*****2010 Food Crisis Means Financial Armageddon*****

Thursday, December 17, 2009

by Eric deCarbonnel If you read any economic, financial, or political analysis for 2010 that doesn't mention the food shortage looming next year, throw it in the trash, as it is worthless. There is overwhelming, undeniable evidence that the world will run out of food next year. When this happens, the resulting triple digit food inflation will lead panicking central banks around the world to dump their foreign reserves to appreciate their currencies and lower the cost of food imports, causing the collapse of the dollar, the treasury market, derivative markets, and the global financial system. The US will experience economic disintegration.

The 2010 Food Crisis Means Financial armageddon

Over the last two years, the world has experience faced a series of unprecedented financial crisis: the collapse of the housing market, the freezing of the credit markets, the failure of Wall Street brokerage firms (Bear Stearns/Lehman Brothers), the failure of Freddie Mac and Fannie Mae, the failure of AIG,
Iceland's economic collapse, the bankruptcy of the major auto manufacturers (General Motors, Ford, and Chrysler), etc… In the face of all these challenges, the demise of the dollar, derivative markets, and the modern international system of credit has been repeatedly anticipated and feared. However, all these doomsday scenarios have so far been proved false, and, despite tremendous chaos and losses, the global financial system has held together.

The 2010 Food Crisis is different. It is ***THE CRISIS***. The one that makes all doomsday scenarios come true. The government bailouts and central bank interventions which have held the financial world during the last two years will be powerless to prevent the 2010 Food Crisis from bringing the global financial system to its knees.

Financial crisis will kick into high gear

So far the crisis has been driven by the slow and steady increase in defaults on mortgages and other loans. This is about to change. What will drive the financial crisis in 2010 will be panic about food supplies and the dollar's plunging value. Things will start moving ***fast***.

Dynamics Behind 2010 Food Crisis

Early in 2009, the supply and demand in agricultural markets went badly out of balance. The world was experiencing a catastrophic fall in food production as a result of the financial crisis (low commodity prices and lack of credit) and adverse weather on a global scale. Meanwhile, China and other Asian exporters, in effort to preserve their economic growth, were unleashing domestic consumption long constrained by inflation fears, and demand for raw materials, especially food staples, was exploding as Chinese consumers worked their way towards American-style overconsumption, prodded on by a flood of cheap credit and easy loans from the government.

Normally, food prices should have already shot higher months ago, leading to lower food consumption and bringing the global food supply/demand situation back into balance. This never happened, because the U.S. Department of Agriculture (USDA), instead of adjusting production estimates down to reflect decreased production, has been adjusting estimates upwards to match increasing demand from china. In this way, the USDA has brought supply and demand back into balance (on paper) and temporarily delayed a rise in food prices by ensuring a catastrophe in 2010.

Overconsumption is leading to disaster

It is absolutely key to understand that the production of agricultural goods is a fixed, once a year cycle (or twice a year in the case of double crops). The wheat, corn, soybeans and other food staples are harvested in the fall/spring and then that is it for production. It doesn't matter how high prices go or how desperate people get, no new supply can be brought online until the next harvest at the earliest. The supply *must* last until the next harvest, which is why it is ***critical*** that food is correctly priced to avoid overconsumption, otherwise food shortages will occur.

The USDA, by manufacturing the data needed to keep supply and demand in balance, has ensured that agricultural commodities are incorrectly priced, which has lead to overconsumption and has guaranteed disaster next year when supplies run out.

An astounding lack of awareness

The world is blissful unaware that the greatest economic/financial/political crisis ever seen is a few months away. While it is understandable that general public has no knowledge of what is headed their way, that same ignorance on the part of professional analysts, economists, and other highly paid financial "experts" is mind boggling, as ***it takes only the tiniest bit of research to realize something is going critically wrong in agricultural market.***

USDA estimates for 2009/10 make no sense

All someone needs to do to know the world is headed is for food crisis is to stop reading USDA's crop reports predicting a record soybean and corn harvests and ***listen to what else the USDA saying***

Specifically, the USDA has declared half the counties in the Midwest to be primary disaster areas, including 274 counties in the last 30 days alone. These designated are based on the criteria of a minimum of 30 percent loss in the value of at least one crop in a county. The chart below shows counties declared primary disaster areas by the secretary of Agriculture and the president of the United States.

For a list of Secretarial disaster declarations, see here.

For a list of Presidential disaster declarations, see here.

The same USDA that is predicting record harvests is also declaring disaster areas across half because of catastrophic crop losses! To eliminate any doubt that this might be an innocent mistake, ***the USDA is even predicting record soybean harvests in the same states (Oklahoma, Louisiana, Arkansas, and Alabama) where it has declared virtually all counties to have experienced 30 percent production losses.*** It isn't rocket scientist to realize something is horribly wrong.

USDA motivated by fear of higher food prices

The USDA is terrorized by the implications of higher food prices for the US economy, most likely because it knows the immediate consequence of sharply higher food will be the collapse of the US Treasury market and the dollar, as desperate governments and central banks dump their foreign reserves to appreciate their currencies and lower the cost of food imports. ***Fictitious USDA estimates should be seen as proof of the dire threat posed by higher food prices,*** as the USDA would not have turned its production estimates into a ***grotesque mockery of reality*** if it didn't believe the alternative to be ***apocalyptic.***

While the USDA may be the worst offender, the US isn't the only government trying to downplay the food situation out of fear. As one Indian reporter writes, governments are lying about the looming food crisis

… ***some experts and governments, in full cognizance of the facts, want us not to create panic and paint a picture of parched crops and a looming food crisis. This, they say, would push up food prices unnaturally, lead to hoarding and ultimately result in a situation where many more millions across the world would go hungry.*** **And whether it is the developing world or the developed, it is those at the bottom of the pyramid who are the most affected in such scenarios.**

This leads to a confusing divide between reality and government pronouncements, or even between the perspectives of government departments

Confusing divide between reality and government pronouncements

For months now, the media has been reporting ***two distinctly, contradicting realities.*** One of these realities is filled with ***record crops and plentiful supply,*** and the other is filled ***agricultural devastation and ruin.*** It has been ***a mad, frustrating experience*** to read about agricultural disasters and horrendous crop losses in virtually every state combined with predictions of a US record harvest, sometimes ***in the same article.***

A Reality of record crops and plentiful supply

The accepted, "official" reality is found in USDA crop and WASDE reports. In this reality, the U.S. Department of Agriculture is projecting the largest US soy crop on record, at 3.3 billion bushels, and the second-largest corn crop at 12.9 billion bushels.

Below are the government's numbers for US soybean production by state. The USDA is expecting record high soybean yields across the Midwest in 2009, leading to production numbers significantly higher than the 5 year average. The large increase between the August and November estimates also indicates that the USDA doesn't believe crops suffered much damage during the fall harvest.

