

Food will never be so cheap again

Biofuel refineries in the US have set fresh records for grain use every month since May. Almost a third of the US corn harvest will be diverted into ethanol for motors this year, or 12pc of the global crop.

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Wheat prices have tumbled 70pc since 2008 but demand is not going to go away

The world's grain stocks have dropped from four to 2.6 months cover since 2000, despite two bumper harvests in North America. China's inventories are at a 30-year low. Asian rice stocks are near danger level.

Yet farm commodities have largely missed out on Bernanke's reflation rally in metals, oil, and everything else. Dylan Grice from Société Générale sees "bargain basement" prices.

Wheat has crashed 70pc from early 2008. Corn has halved. The "Ags" have mostly drifted sideways over the last six months. This divergence within the commodity family is untenable, given the bio-ethanol linkage to oil.

For investors wishing to rotate out of overstretched rallies – Wall Street's Transport index and the Russell 2000 broke down last week – this is a rare chance to buy cheap into a story that will dominate the rest of our lives.

Barack Obama has not reversed the Bush policy on biofuels, despite food riots in a string of poor countries last year and calls for a moratorium. The subsidy of 45 cents per gallon remains.

The motive is strategic. America is weaning itself off imported energy at breakneck speed. It will not again be held hostage by oil demagogues, or humiliated by states that cannot feed themselves. Those Beijing students who laughed at US Treasury Secretary Tim Geithner may not enjoy the last laugh. The US is the agricultural superpower. Foes will discover why that matters.

The world population is adding "another Britain" every year. This will continue until mid-century. By then we will have an extra 2.4bn mouths to feed.

China and Southeast Asia are switching to animal-protein diets as they grow wealthy, as the Koreans did before them. It takes roughly 3-5kgs of animal feed from grains to produce 1kg of meat.

A report by Standard Chartered, *The End of Cheap Food* said North Africa and the Middle East have already hit the buffers. The region imports 71pc of its rice and 58pc of its corn. It lacks water to boost output. The population is growing fast. It will have to import, and cross fingers.

The UN says global farm yields must rise 77pc, which means redoubling Norman Borlaug's "green revolution". It will not be easy. China's

trend growth in crops yields has slipped from 3.1pc a year in the early 1960s to 0.9pc over the last decade

"We've all heard the stark anecdotes: precious topsoil weakened by over-farming, dust clouds darkening the Asian skies, parched land becoming desert and rivers running dry," said Mr Grice.

Since 2000, China has lost nearly 1,400 square miles each year to desert. Urban sprawl is paving over fertile land in the East. Water supply from Himalayan glaciers is ebbing. The Yellow River has been reduced to "an agonising trickle". It no longer reaches the sea for 200 days a year.

Farmers are draining the aquifers. Environmentalist Ma Jun says in *China's Water Crisis* that they are drilling as deep as 1,000 metres into non-replenishable reserves. The grain region of the Hai River Basin relies on groundwater for 70pc of irrigation.

China's water troubles are not unique. North India lives off Himalayan snows as well. Nor can we take fertiliser supply for granted any longer since "peak phosphates" threatens.

One can be Malthusian about this. Grizzled commodity guru Jim Rogers certainly is. "The world is going to have a period when we cannot get food at any price, in some parts." He advises youth to opt for a farm degree rather than an MBA, if they want to make serious money.

Mr Grice remains an optimist, believing that human ingenuity will rescue us. You can trade the "Ag" rally by investing in exchange traded funds (ETFs), but this amounts to speculation on food. There are ancient taboos against this practice.

Or you can invest in the bio-tech, fertiliser, and land services companies that will both make money and help to solve the problem. Monsanto, Syngenta, and Potash are popular, but trade at high price to book values. Golden Agri-Resources, Yara, Agrium, and Bunge are at better multiples.

Kingsmill Bond at Moscow's Troika Dialog suggests the Baltic company Trigon Agri as a way to play the catch-up story in the Eurasian steppe. He likes sunflower processor Kernel, grain group Razgulay, and fertiliser firm Uralkali.

Strictly speaking, the world has enough land to feed everybody. The Soviet Union farmed 240m hectares in Khrushchev's era. The same territory now farms 207m hectares. Troika says crop yields could be doubled in Russia, and tripled in the Ukraine using modern know-how. Africa's farms could come alive with land registers, allowing villagers to use property as collateral for credit.

None of this can be done with a flick of the fingers. What seems certain is that the terms of trade between country and city will revert to the norms of the Middle Ages. Landowners will be barons again.

http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/6432538/Food-will-never-be-so-cheap-again.html