



The Perch Pod Episode 54

The Grain Economy

With Neil Townsend

Jacob Shapiro:

You're listening to the Perch Pod from Perch Perspectives.

Jacob Shapiro:

Hello listeners and welcome to another episode of the Perch Pod. As usual, I'm your host, I'm Jacob Shapiro. I'm also the founder and chief strategist of Perch Perspectives, which is a human centric business and political consulting firm. I also just want to tease a little bit of exciting news. I'm the director of geopolitical analysis at Cognitive Investments, and we're going to be talking more about what that means and about more podcast content and lots of other cool things coming up in the next couple weeks. So just be on the lookout for that. And if you want to sort of have a sneak peek of what's going on there, check out cognitive.investments as well. Okay. On the podcast today is Neil Townsend. Neil is chief market analyst at FarmLink Marketing Solutions. He has been on the podcast before. I love every time Neil comes on the show, but I thought this episode was particularly good and particularly important.

Jacob Shapiro:

Some really good insights about what's going on with global food prices, agricultural production and fertilizer input prices. Also just want to plug that we work with FarmLink on their platform called GrainFox. If you are a farmer and you're interested, check out FarmLink or check out GrainFox online. Perch pens a month, a weekly column on the GrainFox platform. And I'll actually be speaking at GrainFox's preceding event next week. So if any of those things are interesting to you to, check out FarmLink solutions or GrainFox online.

Jacob Shapiro:

Without much further ado, let's get to this extremely important and awesome conversation with Neil. Neil, thanks for making the time, and listeners, thanks for being generous with me. I know it's been a couple weeks since we had a podcast out. In my defense, it's been an absolutely crazy time in the world



and we gave you some extra episodes before, but we're back on the horse and we won't miss another cadence again. So cheers, we'll see you out there.

Jacob Shapiro:

Neil, it's nice to have you here. I'm back on the farm in Georgia. I think this is the first time I've ever recorded a podcast from the farm in Georgia. And of course the guineas are making noise right as I say that. So good job guineas. We planned that. So I'm here on the farm and I wanted to talk to Neil, because why not? How's it going Neil?

Neil Townsend:

I don't even know what a guinea is. What is a guinea?

Jacob Shapiro:

A guinea is like a really weird looking bird that runs around really fast and eats a lot of bugs. You don't know what they are? They eat a lot of them in the UK. I remember we got served guinea all the time at Oxford.

Neil Townsend:

Do they like mosquitoes? Send a billion of them to Manitoba.

Jacob Shapiro:

Yeah. They love mosquitoes. I forget what my dad says. He brags that they eat something like three times their body weight in insects or bugs or something every day. They're wild, but they screech a lot. So if you hear a bunch of screeching behind me, nobody's being murdered. It's just a bunch of guineas running around on the farm.

Jacob Shapiro:

Anyway, but so we're on the farm and why not talk about food farm stuff in general. Neil, the first thing I wanted to ask you is that it feels like everybody has woken up to the fact that we're in a pretty serious food supply situation in the world in general, especially with grains. And I'm sort of in this weird position where you and I have been talking about this, both on this podcast and in other places for two years, and saying, this is a concern, prices could go up, but it almost feels like the panic has swung so far to the other direction that now I'm pumping the brakes.

Jacob Shapiro:

I'm saying, look, it's not a global famine of historic proportions yet. Yes, that's one of the scenarios on the table, but let's not get crazy here. There's a lot of other things that have to happen before we get there. So tell me where you are right now. Do you buy into all of this fear mongering about an imminent global famine? Do you feel like that's oversold? Tell me where you're landing on that.



Neil Townsend:

Yeah. I mean, there are going to be regions of the world that suffered great food insecurity and those regions, many of them would've suffered some form of food insecurity with or without the Ukrainian conflict, the war and Ukraine. Generally speaking, food is more about distribution than about total supply. And there's a concept in economics of thinly traded and many of the products that are key food attributes or staples are relatively thinly traded. Rice is an example of that. Very little rice goes beyond 200 miles of where it's growing.