Soybean Production by State and United States

	Production (1000 bushels)		
	5 year	USDA 2009 Estimates	
	Average	Aug	Nov
Alabama	6,114	**14,080**	**15,910**
Arkansas	111,779	**127,300**	**128,060**
Delaware	5,659	**6,392**	**7,137**
Georgia	7,484	**15,360**	**14,850**
Illinois	441,931	**398,200**	**420,750**
Indiana	259,870	**246,600**	**249,780**
Iowa	485,196	**505,960**	**486,030**
Kansas	104,300	**133,000**	**156,950**
Kentucky	49,594	**57,200**	**64,860**
Louisiana	29,624	**35,000**	**35,890**
Maryland	15,670	**15,840**	**20,425**
Michigan	76,587	**73,630**	**77,610**
Minnesota	278,520	**284,000**	**298,200**
Mississippi	59,995	**88,970**	**77,040**
Missouri	193,063	**214,000**	**233,200**
Nebraska	225,809	**227,850**	**247,000**
New Jersey	2,995	**3,060**	**3,480**
New York	8,405	**10,332**	**10,836**
North Carolina	43,882	**56,320**	**59,840**
North Dakota	104,078	**116,000**	**115,500**
Ohio	197,408	**215,260**	**219,840**
Oklahoma	6,793	**8,250**	**10,360**

Pennsylvania	17,720	**20,025**	**20,915**
South Carolina	11,972	**15,930**	**15,120**
South Dakota	135,970	**159,100**	**172,200**
Tennessee	40,616	**62,400**	**62,730**
Texas	5,342	**5,250**	**4,485**
Virginia	16,754	**18,880**	**21,460**
Wisconsin	61,494	**63,570**	**66,830**
Other	1,131	**1,413**	**1,982**
US	3,005,755	**3,199,172**	**3,319,270**

Since the United States is the leading exporter of corn and soybeans, producing 40 percent of the global corn crop and 38 percent of all soybeans, the USDA's production numbers have an enormous impact on the global supply/demand picture.

A Reality of Agricultural Devastation and ruin

In this reality, the US farmers have suffered ***the worst harvest season ever seen.*** For those who have not been following my blog or developments in the agricultural world, below are a few of extracts, in chronological order, showing the full extent of the devastation experienced by farmers during 2009's hellish harvest season. (to keep this short, I have limited it to 2 extracts per state)

[Iowa, June 29]

"I'd say this year is one of the most unusual years we've had in the last 20 years," **said Don Fry, executive director of the Des Moines County USDA Farm Services Agency. "Because it seems like it rains every second or third day, the ground is constantly kept wet.** ***We've heard a lot of reports from people with wet spots turning up in fields that they and their parents ... don't ever remember being a wet spot."***

The combination of constant rain and cool temperatures this spring kept farm fields saturated, **making planting difficult and hampering crop growth. Also, frequent rains have rinsed a portion of nitrogen fertilizers from fields and hindered the application of herbicides,** ***all of which cuts into yields,*** **Kester said.**

"This spring has just been a terrible struggle," **Kester said. "Anybody that mowed hay within the last three weeks probably lost their hay crop because it got wet."**

[Nebraska, July 3]

Lethal heat, hailstones as big as baseballs, rain seemingly without end and tornadoes, some reported to be a quarter- to a half-mile wide. **After a relatively placid May,** ***Nebraska's weather went from meek to mad in June.***

"I don't know where that switch in the sky is, but it turned on," said Ken Dewey, an applied climatologist with the University of Nebraska-Lincoln.

…

"It rained somewhere in Nebraska every day of the month," Dutcher said. For 25 of those days, some part of the state got more than an inch of rain; for seven of those days, some part received more than 3 inches.

The Panhandle received so much rain, damage reports could end up showing that ***1,000 miles of roadway were washed out,*** **according to the Nebraska Emergency Management Agency.**

Widespread hail was reported across the state, **with one rancher telling the National Weather Service that** ***he found dead animals***

along the road. In the far western Panhandle, _it hailed so much that the roads had to be plowed, as hail reached 6 to 8 inches deep._
...
According to the federal Farm Service Agency, _some 750,000 acres of crops were damaged and a small percentage destroyed._

[Maine, July 25]

This has been a bad year for dairy farmers: Milk prices have plummeted and rain has prevented them from getting onto their fields to harvest hay. Fertilizer they applied simply washed away in the rain.

The longer hay grows without a cutting, the poorer the nutritional quality and the more money farmers will spend this winter to supplement it. _Cornfields are rotting without enough sun or heat to ripen the plants._

"The season is lost," Julie Marie Bickford of the Maine Dairy Industry Association said Friday. "With milk prices so low and this feed disaster on top of it, _farmers are like deer in the headlights."_
...
Hay and corn are critical components of livestock feed, Bickford said. "This stunted corn and alfalfa is forcing farmers to purchase grain and feeds. That is a very bad situation. Prices are extremely high because of the Midwest floods earlier this year. _Maine's farmers couldn't come up with a worse situation in their worst dreams."_

On Thursday, a 75-year-old former dairy farmer visited the Wright Place in Clinton. He recalled delivering glass bottles of milk and told Brian Wright that _he never remembered a rainier summer._

"This is unreal," Wright said.

[Wisconsin, July 28]

For Kevin Leahy, it's a total loss. He doubts any of his 600 acres —_of what used to resemble corn_— north of Shullsburg will be harvested.
...
Kamps was at home during the storm and knew his crops would be in trouble when the oak leaves around his house started falling to the ground. The wind blew a drift of hail more than 2 feet high in front of his patio door, he said.

"It was like a big sand blaster," Kamps said. "I've seen damage before _but not near so widespread and so major._ This took everything we had."

[Iowa, August 4]

When hail decimated crops near Lawler and Waucoma in June, it was _the worst Iowa State University Extension field agronomist Brian Lang had ever seen._

Until July 24.

"I've never really seen bad hailed corn at tassel state and _I've never seen it this bad, this widespread,"_ Lang said. _"There were 400,000 acres damaged with 10 percent totally destroyed._ Even for the crop that didn't get hurt too much, this came at the worst possible time, tasseling."
...
"I've never seen a hail storm this big," said Julie Vulk, Farm Service Agency executive director in Winneshiek County and interim director in Fayette County. "It's just hard to wrap your brain around it."

Vulk estimated that _50 percent of farmers don't have insurance._

[Iowa was then hit by another devastating hail storm on August 9]

[New York, Aug 14]

WEST WINFIELD - **A panel of political representatives and aides sat for over three hours at a rally Friday in Mount Markham Middle School gym *as over 200 upstate New York dairy farmers pleaded for action on a range of issues crippling their industry*.**

One after another dairy farmers and others involved in the industry took a microphone to berate county, state and federal representatives from throughout the region.

***Some were brought to tears describing their inability to make a living, a few simply screamed in frustration and others demanded answers.* But the dire situation facing the men and women speaking was painfully clear.**

***"We are in a disaster,"* declared Ken Dibbell, of Chenango County.**

…

"The people who feed the nation can't feed themselves," Gretchen Maine, a dairy farmer from Waterville, "what's wrong this picture."

…

The time frames for both solutions seemed in contrast from farmers need for help, *with many emotionally explaining they have either already abandon businesses or are on the brink.*

***"I don't think they get the message yet,"* Tewksbury said, referring politicians unaware of the uncharacteristic display of emotions from prideful farmers. *They don't have until 2010.* They have the next couple of months to decide if they can stay in business, he said.**

[Texas, August 14]

Texas state climatologist John Nielsen-Gammon said Friday that at least nine of the 254 counties in Texas — the nation's most drought-stricken state — are suffering through *their driest conditions since modern record-keeping began in 1895.*

Making matters worse are the relentless 100-degree days across the southern portion of Texas that has been under drought conditions since September 2007.

