCLUSIVE NEWSLETTER

21st July 2012

Dear Clients and Investors

A final brief newsletter before the holidays; Stock Markets with low volume are expected to be volatile over the next few weeks - see below our expectation for a few high and low spots.

What and what not to invest into.

Commodities - yes

Spanish Equities – no

Oil – yes

A ONE year note giving 9% return (conditional)

Commodities

The world is facing a new food crisis as the worst US drought in more than 50 years pushes agricultural commodity prices to record highs.



Wheat field

Corn and soya bean prices surged to record highs on Thursday, surpassing the peaks of the 2007-08 crisis that sparked food riots in more than 30 countries. Wheat prices are not yet at record levels but have rallied more than 50 percent in five weeks, exceeding prices reached in the wake of Russia's 2010 export ban.

The drought in the US, which supplies nearly half the world's exports of corn and much of its soya beans and wheat, will reverberate well beyond its borders, affecting consumers from Egypt to China.

Spanish Stocks a NO NO

Anyone holding Spanish stocks or sell before Madrid is forced to go cap in hand to the European Union and International Monetary Fund, according to analysts at S&P Capital IQ.



Grant Faint

Spanish bond yields continue to trade close to 7 percent, a level widely seen as the danger zone for the euro zone's fourth largest economy, as it battles to avoid the fate of Ireland, Greece and Portugal, who all took **EU bailouts** with austerity conditions attached.

“We believe (cribbed from CNBC) **Spain** will be given official assistance in the coming quarters, joining the ‘Troika3’ of Greece, Ireland and Portugal in being removed from market funding,” said Rob Quinn, chief European equity strategist at S&P Capital IQ, wrote in a research note.

Oil & Fuel – Yes

Drought in the U.S. Midwest and rising tensions in the Middle East could keep upward pressure on gasoline prices this summer.



Retail gasoline has been rising daily since late June, with the national average reaching \$3.437 per gallon Thursday, according to AAA. While still expected to ease in the fall, prices this summer will be higher than expected, in part due to the sharp jump in ethanol prices and rapid increase in crude prices, as tensions around Iran and Israel have once more increased.

Nymex crude Thursday rose to \$92.66, up \$2.79 per gallon, its highest price since May 16. Oil has risen for seven straight sessions and is up 10 percent in that time.

As the drought has driven corn prices higher, ethanol, made of corn, has also been on the rise. Spot corn rose above a record \$8 a bushel in electronic trading Thursday. December corn futures, representing this year's harvest, is up 24 percent this month, and was trading at \$7.78 per bushel Thursday.

Ethanol has risen from just under \$2 a gallon in the beginning of June, to \$2.75, said John Kilduff of Again Capital. Ten percent of every gallon of motor fuel is ethanol.

Kilduff expects crude to continue to reflect Mideast tensions, as the **outcome in Syria** is unclear. Traders have been concerned that the potential fall of the Syrian regime could be more destabilizing, since it is closely allied with Iran.

Commerzbank - 1 Year 9% p.a. Income Note on Energy Companies

We believe this Note offers a good return with a reasonable risk that is unlikely to be breached. See below details;

2.25% coupon per quarter (9% p.a.): regular coupon payments are made and are not conditional on the stock performance

50% Barrier on the worst performer observed at maturity

Capital at risk: downside participation in the worst performer if it closes below the Barrier at maturity

Credit Issuer Risk

This investment is linked to the stock performance of 4 companies in the energy production sector. This is designed to provide a quarterly return to investors while also offering an attractive level of capital protection provided that on the Final Valuation Date, none of the underlying stocks close at below 50% of their value on Strike Date. Full details attached, closing date 17th August 2012.

As always more information can be had on any of the above items from your normal KMI consultants or from Mike Towning at KMI Prague.

May I wish all our clients very enjoyable summer holidays and of course,

Happy investing

Lee R.J. Green *Cert.PFS*

New site <http://corporatebonds.kmiconsultants.com/>

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