Neil Townsend:

So I've never particularly thought that it's a actual, tangible shortage per se. It's just that where the supplies will end up being, that you might think of as being exportable surpluses, are in places that don't traditionally maybe fulfill that role in the world, sort of supply and demand balance. So for example, India has had a very successful growing season last year for wheat and is on the verge of having another one this year. They're going to end up with an excess supply of wheat, a tradable surplus, but traditionally they don't trade that surplus. And there's lots of talk of them getting it out and exporting, but it's not going to be as smooth maybe as it would be if it came from more of the traditional exporters, two of which are Russia and Ukraine.

Jacob Shapiro:

Before we sort of zoom back out to the macro about India, it seems like a bad idea for them to export wheat. I get that they want to make a buck or a Rupee or whatever it is and that this is good for India's farmers, but it wasn't so long ago that they were having droughts in 2014 and 2015 and the monsoon season is changing. And it feels like they're going to go back and forth between periods of great supply and periods of lack of supply and that they should maybe be saving up and building up their strategic reserves rather than the sort of exporting abroad for a quick win. Am I being too harsh on the Modi government there or do you think that's a concern?

Neil Townsend:

I think it is a concern. One thing you said I would probably disagree with and many millions of Indians would is that the farmers probably are the last people to benefit from the exports. They've sort of already probably given up ownership of the wheat that would be exported. And again, I think India has a very, very accomplished entrepreneurial class. They have a very, very accomplished arbitrage class and Indian food policy and Indian agricultural policy is sort of designed to be like speed them up or slow them down. So in times that when they feel they might be trending towards food insecurity on a particular crop, they enable the arbitrageurs to bring stuff in and sell it and make some money.

Neil Townsend:

In this situation where they feel perhaps that they have a surplus. And for other reasons, they want to get rid of some of the surplus, really what it means is they're going to enable their arbitrage class to make some exports happen, but it does run the risk of things can turn around very quickly in India. One



thing about India is all 365 days of the year are involved with growing and production to sustain food security for 1.3, 1.4 billion people. And what's true today might not be true tomorrow.

Neil Townsend:

And again, you wouldn't want to be the governing entity when you allow a lot of food to exit the country and then you go back into a food insecure fashion. But for whatever reason, and this is something I'm not an expert in, I do think they're making some political hay, maybe geopolitical outside India hay by talking up a good game of exports there. I just don't think they're going to be able to export incrementally. They've already done about five to six million this year. I don't think they're going to be able to incrementally do another five or six or seven or eight million until they know for sure that their next crop is in the bin and safe and secure.

Jacob Shapiro:

That must also make India a pretty frustrating customer for let's say, Canadian grain farmers, because one minute they might need a lot of grain and then the next minute might not. So probably I would guess that Canadian farmers and grain exporters are probably going to look elsewhere where they can get more reliable contracts. Is that also fair and does Canada see India as an export market going forward?

Neil Townsend:

Yeah. India is very important and obviously in the pulses. And again, despite being such a large country with so many agents making the agricultural decisions right to the very, very small scale farmers, the level of information we have on India is always less than transparent, a lot of unknowns, but they can signal one thing, oh, we're totally fine for stocks and supplies and do another thing where they actually facilitate rules changes that enable imports. So yeah, it's a necessary market for Canada, but I think that if you pulled a lot of people and said, "If you can sell a cargo of wheat to India or a cargo of wheat to Sri Lanka, who would you rather do it to?" They probably are going to say Sri Lanka because they've established that and they're going to be able to do it. Again, don't quote me on that, but I'm just saying it's not always as easy to trade with India as you think it should be.