The impact has been felt most by farmers and ranchers in the nation's No. 2 agriculture-producing state. Texas officials estimate statewide crop and livestock losses from the drought *at $3.6 billion.*

"We've had some dry spells, but not as bad as this," said Rod Santa Ana with the Texas AgriLife Extension Service. *"It hurts bad.* A lot of these cotton fields didn't even come up. It's just bare ground. *You'd never know cotton was even planted there."*

[Wyoming, August 21]

That's little comfort to David Kane, a rancher near Sheridan, Wyo., who said *the grasshoppers on his ranch are the worst they've been in more than 20 years.* Kane already sold off part of his herd because the pests ate his cows' food.

***"They're devastating,"* Kane said. "They were so bad here on the ranch that we sprayed our meadows because the second-cutting of alfalfa wouldn't green up because they were eating it as fast as it was trying to grow."**

[Wyoming, September 10]

The Big Horn Basin dry bean harvest is beginning, but *cool, rainy weather and diseases have taken tolls on yield.*

Mike Moore, manager of the University of Wyoming Seed Certification Service, said his agency is just starting windrow inspections, and some fields are not doing well.

"It's sort of tough out there right now," he said. The only area that seems less affected by disease is the far southern end of the Big Horn Basin, Moore said. His inspectors have found blight and mold around Powell, Byron, Emblem and Burlington.

***"It doesn't look like location is going to allow you to escape it,"* he said.**

[Texas, September 23]

Bruce Wetzel has been a farmer in Sherman all his life, learning from his father back in the 1960's.

He's seen all the ups and downs of producing wheat and corn in Texoma, and he says *this was one of the worst years for corn*.
…
"All the rain we got back in April and May, we got *20 inches of rain in a two week period there,* really just damaged our corn. Our corn just never quite recovered from too much water," said Wetzel.

Wetzel says he *lost about 50% of his wheat and corn crops this harvest season*, a trend that farmers are experiencing across Texoma.

[New Jersey, September 26]

***"The rains have just killed me this year,"* said Tucker Gant, 51, a vegetable and fruit farmer in Elk, who estimates his total losses this year at nearly $220,000.**
…
***"Nobody has ever seen rain as drastic as this year, even talking to old-time farmers,"* said Grasso, a third-generation farmer who estimates losses so far at roughly $50,000.**
…
"It's never been that bad as far as I can remember,"* said Gant, pointing to water pooling in a field as he drove his pickup truck along a bumpy dirt trail toward 35 acres of barley overrun by tall weeds. "I have never seen water lay there more than two days. It should have been harvested, but *you can't harvest weeds taller than barley."

[North Dakota, October 5]

North Dakota`s wet spring and summer is being followed by a wet and snowy fall.

***Two snowstorms have already turned the ground in much of the state white,* and while the early snows will melt before winter sets in, *many farmers may not get row crops harvested before the seasons change again,* unless Mother Nature provides them with some dry weather.**

In North Dakota, it`s common to see autumn snow coat the state`s sunflower and corn crops, but *acres and acres of soybeans covered in white* is an unusual sight. *October snowstorms have stopped many of the state`s combines right in their tracks,* delaying the harvest of many late season crops.
…
Precipitation totals in some areas of North Dakota have *already surpassed yearly averages,* but farmers are more concerned about wet weather damaging the condition of the soybean crop than corn and sunflowers.

[Louisiana, October 8]

Three weeks of heavy rains are threatening northeastern Louisiana's soybean, sweet potato and cotton crops, some of which have already shown *significant deterioration* in the fields.

"It's killing us,"* said Ouachita Parish producer Gary Mathes. "We cut some beans a week ago that we had to sell at *a salvage price of $3 a bushel."
…
"We fought a short corn crop, but we had one heck of a bean crop and *the rain is taking it away from us,"* Mathes said.

Venoy Kinnaird said his farm has been drenched by about 20 inches of rain since Sept. 12.

***"I've got some beans that I won't cut; they're not salvageable,"* Kinnaird said. "And I've got some sweet potatoes that are halfway out of the ground. Cotton has taken a terrible hit, too, even though we don't have that much planted around here this year.**

"We're absolutely waterlogged. What's really bad is we're coming off of a disaster last fall."

[Nebraska, Minnesota, October 12]

Weekend snow may have dealt a heavy blow to prospects for soybean harvest in Nebraska and other nearby states.

Weather adversity could shave as much as *__200 million to 300 million bushels__* from expectations for a 3.25 billion bushel crop nationally, a Nebraska soybean official said Monday.

"Our part of the country got snow," said Victor Bohuslavsky of the Nebraska Soybean Board Monday. "And I talked to people in Minnesota this morning and *__they hadn't hardly started harvest and they were blasted with snow."__*

[Louisiana, October 17]

Northeastern Louisiana farmers finally saw the sun Friday afternoon, but it might be too late to save the bulk of the soybean, cotton and sweet potato crops.

"It's pitiful," said Caldwell Parish producer Drew Keahey. "I think it's going to be worse than last year."

…

But some parishes, like Morehouse, have received more than *__30 inches of rain__* since Sept. 12, *__literally drowning crops__* that were mature and ready for harvest when the rain began.

…

***__Soybeans may have suffered the most,__* producers said.**

"There will be a lot of beans that never come out of the field," Keahey said.

[Northern Kansas, October 16]

Harvest so far has been about as awful as the new Bob Dylan Christmas album.

Typically USDA's November yield forecasts increase, but *__this is not a typical year,__* as freezing weather has dinged yields and caused major crop quality problems.

A colleague of mine sent me some snapshots ofan Iowa farm that had seven inches of snow last Saturday. *__Northern Kansas had over 10 inches of snow.__*

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[Mississippi, October 21]

Corn will suffer from quality issues. Soybeans will have significant quality and yield losses *__if harvested.__* Rice will suffer quality and yield losses with much of the crop is on the ground. Cotton crop will suffer yield and quality losses and cottonseed will have essentially no value.

…

Bolstering this is a fact-sheet released the week of Oct. 12 by Delta Council. The release says, "Large areas of the Mississippi Delta have received *__15 to 20 inches__* of rain over the last 30 days with many areas receiving *__25 to 40 inches__* of rainfall over the past 60 days since Aug. 15. In places this is anywhere from *__400 to over 600 percent of normal."__*

The Delta Council release also quotes Steve Martin, interim head of the Delta Research and Extension Center (DREC) in Stoneville, Miss.: *__"Crop conditions are rapidly deteriorating.__* The USDA weather service at Stoneville reports that *__October has seen the second highest level of rainfall ever recorded__* (record was set in 1941).

[Illinois, November 2]

The autumn monsoons are hard to figure, said Benjamin Sittrell, a meteorologist for the National Weather Service office in suburban St. Louis.

