Are you financially ready for a food crisis?

By now, you have probably seen the headlines about runaway food inflation and the challenges that the authorities are facing in bringing prices down. This is not just an issue in India.

In fact, UN experts are predicting a food crisis in the coming months with prices at decade long highs and supply of basic food crops having become constrained due to bad weather and poor harvests. Are you financially ready for a food crisis?

First of all, lets clarify that we are not trying to raise an alarm and make a bigger deal out of something that has already received much media coverage. All we are trying to do is to force you take 10 minutes to think about how it will affect you financially if food costs do indeed go sky high the way some prophets of doom are predicting.

What will you be able to afford, and how much of a compromise will you have to make? Its worth taking a pause to think about this before the crisis unfold, if at all it does, because now is the time to start changing your habits.

1. Create a food budget: Do you know how much you spend every week or month on food? How much do you spend on eating out or takeaways, or do you mostly cook your own food? No one has an infinite budget, so the amount you can spend on food is limited. Eating out costs more than eating in. Exotic vegetables cost more than seasonals. By creating a budget you will now what you are spending your food money on, accordingly make adjustments where needed.

2. Be smart about eating out: Eating in every day can get boring, and everyone deserves a break. You can be smart about eating out by choosing family friendly restaurants that offer happy hour pricing or two for the price of one deals. Additionally, many restaurants or takeaway also offer discount coupons. There is no shame in using them.

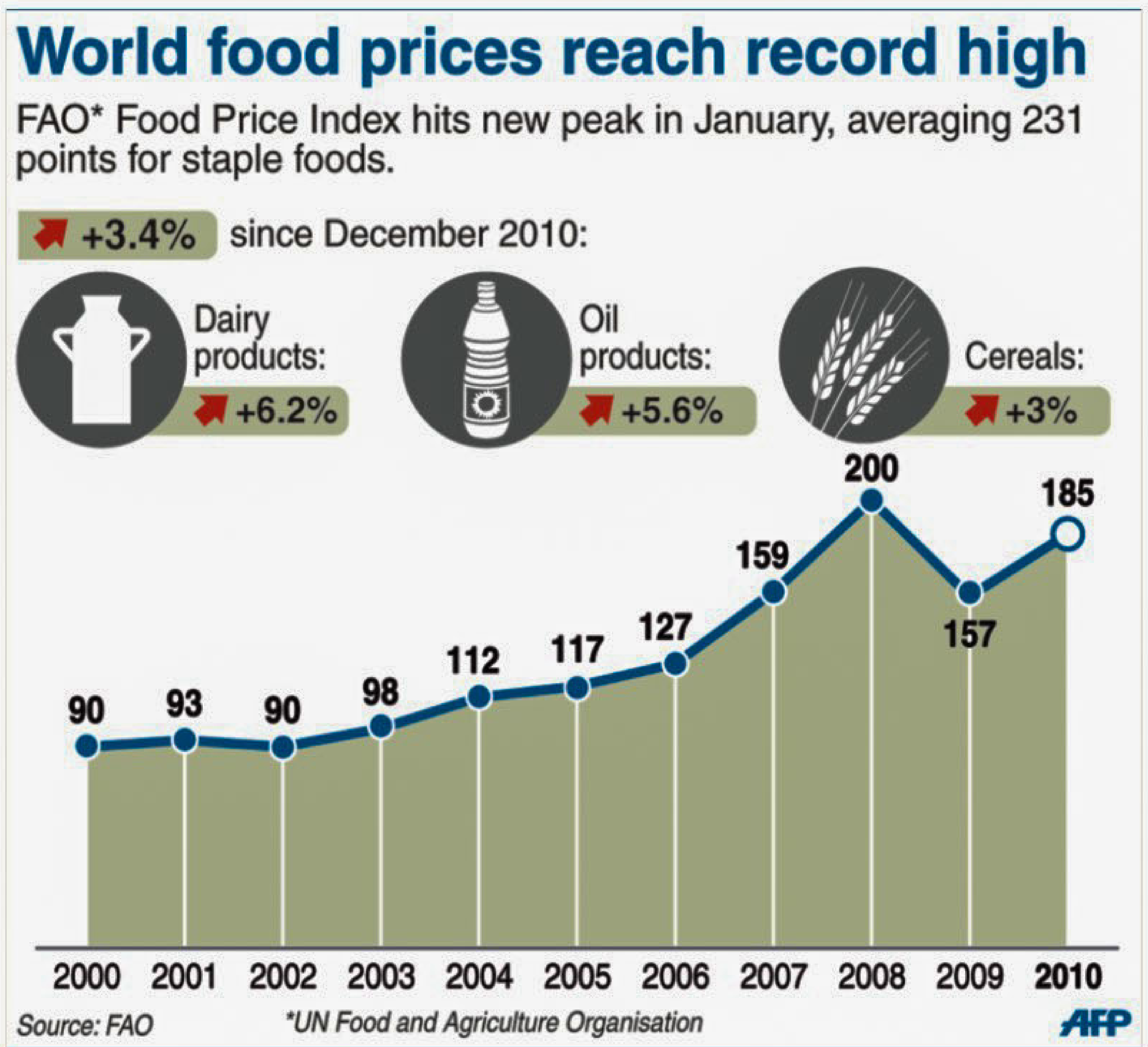
3. Change your diet: We aren't suggesting that you should starve. But, if food affordability gets stretched, this constraint might just be the catalyst that finally helps you act on your new year's resolution to start dieting. Dieting doesn't have to mean you eat fewer meals, just eat smartly.

