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## **What's up with wheat?::**

**Financial Ramblings from The Rock by NATHAN KOWALSKI**

On August 5, Russia banned exports of grains for the rest of the year. In the wake of record high temperatures, 1,000 square miles of wildfires and an associated drought, at least 50 people have been killed and about 20 percent of the crop of the world's third largest exporter of wheat has been destroyed.

The ban is set to last at least until the end of this year. As a result, wheat futures are flying - up nearly 56 percent this quarter, the largest rise in 37 years and a 22-month high. Corn and soybean futures are also up, partially because they can act as substitutes in the food supply chain.

The bad news for wheat supplies may not stop at the Russian border. Canada may have lost an estimated \$3 billion in crops due to overly wet spring planting season. Kazakhstan, which exported 7.5 million tons of wheat, and Belarus which shipped 400,000 tons for the last 12 months, may also ban exports. The swing factor, however, may be India. In 2007 in an effort to rebuild dwindling reserves, India banned wheat exports.

Now it supposedly sits on 33.6 million metric tons of reserves held in government warehouses. Recent anecdotal evidence, however, suggests that a great deal of these reserves may be rotting in fields due to India's chronically poor and inefficient food storage system. If spoilage or the current crop poses a problem it is likely India will end up banning exports as well.

We probably will not know about India until October of this year when 2011's wheat crop begins to be planted. Part of this potential shortage will be offset somewhat by farmers' contributions from the United States, Australia, and Argentina where crop yields are not nearly so bad.

Besides, according to the International Grains Council, global wheat stocks are not anywhere near danger levels. The current bans and bad weather may cut world wheat stockpiles by only 2.5 percent to 192 million tons.

The current shortage mentality actually underscores a much larger trend, however. The world's population is finding it increasingly difficult to feed itself. In the book "A Farewell to Alms" written by Gregory Clark he describes what is referred to as the Malthusian Trap.

Essentially he refers to the concept that throughout time man has continually succeeded in making technological breakthroughs that has allowed us to use more and more resources.

Once the industrial revolution took off, we broke out of the trap that limited population

growth. This has resulted in a recent surge in population growth that is now putting immense pressure on all of our resources.

For example, it took 123 years for the world population to go from one billion to two billion (achieved in 1930). It took only 12 years to go from five billion to six billion (in 1999). It is now expected that by 2050, the global population will hit nine billion. We are going to need to produce more food in the next 50 years than we have produced in the past 10,000 years combined.

Supplying this exponentially growing demand will prove challenging. Modern science has taken us extremely far in its ability to generate ever increasing yields from crops. But all those genetically altered seeds seem to be reaching their limits.

Theoretically, a corn plant can produce about 23,200 pounds of corn per acre. The record on the 2009 National Corn Yield Contest was 19,376 - so we are getting close. The major restricting element may not be the actual crop itself - it is the amount of land.

Of the globe land mass, only 18.02 percent is usable for growing. Some 26 percent of this currently has crops. Many reports indicate 13.31 percent of the world is considered arable land of which nearly 40 percent is rated "seriously degraded" due to over-harvesting, erosion and climate change. Thus space is limited.

These dynamics indicate an interesting investing angle. Jim Rogers recently stated: "The fundamentals {for agriculture} have gotten better. The inventories are now at the lowest they've been in decades, not years. Some time in the next few years, we're going to have very serious shortages of food everywhere in the world and prices are going through the roof."

So to take advantage of this there are few obvious investment angles. You could rush out and buy farmland itself. Research firm Agcapita has said that US farmland investments have returned 11.2 percent a year since 1992 - with no down years.

You could also invest directly in agricultural commodities. The near-term risk at this stage is that the commodities market is very fast at pricing in shortages and prices have already soared for a number of key commodities.

The final way to play this would be to invest in companies that will help the world over the long-term increase farm yields. These companies would include major irrigation equipment dealers, fertilizer companies and seed companies.

By investing in ideas such as this you are building a hedge on the potential risk of an escalating grocery bill.