"Typically during the late-year period, *it's our driest portion of the year,"* Sittrell said. "To see such *astronomically high amounts of precipitation,* where we got several inches above the previous record levels, *is very abnormal.*

Sittrell said *thousands of acres of farmland are under water,* particularly in the flat areas of *southern and western Illinois,* where the Illinois, Ohio and Kaskaskia rivers are among several that are flooding.

[Arkansas, November 4]

On Monday and Tuesday, Gus Wilson, Chicot County Extension staff chairman for the University of Arkansas Division of Agriculture, made the rounds, visiting farmers and getting a first-hand look at what record rain has left of crops in the state's southeasternmost county.

…

***"It's bleak,"* Wilson said. "It's going to really hurt these poor Delta counties because here, agriculture is all that we've got."**

Earlier this season, the harvest outlook was promising.

"In September, I was pretty happy with what I was seeing in the fields," he said. *"Now we are going to be lucky to make half a crop compared to the last couple of years,* all because of the weather."

"Seven or eight weeks ago, we were looking at 1,100- to 1,200-pound cotton" lint yield per acre, Wilson said. "Now we're 500 to 600 pounds."

The soybeans are just as bad.* Back in September, "we had a good soybean crop. The yield was there," he said. *"We have lost at least 60 percent to 80 percent due to the weather."

***"Our rice is going to be half,"* Wilson said.**

…

***"This is the worst I've ever seen and I've been a county agent for eight years and around farming all my life,"* Wilson said.**

[Alabama, Georgia, north Florida, November 6]

***Alabama Commissioner of Agriculture Ron Sparks is calling it a "potential crisis"* — the rainy weather conditions throughout most of September and October that have frustrated growers who were eyeing pretty good cotton, peanut, soybean and corn crops.**

***The same holds true for producers in Georgia and north Florida,* where harvest has been delayed by almost continuous rainfall, during what is usually the driest months of the year.**

"Prior to September, many producers were expecting to harvest a bumper crop and were very optimistic for the upcoming harvest season," says Sparks. "Uncommon and unfavorable precipitation during September and October have *degraded various crops* and caused poor harvesting conditions, which caused the harvest to be behind schedule by around four to six weeks."

The major crops affected by the recent rainfall are cotton, *soybeans*, corn and peanuts, says the Commissioner. "Reports indicate that our state is in dire need of dry weather within the next two weeks, which may eliminate a potential state disaster [Area was then hit by 5+ inches of rains from Topical Storm Ida]," he said in early November. "Producers are already suffering from heavy September and October rainfall and *dry conditions will not eliminate damage that has already taken place to crops across the state.* Many producers are experiencing *a sharp decrease in crop yield, lower grading, and crop damage from recent rainfall."*

…

"The bottom line is that Alabama producers are uncertain as to what the commodity markets will bring forth and where agriculture in our state is going," says Sparks. "The recent weather conditions over the past two months *will definitely have a negative impact on Alabama's crop harvest."*

…

William Birdsong, agronomist at the Wiregrass Research and Extension Center in southwest Alabama, reported that wet and rainy conditions continued to delay harvest for row crops. Cotton yields and lint quality continued to suffer as a result of the wet conditions, he said. Less than 5 percent had been harvested in his area, and *this could go down as the worst crop in years if the rain does not subside.*

[Alabama, November 10]

What had started as a good season for cotton could be *a complete loss for some farmers* if heavy rains hit fields before harvest, said Richard Petcher, agent with the Alabama Cooperative Extension Service.

"It's been a *30 percent loss* so far in southwest Alabama, and *more rain could make it 40 to 50 percent,"* Petcher said Monday. *"Some fields are already a 100 percent loss."*

Financial damage from *Ida* could be in the millions of dollars for Alabama farmers, he said. Rains have delayed harvests by about three weeks affecting not only cotton but also leaving some peanut crops vulnerable to early frosts.

"The majority of the cotton crop is still in the fields," he said. "Peanuts are about 60 percent harvested. There's been concern about rain, *but now it's almost panic."*

Soybeans have also been hurt by rain, with crops rotting and sprouting in the fields, Petcher said.

[Illinois, November 12]

***"I've been doing this for 30 years and I've never seen a year like this,"* said Ron Waldschmidt, a vice president with farm equipment dealer A.C. McCartney in Wataga, Illinois.**

"It's not unusual in any given year to have wet conditions, or maybe a variety that tends to mold, or maybe the moisture is a little bit high. *But this year, you've got it all,"* he said.

[Arkansas, November 12]

On Nov. 4, Gus Wilson took *a sample of soybeans with 100 percent damage.*

***"It was the first time I've seen that,"* says the Chicot County, Ark., Extension staff chair. "The situation here is bad, bleak. *We'll be lucky to make half the crop we've made in the last three to four years.* That's strictly due to the weather."**

Chicot County in extreme southeast Arkansas has caught huge rains all fall. Now, watching crops deteriorate, Wilson says he's not seen "a group of growers who've been more discouraged. Those who were planning to plant wheat may be out of luck. If there's wheat planted and emerged in Chicot County, I don't know where it's at."

…

Faced with a seemingly unceasing deluge in 2009, *veteran farmers are struggling to come up with a similar year in the past.*

***"My father is 82 years old and he's farmed 55 to 60 years,"* says Wilson. *"He says this is the worst harvest season he's ever seen.* Out of his career, he said only one year comes close — he can't remember if it was in the late 1950s or early 1960s.**

[Virginia, November 17]

Last week's torrential rainfalls have caused damage and delays to some Virginia farm crops, but the extent of losses is unknown, some agriculture experts said yesterday.

Several crops that were recently planted or still in the fields were hurt by the widespread, three-day deluge, including *winter wheat,* barley and *soybeans,* said Molly Payne Pugh, executive director of the Virginia Grain Producers Association.

***"There is definitely going to be damage,"* Pugh said. "I don't have a good feel for how much yet. Right now, we are assessing."**

[Mississippi, November 23]

On the dashboard of his truck, Allen C. Evans III, a farmer near Clarksdale, has a sheaf of receipts from the grain elevator, showing the damage levels of each load of soybeans: *39.9 percent, 67.9 percent, 51.8 percent.* A born fretter, he is afraid to call, he said, to find out the final reckoning of the disastrous season.

"You're just kind of walking around like a zombie," Mr. Evans said, "saying, never could I have guessed that the best crop I've ever raised in my entire life - the one I never worried about - *of all the crops to have taken away from us, how can this be the one?*"

In the Delta, *those elevator receipts have become talismans of the times.* Michael Patterson, who helps pay for his farming with the proceeds from his grain hauling company, displayed one showing a farmer who brought in *1,110 bushels of soybeans, but got paid for 11.* The rest were damaged.

That farmer was distraught, Mr. Patterson said.

"You don't want to be the generation,"* he said, *"that loses the family farm."

These two realities can't coexist!

Farmers can't be going bankrupt across the US thanks to ***the worst harvest season ever seen*** while at the same time producing ***the USDA's Biggest Crop Ever!*** Someone is lying, and evidence supports the farmer's story.

Adverse weather conditions across the globe

American farmers weren't alone in their suffering this year. Abnormal weather has ruined crops around the world in 2009:

1) The worst drought in half a century has turned Argentina's once-fertile soil to dust and pushed the country into a state of emergency. Cow carcasses litter the prairie fields, and sun-scorched soy plants wither under the South American summer sun. The country's wheat yield for 2009 was 8.7 million metric tons, down from 16.3 million in 2008.