The world over people have shown that they can respond to food constraints. For instance, during World War 2 rationing of food was introduced in many countries, and eating habits changed. In an extreme situation, you too can change your diet.

4. Save more: All of us have been taught to save for a rainy day. Well, if the worst case arises and food prices rise further, then we'd be glad we saved because we will need all the extra money to buy food. Set aside some money every month towards a contingency fund and put it in an instrument where you will earn an after tax rate higher than consumer inflation.

Being better prepared usually means that one can withstand shocks a little better than those who are caught by surprise. If a food price shock does happen, don't say you weren't given enough time to prepare for it.

-- iTrust Financial Advisors



Egypt's financial system faces a moment of truth

UNA GALANI

Egypt's financial system faces a moment of truth. The country didn't have an economic crisis before the past ten days of protests began. But its banks and stock exchange have been closed for a week. When they reopen, starting on Sunday, the fear is that the political turmoil could prompt a financial meltdown.

The central bank is due to reopen on Sunday, while stock market trading will resume the next day though that could be delayed if violent clashes continue. So far, markets across the Mid-East region have largely ignored the unrest. Yet before the Egyptian market closed, there were signs that investors were fleeing.

An exodus of foreign investors would probably be manageable. The central bank says its official reserves are $36 billion. Additional assets held with commercial banks regarded as unofficial reserves -- are estimated at around $20 billion. Before the crisis, foreigners held just 7 percent of Egypt's total public debt, equivalent to a little over $11 billion.

The bigger worry is if Egyptians also take fright. The rich could decide to shift their money into gold, dollars or overseas markets. The poor, many of whom are relatively new to banking, may choose to stash their life savings under mattresses instead.

Egypt's banks could probably cope with a short-term run. Lenders are well funded with loan-to-deposit ratios of around 50 percent. More than half the country's 38 banks are owned by foreign groups, which are likely to back their subsidiaries. Public sector banks, which account for about half the market, benefit from full government support.

However, banks are the main buyers of government bonds. So sustained bank trouble would make it harder for the Egyptian government, already running a deficit, to borrow or refinance debt as it comes due. A declining currency, one possible consequence of turmoil, could fuel inflation.

Any prolonged unrest will, therefore, force Egypt to make more tough choices. Propping up its banks and currency could quickly drain the central bank's reserves. But keeping banks and the stock exchange closed could further erode confidence. Capital controls and withdrawal limits at banks may be the least bad of several unattractive options.

Una Galani is the TMT, mining and the Gulf correspondent for Reuters Breakingviews.

OIL AND UNREST

What's the worst that could happen?

REUTERS, *London*

Oil industry experts believe major Gulf oil nations have enough cash and military support to avoid Egypt-style civil uprisings, which emerged as the key fear factor for volatile oil markets.

A third of the world's oil comes from the Middle East and North Africa and the uprisings in Tunisia, Egypt and Jordan pushed Brent crude oil above $100 a barrel.

Oil focused-bankers and funds managers told Reuters that even if unrest in Egypt cuts flows along a strategic pipeline and the Suez Canal, the oil price spike would be short-lived and flows would resume quickly -- whoever is in power.