2) Australia is suffering the longest running and most severe drought on the planet. November temperature records were broken all over eastern Australia, and lower wheat yields than expected were reported, leading to production estimate cuts. Profarmer Australia has cut their Australian wheat production estimate by 1 MMT to 20.9 MMT, and Commonwealth Bank of Australia reduced their estimate by 0.7 MMT to 21.6 MMT (USDA's current estimate is, of course, is an ***insane 23.5 MMT***). Finally, in September, Sydney saw the sky turned blood red by the worst dust storm in 70 years, which carried an estimated 5 million tons of soil from drought-ravaged farmland into the Pacific Ocean.

3) Northern China was hit by worst drought in 50 years Chinese wheat production was predicted to be down 10% "In A Best Case Scenario". The sustained drought lead to water and food shortages in June for more than 1.37 million people in northwest China's Ningxia Hui Region. Chinese corn production is expected to shrink at least 10%, with shortages developing by spring-summer of 2010.
4) The Middle East and Central Asia are suffering from the worst droughts in recent history and food grain production has dropped to some of the lowest levels in decades. Total wheat production in the wider drought-affected region is currently estimated to have declined by at least 22 percent in 2009.

5) Wind, rain, and hail ruined India's spring wheat crop. Following failed wheat harvest, India then experienced the driest monsoon in 37 years. In terms of affected area, India's drought was the worst since 1918. Farmers who could no longer irrigate crops now feared nothing would be left to drink. Millions of poor villagers across southern India are facing an imminent food shortage following months of intense drought and recent devastating floods.

6) Etc…

Financial crisis worsens drop in crop production

On top of the worldwide abnormal weather, the low commodity prices and lack of credit caused by the financial crisis harmed production. The lack of credit curbed farmers' ability to buy seeds and fertilizers limiting production, and low prices at the end of 2008 discouraged the planting of new crops in 2009. In Kansas for example, farmers seeded nine million acres, the smallest planting for half a century.

Between the effects of the financial crisis and the abnormal weather experienced across the globe, **the idea that 2009/10 saw record harvests of anything is pure fantasy.**

U.S. Soybeans Supply and Demand

Analyzing U.S. soybeans supply and demand reveals how bad the situation is. The US is the biggest producer and exporter of soybeans, and, when America runns out of soybeans, it will create panic.

Below are the latest figures from the USDA. Highlighted in red are the problem numbers ***which need serious adjustment to reflect reality.***

U.S. Soybeans Supply and Demand

(Million metric tons)	**USDA Numbers**
Beginning stocks	**3.76**
Plus:	
Production	**90.33**
Imports	0.22
Minus:	
Crushings	46.13
Exports	**36.47**
Seed	2.56
Residual	2.20
Ending stocks	6.95

No beginning stocks of US Soybean

By the end of August, grain movement in the US came to a virtual standstill, with farmers sold out of soybeans. Those few soybean end-users (ie: feedmakers and poultry producers) which caught short were forced to pay prices as high as they paid at the very height of the bull market in 2008.

The struggle to secure quick-delivery soybeans in the US cash markets sent soybean futures into intense backwardation (backwardation is when cash prices are higher than future prices). Desperate Midwest crushers were bidding up to $2.72 a bushel over CBOT September futures contracts to acquire scarce soybean supplies. Some processors in the heart of the Midwest soy belt grew so desperate for soybeans to crush that they paid to transport some of the early harvest from the Mississippi River Delta northward to Illinois.

The chart below shows the backwardation of soybean futures on August 28. Notice the huge price gap between promises to September and November contracts. Notice the even larger gap between cash prices and September futures.

Finally, at the end of 2008/09, these was a huge about of amount of soybean sales outstanding, 2,216,016 MT, which were rolled over into the 2009/10 crop year. This means the exporters couldn't find enough soybeans to make good on the 36,069,606 MT of soybeans they sold last year. Basically, ***the US ran out of soybeans in August 2009,*** and the beginning stock of US soybeans should be considered zero for 2009/10.

(metric tons)	**Export Sales Outstanding At Year End**
2001/02	446.721

2002/03	459,879
2003/04	291,586
2004/05	624,737
2005/06	813,820
2006/07	946,268
2007/08	888,059
2008/09	**2,216,016**

Real number for US Soybean Production

The graphic below shows 2008 Soybean Production by country, which should be an accurate representation of where they were grown in 2009.

The next graph also shows 2008 Soybean Production with soybean producing counties declared disaster areas in 2009 highlighted in red, which should provide be an accurate representation of how badly production was effected this year. Keep in mind that

1) Many counties that weren't declared disaster areas based on the USDA's requirement of 30% damage, still suffered 10 to 20 percent losses.

2) Many counties which were declared disaster areas (in red) suffered crop losses far worst than 30 percent.

Based on USDA's disaster declarations and reports of horrendous crop losses, a realistic estimate of US soybean production would be below 2007/08 soybean production at around **70 MMT (Million Metric Tons).**

Real number for US Soybean exports

The chart below showing outstanding soybean export sales shows what is wrong with the USDA's export estimates for 2009/10.

Outstanding soybean export sales represent the amount of soybeans ***that have been sold but not yet exported.*** At any point in time, it is possible to buy "old crop" soybeans (already harvested) or "new crop" soybeans (which will be harvested next year). Outstanding soybean export sales rise until harvest and then go down as soybeans start being exported.

Predicting total 2009/10 exports using outstanding export sales data

On average, total soybean exports for the last eight years has been 3.6 times the peak in outstanding export sales.

	Accumulated	**Peak in Outstanding**	**Acc Exports / Peak outstanding**

Crop year	Exports	Export Sales	sales
2001/02	29,926,021	6,445,789	4.6
2002/03	29,102,246	8,499,004	3.4
2003/04	24,176,072	8,261,700	2.9
2004/05	29,966,013	8,206,497	3.7
2005/06	25,510,276	5,808,523	4.4
2006/07	30,288,289	8,592,069	3.5
2007/08	30,449,470	9,797,062	3.1
2008/09	33,853,590	10,002,895	3.4
2008/09		19,426,479	
		Average	**3.6**

If the pattern from the last eight years holds true, 2009/10's peak outstanding export sales of 19 MMT implies total exports of roughly **70 MMT** for 2009/10.

2009 peak outstanding export sales	19,426,479
	3.6
Implied exports for 2009/10	**69,935,324**

US Soybean Supply and Demand catastrophically out of balance

The table below shows the USDA Numbers compared to more realistic estimates.

U.S. Soybeans Supply and Demand

(Million metric tons)	**USDA**	**Realistic**
	Numbers	**Numbers**
Beginning stocks	**3.76**	**0**
Plus:		
Production	**90.33**	**70**
Imports	0.22	0.22

Minus:

Crushings	46.13	46.13
Exports	**36.47**	**70**
Seed	2.56	2.56
Residual	2.20	2.20
Ending stocks	**6.95**	**(50.67)**

Of course a negative ending stock isn't possible. This just means that the US will run out of soybeans before next September. The process is well under way.

The chart below shows US monthly soybean exports for the last year, and, again, the problem is obvious.

The US exported over 7 MMT of soybeans in November! Furthermore, since the US exported 3.7 MMT in the first two weeks of December, the rate of exports isn't slowing down. At this rate the US soybean supplies will start running critically low around March/April.

Economic Pandemonium

The true financial crisis begins when the world realizes that there are couple months food supply missing from 2010. The last two years were a gentle, mild preview of the real thing.

Total Panic

The sudden, shocking discovery that food supplies are running out will produce total panic. The reaction will inventory building — hoarding –at all levels. Major food producing nation will export bans (India has already banned food exports). Producers, Middlemen, And Households will rush the acquire supplies. All this hoarding will wrosen the crisis by throwing supply and demand further out of balance: export bans cut supply available on international market and inventory building increases demand. Food prices will more than double.

Central bank exodus from the dollar

Every society is just 3 days away from revolution – which is what happens if food runs out or becomes unaffordable.
--Comment by Oldskeptic

With one out of eight Americans on food stamps, foreign central banks are subsidizing US food consumption by funding the US government with their treasury purchases. Once the food crisis begins next year, they will be faced with the choice:

1) Continue subsidizing US food consumptions as triple digit food inflation ravages their economy and their people starve.
2) Dump their treasury holdings onto the market to rapidly appreciate their currencies, lowering the cost of food imports and preventing widespread domestic starvation.

Not much of choice. China, for example, will drop the dollar peg without a second thought to prevent triple digit food inflation from damaging its economy and causing widespread of social unrest. Chinese exporters will be badly hurt, but that will be a small cost if it can keep food prices down.

In India, the government is ALREADY under pressure to selloff the country's $270 billion in forex reserves.

Food prices are rising faster than any other commodity **and** ***food prices hit the poor the most.***

While overall inflation is just 3 per cent, *food prices are rising at unforgivable 17.7 per cent.* Prices of rice and wheat have gone up in double digits in one year (10 per cent).
…

Perhaps the most surprising is that while food prices are rising, _the government seems to be doing nothing_, although it is fortunate to have many policy options at hand.

One option is to release food grain stocks [which unfortunately, _DON'T EXIST_], say analysts. They argue why should wheat and rice prices rise when India has near record stocks of food grains.

…

The second option that the government has to reduce the inflation in potatoes, onions and pulses is to use some of India's enormous reserves of foreign exchange to import these food items so crucial for the poor.

India today has $270 billion in forex reserves. A small fraction of this could be used to import food and help the poorest.

"But the dollar can't collapse because there is no alternative to the US dollar for a reserve currency…"

I love the "there is no alternative to the US dollar for a reserve currency" argument. Every time I hear it, I imagine someone standing on the deck of the Titanic on the night of April 14, 1912, and declaring, "This boat can't possibly sink because there aren't enough lifeboats!"

The lack of viable alternatives doesn't mean the dollar can't sink, it simply means that when it does go down, it will result in a tragedy of epic proportions which will be remembered for centuries to come.

Political Fallout of 2010 Food Panic

While a food crisis was unavoidable to some extent because of the abnormal weather and financial crisis, the total panic which will soon grip world agricultural markets is a creation of the USDA and its fictitious production estimates. If not for the USDA's interference, food prices would have risen in the first half of 2009 in anticipation of the 2009/10 shortage. The United States Department of Agriculture, has caused incalculable damage to the world economy by encouraging overconsumption of rapidly diminishing food supplies.

Once the 2010 Food Crisis starts, confidence in the US government will be shattered as a result of the USDA's faulty estimates. The starvation and misery caused by higher food prices will also create a lot of anger…

Insolvent Midwestern banks

With failed crops, farmers across the Midwest are bankrupt, and so are their banks. This is especially important considering that the FDIC is out of money. Every bank is now being financed with the immediate sale of

Whether the US choose to bail out Midwest banks with billions of emergency aid for bankrupt farmers or finances the FDIC takeover of their banks, the outcome will be the same. The enormous quantity of debt which the US will need to sell to finance emergency aid and resolve bank failures in the Midwest will pressure an already collapsing market for US treasuries.

Panic selling of distressed debt

When the dollar starts rapidly losing value, the flaw in the whole "hold to maturity strategy" will be revealed. Financial institutions around the world will realize that the dollar will lose all value years before their toxic assets ever have the chance to mature. They will then begin dumping trillions of toxic US debt at firesale prices, simply to escape the dollar's devaluation.

Self-reinforcing Breakdown of derivative markets and US financial system

Short term treasuries function as the collateral backing derivative markets and US financial system. When the dollar and treasuries start falling in value with exit of foreign central banks, investors will lose confidence in that collateral and start withdrawing from derivative markets. This will result in a flood of new treasuries coming onto the market as collateral is liquidated, causing further loss of confidence, and so on.

To image how this damaging dynamic would work, take a look at the Portfolio Allocation of PIMCO Commodity Real Ret Strat C Fund (PCRCX). PCRCX is a commodity fund which uses derivatives to gain its exposure to commodities.
PIMCO Commodity Real Ret Strat C Fund (PCRCX) Portfolio Allocation
Track portfolio allocation change of PIMCO Commodity Real Ret Strat C fund (PCRCX)

Date	**Cash**	**Stock**	**Bond**	**Other**
06/2009	**11.56%**	0%	**75.75%**	12.7%
03/2009	27.7%	0%	62.97%	9.34%

12/2008	34.59%	0%	57.76%	7.64%

Most Recent Top 10 Holdings in PIMCO Commodity Real Ret Strat C Fund (PCRCX)

	30-Jun-09
Pimco Cayman Cmdty Fd Ltd Instl	13.41%
US Treasury Note 3%	**10.07%**
US Treasury Note 2%	**10.04%**
US Treasury Note 1.875%	**9.84%**
FNMA	9.70%
US Treasury Note 2.5%	**8.68%**
US Treasury Note 2.625%	**8.29%**
US TREASURY NOTE	**7.82%**
US Treasury Note 2%	**6.79%**
PIMCO FDS PRIVATE ACCOUNT PORTFOLIO SER	5.63%

It is easy to see why, with the treasury market breaking down, investors will question the wisdom of investing in a fund that has over 76% of its assets in US bonds. Investors will start withdrawing their money from the fund, and PCRCX will have to sell treasuries into a market already filled with only sellers. This "run on the bank" dynamic will gain steam until it leads to the collapse of derivative markets and the US financial system.

The use of a single asset class as collateral for an entire financial system is idiotic.***There is no such thing as liquidity of investment for the community as a whole.***

Derivate casino will be bankrupt

Derivates are essentially bets (about future value of commodities, currencies, bonds, etc). Like gambling at casinos, to make money in derivative markets requires meeting two conditions:

1) Being on the winning side of the bet.
2) Being able to collect on the bet.

The point here is that ***it doesn't matter how many chips are won if the casino goes bankrupt before they can be traded in.***

There is about $14 Trillion collateral behind listed/OTC derivative markets, and this collateral is invested in short term dollar-denominated debt. As the dollar and credit markets collapse, this collateral will lose all value (the equivalent of a casino going bankrupt). Investors trying to collect on profitable bets (ie: call options on gold) will find their derivative contracts backed by insolvent counterparties and worthless debt.