Here are some scenarios in the Arab world and how they could affect the oil market:

Major political upheaval in the Arab Gulf is seen as the most unlikely but the most feared scenario. Saudi Arabia's oil output alone accounts for over a tenth of global production.

"The risks associated with Egyptian supply closures have been priced into the current cost of a barrel. But if civil unrest spreads to other major oil producers in the region then all bets are off," said Andrew Moorfield, the head of the oil division at Lloyds banking group.

The high oil price will likely reinforce the status quo for countries like Saudi Arabia, which needs a price of at least $70-$80 a barrel to balance their budgets.

"The whole region is a potential tinderbox," said Peter Csoregh, who helps manage Natural Resources Equities at Robeco Asset Management with a total of 147 billion euros ($203.5 billion) under managements.

"But the big oil producing nations have a lot of money, they have very well entrenched military and security forces, and the money is spread around to a reasonably large part of the population," he said.

The higher the oil price, the more stable the Gulf monarchies are, agreed Samuel Ciszuk at IHS Global Insight.

"They can afford to uphold their traditional bargain of delivering cradle-to-grave welfare systems to their citizens in exchange for their political quiescence," he said.

Oil will rally -- although less steeply -- if unrest spreads to other North African countries including Opec members Algeria or Libya, which are seen more vulnerable than the Gulf but still reasonably well insulated by oil wealth and a strong military.

Algeria and Libya produce together over 3 million bpd of crude or around 4 percent of the global output. Algerian gas exports meets over a tenth of Europe's consumption meaning any stoppage would draw large quantities of liquefied gas to Europe.

"Algeria is run by a military which is very used to putting down domestic unrest, and public protests have so far been limited to the economy. In Libya, if they have to shoot civilians they will. So it will be very difficult to get a reform movement going there," said Csoregh.

Egypt is a small oil and gas exporter and the main danger of the unrest is seen as a closure of the Suez Canal or the large Suez-Mediterranean (SUMED) oil pipeline which passes near Cairo.

The canal has experienced problems as cargo operations at two Egyptian ports have nearly halted.

The canal ships 1.5 million barrels per day (bpd) of crude and the pipeline is shipping 1 million. Together they account for nearly 3 percent of daily global oil demand.

The canal is named by the US government as one of the most important points for world trade. It is also a big route for liquefied natural gas, with about 13 percent of global LNG output passing through in 2010.

"This risk is relatively priced in and if it occurred would have a limited impact to prices to the upside," said Tony Hall, chief investment officer at hedge fund Duet Commodities.

Manouchehr Takin, analyst at the Centre for Global Energy Studies said he believed disruptions would not last long: "If there is a new regime they will want to keep operations and to get things back to normal and the overall price will settle".

"The canal generates $4 billion a year for Egypt and it is well protected by the military, which is probably the strongest military in the Middle East, bar Israel," agreed Csoregh.

Oil can still be shipped from the Middle East to Europe by sailing around Africa, adding around 15-20 days of travel time and increasing freight costs. A closure would have more impact on refined oil products which travel on smaller tankers through the Canal without any loading restrictions, unlike crude.

Analysts at the Centre For Strategic and International Studies said they estimate products shipments through the canal at above crude volumes of more than 1.5 million barrels per day.

A closure would wreck east-west arbitrage flows by trapping jet fuel and gasoil in Asia and naphtha and fuel oil in Europe.

Jet fuel premiums in Europe are now at 28-month highs near $90 a tonne.

While most analysts agree Opec will likely withstand calls from the West for an immediate large output boost, the cartel may chose to quietly leak more barrels to the market.

Chief economist of oil major BP told Reuters Opec was likely to raise output in response to tensions in the Middle East.

"The longer the uncertainty around the Middle East and political tensions continues... that may actually prompt them to do more rather than less in order to calm markets down," Christof Ruehl said.

AFP
A Shell petrol station is pictured in London. Analysts believe oil will rally -- although less steeply.

The high oil price will likely reinforce the status quo for countries like Saudi Arabia, which needs a price of at least $70-$80 a barrel to balance their budgets. Egypt is a small oil and gas exporter and the main danger of the unrest is seen as a closure of the Suez Canal or the large Suez-Mediterranean (SUMED) oil pipeline which passes near Cairo