Warped perception of risk

Right now, *the entire commodity derivative market is built on the idea of no default risk*.This is to say, investor are now taking default risks very seriously in the credit markets (after experiencing horrible loses due to financial crisis), but *these concerns over counterparty solvency are completely absent in commodity derivatives.* When the the dollar, treasuries and derative markets start collapsing, concern investors will start wondering who is on the other side of their commodity investments, and ***they will be horrified at what they find out.***

Deflationary panic in commodity markets

The biggest sellers of commodity IOUs are insolvent institutions desperate for funding. They are taking advantage of the warped perception of risk to raise capital cheaply. For example, investors in commodity derivatives will be thrilled to learn that completely-insolvent, taxpayer-bailed-out ***AIG Financial Product*** is a key player in commodity derivatives.

AIG Financial Products and it subsidiary Banque AIG have been *key players in the development of commodities as an asset class and has been active in this space since 1991. AIG* Financial Products provides clients with *a full suite of commodity offerings, including OTC derivatives on both individual commodities and commodity indices,* structured products, and bespoke commodity investment solutions. As the creator of a leading benchmark for commodities investing, the Dow Jones - AIG Commodity IndexSM, AIG Financial Products helped spearhead the rapid growth of commodity-based investment in recent years and as of the end of the third quarter of 2006, there was an estimated $30 billion tracking the DJ-AIGCI.

Insolvent institutions like AIGFP have been very active and creative in selling all kinds of commodity investments to anyone foolish enough to buy them. Take for example commodity linked structured notes being sold to retail investors, banks, and commodity funds.

Retail and institutional investors alike are piling into commodity-linked structured notes according to the firm MTN-I, even as overall sales of structured notes declined.

Sales of commodity-linked notes rose to $15.8 billion over the first half of 2008, up from $7.8 billion over the same period a year ago, according to MTN-I…

…

***About 77% of all commodity-linked structured notes sold so far this year were issued by investment banks*. MTN-I's research showed Deutsche Bank leading sales in the first half of 2008, with 59% of all sales. Barclays was second with 13% and Credit Suisse third with 5%. Merrill Lynch, across various entities, represented a little over 5% of sales.**

…

***Typically structured notes are unsecured, which puts buyers at risk if issuers go into bankruptcy*. That wasn't a concern of most institutional investors until the events of this fall. The bankruptcy of Lehman Brothers, however, quickly left buyers on the hook and possibly unable to recoup their capital.**

Other troubled financial institutions that have issued commodity structured notes include insurance giant American International Group (AIG), UBS AG (UBS), Morgan Stanley (MS) and French bank Dexia (HIB4.BE).

AIG Financial Products Corp is also actively involved in commodity ETFs. From the prospectus of DJ-AIGCI:

(Who in their right mind would buy an AIG-backed commodity ETF?)

ETFS Agriculture DJ-AIGCI

Investment objective

ETFS Agriculture DJ-AIGCISM (AIGA) is designed to track the DJ-AIG Agriculture Sub-IndexSM and pays a capitalised interest return which cumulates daily. The Sub-Index is an "excess return" index and the interest component combines to give a total return investment.

…

***AIGA is backed by matching Commodity Contracts purchased from AIG Financial Products Corp. (AIG-FP)* whose payment obligations are guaranteed by American International Group, Inc (AIG) and backed 100% by collateral held by the collateral manager BNY Mellon in a separate account and adjusted daily.**

As investors realize who is on the other side of their investments, it will lead to a deflationary panic in commodity markets, with all but the most trusted commodity investments being abandoned. Insolvent institutions like AIG will lose a critical source of funding and, more importantly, investment demand, instead of being absorbed by the IOUs of insolvent institutions, will flow directly into physical commodities, driving up prices.

The Federal Reserve will print trillions

If the treasury market collapses, the government will lose the ability to sell debt to fund itself, which isn't an option. To preventing such a collapse, the Federal Reserve will have to make purchases in the trillions despite already having run out of room on its balance sheet, which means it will have to print money. A massive expansion of the Fed's balance sheet at a time of when inflation is spiraling out of control will destroy all confidence in the dollar, worsening the currency crisis.

What life looks like during hyperinflation

Below is an extract from *Paper Money* by "Adam Smith," covering Germany's hyperinflation in 1923, which offers a good account ofwhat life looks like during hyperinflation.

The German Hyperinflation, 1923

Before World War I Germany was a prosperous country, with a gold-backed currency, expanding industry, and world leadership in optics, chemicals, and machinery. The German Mark, the British shilling, the French franc, and the Italian lira all had about equal value, and all were exchanged four or five to the dollar. That was in 1914. **In 1923, at the most fevered moment of the German hyperinflation, the exchange rate between the dollar and the Mark was one trillion Marks to one dollar, and a wheelbarrow full of money would not even buy a newspaper. Most Germans were taken by surprise by the financial tornado.**

"My father was a lawyer," says Walter Levy, an internationally known German-born oil consultant in New York, "andhe had taken out an insurance policy in 1903, and every month he had made the payments faithfully. It was a 20-year policy, and when it came due, he cashed it in and bought a single loaf of bread."

…

More than inflation, the Germans feared unemployment. In 1919 Communists had tried to take over, and severe unemployment might give the Communists another chance. **The great German industrial combines -- Krupp, Thyssen, Farben, Stinnes -- condoned the inflation and survived it well. A cheaper Mark, they reasoned, would make German goods cheap and easy to export, and they needed the export earnings to buy raw materials abroad. Inflation kept everyone working.**

So the printing presses ran, and once they began to run, they were hard to stop.The price increases began to be dizzying. Menus in cafes could not be revised quickly enough. A student at Freiburg University ordered a cup of coffee at a cafe. The price on the menu was 5,000 Marks. He had two cups. When the bill came, it was for 14,000 Marks. "If you want to save money," he was told, "and you want two cups of coffee, you should order them both at the same time."

The presses of the Reichsbank could not keep up though they ran through the night.Individual cities and states began to issue their own money. …

The flight from currency that had begun with the buying of diamonds, gold, country houses, and antiques now extended to minor and almost useless items -- bric-a-brac, soap, hairpins. The law-abiding country crumbled into petty thievery. Copper pipes and brass armatures weren't safe. Gasoline was siphoned from cars. People bought things they didn't need and used them to barter -- a pair of shoes for a shirt, some crockery for coffee. Berlin had a "witches' Sabbath" atmosphere. Prostitutes of both sexes roamed the streets. Cocaine was the fashionable drug. In the cabarets the newly rich and their foreign friends could dance and spend money. Other reports noted that not all the young people had a bad time. **Their parents had taught them to work and save, and that was clearly wrong, so they could spend money, enjoy themselves, and flout the old.**

The publisher Leopold Ullstein wrote: "People just didn't understand what was happening.*All the economic theory they had been taught didn't provide for the phenomenon.* There was a feeling of utter dependence on anonymous powers -- almost as a primitive people believed in magic -- that somebody must be in the know, and that this small group of 'somebodies' must be a conspiracy."

When the 1,000-billion Mark note came out, few bothered to collect the change when they spent it.By November 1923, with one dollar equal to one trillion Marks, the breakdown was complete. The currency had lost meaning.

…

But although the country functioned again, the savings were never restored, nor were the values of hard work and decency that had accompanied the savings. There was a different temper in the country, a temper that Hitler would later exploit with diabolical talent. Thomas Mann wrote: "The market woman who without batting an eyelash demanded 100 million for an egg*lost the capacity for surprise.* And nothing that has happened since has been insane or cruel enough to surprise her."

With the currency went many of the lifetime plans of average citizens.It was the custom for the bride to bring some money to a marriage; many marriages were called off. Widows dependent on insurance found themselves destitute. People who had worked a lifetime found that their pensions would not buy one cup of coffee.

Pearl Buck, the American writer who became famous for her novels of China, was in Germany in 1923. She wrote later: **"The cities were still there, the houses not yet bombed and in ruins, but *the victims were millions of people.* They had lost their fortunes, their savings; they were dazed and inflation-shocked and did not understand how it had happened to them and who the foe was who had defeated them. Yet they had lost their self-assurance, their feeling that they themselves could be the masters of their own lives if only they worked hard enough; and lost, too, were the old values of morals, of ethics, of decency."**

The death of the "US consumer"

The famous "US consumer" has been the driving force of the global economy for decades. This ends in 2010, as the dollar's collapse will wipe out America's purchasing power.

US Economic Disintegration

70% of the US economy is consumer spending, with at least 20% of it directly tied to commercial retail real estate. Less than 10% of our economy is related to the production of basic goods and services. *This style of economy cannot handle a pull back in consumer spending*.

America is facing a terrifying future. As the dollar loses most of its value, America's savings will be wiped out. The US service economy will disintegrate as consumer spending in real terms (ie: gold or other stable currencies) drops like a rock, bringing unemployment to levels exceeding the great depression. Public health services/programs will be cut back, as individuals will have no savings/credit/income to pay for medical care.

What has already happened in the last year offers a good preview of what to expect in the next:

'tent cities' are growing all around the country
California is experiencing a meltdown
Police cars are being repossessed due to falling tax revenues
Major retailers, hotel chains, and theme parks are going bankrupt
Loan quality at American banks is the worst in at least a quarter century and is deteriorating at the fastest pace ever
The victims of this financial disaster don't have the money to bury their loved ones
US states have started printing their own currencies
Recession has put a major strain on social security trust fund
US Contract law torn apart

Given the food shortage in 2010, there is also thepotential for Famine in the US

The US will not fall alone

With the freefalling dollar spreading doubt about all paper currencies, and countries with weak financial health will join the US in hyperinflation. Two countries which will follow the US into economic oblivion are Britain and Japan

Britain is probably the only country worse off than the US, andthey know it. Privately, something close to desperation is starting to develop inside government, with cabinet ministers being quoted as saying things such as. "The banks are f***ed, we're f***ed, the country's f***ed." The last time Britain built up this much debt was when it was fighting half of Europe.

Japan meanwhile is facing a demographic collapse and its debt to GDP is approaching 200%. The dollar's collapse is going to wipe out the value of Japan's foreign reserves and destroy the country's largest export market (the US), heavily damaging the economy. The yen, like the pound and dollar, will not survive.

Financially Surviving 2010

Here is some investment advice for surviving the 2010 Food Crisis.

Avoid all commodity futures!

DO ***NOT*** BUY agricultural futures! While it might be tempting to buy futures contract for soybeans and other agricultural commodities, this is a mistake. Look at the backwardation which happened at the end of August this year: shortage sent cash price of soybeans over $13 while futures contracts hovered around $11. Futures contracts missed out on most of the price spike by nearly 25%.

The 2010 Food Crisis will send futures into permanent backwardation. In other words, shortages will send cash prices into steep backwardation, and then, when the dollar and treasuries collapse, defaults fears will cause that backwardation to grow. Fears that CME might collapse could easily lead futures to trade at a fraction of the commodities they track.

Avoid all other derivatives

It is impossible to hedge against the dollar's fall with derivatives!Since global derivatives markets operate ***on the assumption of the continued stable value of the dollar and short term US debt,*** Using derivatives to bet against the dollar is NOT a good idea. The panic in

2010 will see the majority of derivatives end up worthless.

Avoid all US debt

The biggest buyers of US debt, foreign central banks, are about to become the biggest sellers. Get out while you still can!

Avoid all investments dependent on US consumer

The dollar's collapse will rob US consumers of all purchasing power, and any investment depend on US consumption will lose most of its value.

Avoid investments in oil (at least for the next year)

While I am bullish on oil for the long term, there are several reasons to be underweight oil in the near term:

1) There is a supply glut (volumes of oil products stored at sea have risen to more than 90 million barrels.)
2) The dollar's collapse wipe out a huge amount of demand for oil. While demand from emerging economies like India and China will replace this lost demand, it will take in one to two years.
3) Higher food prices will hurt demand for everything else, including oil.
4) There is a very high the entire Strategic Petroleum Reserve will hit the market next year after the treasury market collapses and the US government is desperate for cash.

Investments in oil won't be complete disaster as the dollar's collapse will generate a lot of demand for "real" assets, but I expect oil to be the worst performing commodity in 2010.

Avoid Margin Accounts

If your broker fails, you are virtually guaranteed to be left with nothing.

Invest in Physical gold

With the Gold Market already Reaching The Breaking Point, the 2010 Food Crisis is guaranteed to trigger a gold banking crisis. Those who own physical gold (and not some paper derivative) will do well.

Invest in agriculture sector

Anything (non-derivate) related to agriculture is going to have a good year. The stocks of fertilizer and seed producers should do well for example.

The best investment in agriculture is to buy farmland in countries which don't subsidies their agricultural sector (subsidies for their booming agriculture sector is the first thing cash-strapped governments will cut).

I have moved to Russia and am setting up a fund to invest in Russian agriculture Russia is the only country with a significantly underdeveloped agricultural sector, as the world fertilizer consumption graph below suggests. Please Email me if you are interested.

Invest In commodity producers

Commodities will have a great year next year as the dollar collapse. Agricultural commodities will be the best performing and oil will be the worst. Everything else should fall somewhere in between. Commodities not consumed in the US but heavily consumed in China, like coal, will do best

Invest in service sector of emerging economies

America's lost purchasing power will be transfer to nations exporting nations with large foreign reserves. Investments in the service sector of places like Russia, China, Brazil, India, etc should do well.

Invest in the debt of stable currencies

For the short term, I would stick with short term debt (in stable currencies) or, better yet, gold. However, after the 2010 Food Crisis begins, interests rates around the world will jump significantly in response to spiking food prices, and this will probably be a good opportunity to acquire long term bonds at attractive rates (in stable currencies like the yuan, rubble, etc).

Conclusion

There is no precedence for the panic and chaos will occur next year. The global food supply/demand picture has NEVER been so out of balance. The 2010 food crisis will rearrange economic, financial, and political order of the world, and those who aren't prepared will suffer terrible losses…

http://www.marketskeptics.com/2009/12/2010-food-crisis-for-dummies.html