Jacob Shapiro:

Yeah. All right. Well, we'll leave India to the side for now and let's go back to the macro situation for a bit, because there was this tweet that five different people sent me a couple days ago and I saw you reply to it on Twitter as well. So I wanted to ask you about it because I thought your response to it was slightly cryptic. It was this one from Dr. Sarah Taber, and she was talking about why it's misleading to talk about Ukraine and Russia growing 25% of world wheat exports, because she said that's actually less than 1% of the global wheat crop. So tell me how you thought of that particular tweet.

Neil Townsend:

Yeah. It's not the way the world really works. You don't really worry about the total supply of anything. It's all about how much do you have to move to places where they have a demand for it and they can't



meet it from local demands or they choose not to meet it from local supplies. Right? And I just thought that it's very easy to look at the big picture and look at the USDA and say, "Oh, there's 770 million tons of wheat. So if we take 7 million out of that, it's less than 1%." We could A, just tell farmers to grow more or we could just find it in the stocks and supplies somewhere else. But to really get into the weeds here, you would have to figure out why are people storing wheat?

Neil Townsend:

Why does China presumably, I mean, I don't think they really have that much, but why does China have several, almost a hundred million tons of wheat in storage and 150 million tons of corn? Why is there a big supply in the US that never seems to get traded? And the reality is that there's a lot of machinations, call them, that keep wheat where it shouldn't be and doesn't put wheat into the supply chain, but the ultimate important thing is what is the exportable surplus? And it's not as big as you think, because many countries, like we talked about India, we talked about others, they're not going to allow their entire or wheat to come out. And also, I mean wheat, it can be considered a homogeneous product, but it's also got some heterogeneous qualities to it too. Right?

Neil Townsend:

You don't always match up one to one on what the quality is and what the condition is and how much protein's in there, and does it fit the use that you want it to use for? And there's different colors. There's white wheat, there's red wheat, there's Durum wheat, which is made for pasta. So it's not as simple as just calculating all of that and figuring out. And the other thing that I object to about that comment that she made or her analysis was this is the story of agriculture. We could go back to any of the situations in any time and say why did we allow Ethiopia to have a famine back in the eighties, right? And we needed live aid and all of this kind of stuff.

Neil Townsend:

It wasn't because there was a shortage of grains or oil seeds or pulses in the world. It was just, it's hard to distribute it to where it's needed to go. And especially hard if there's people who can't afford it, aren't going to be able to buy it. Then you're reliant on aid and different things like that. So I just found that to be... I respect her. I respect everybody and their opinions, but it's not the way the world works.

Neil Townsend:

It's much more dynamic than people think. And it's much more difficult to find three or four or 5 million tons from another place without trying to correct it. And then the other issue is that many of the exporting nations in wheat in particular are sort of already running relatively tight stocks. So they're not going to get too far out ahead of themselves before they are assured that the Northern hemisphere wheat production is sort of going to be adequate. And again, that comes down to weather, which remains a very important variable when you're talking about crops.

Jacob Shapiro:



Yeah. The most important variable and still not one we can really predict. Before we leave wheat, where do you think prices are going? Do you think that they've gone too far and that they'll, they'll come back down to earth or do you think there's still room to run globally? And I guess I'm going to back into that question by sort of asking, not just in wheat, but in general, when it comes to grains, what impact are you seeing now, not just short term, but sort of medium long term from the Russia Ukraine war?

Neil Townsend:

Yeah. And that is a great question, Jacob. I mean, it really depends on what the outcome of the war is in terms of how long it's prolonged, how much it prevents people from doing what they ordinarily do. But let's assume just for the sake of your question that the war continues for a little while and that spring planting is disrupted in some fashion and spring caring for the winter crops is disrupted in some fashion. Let's be conservative. Let's say it does a 15 to 20% damage on that and reduces Ukraine's capacity to produce corn and wheat and sunflowers and rapeseed and other things by about the same and limits their exports. Now, the exports are a bigger question mark, because we've got mines floating in all the way over to Turkey now, two of them so far.

Neil Townsend:

There could be harder to get the grain even if it's produced out of that country in a timely fashion, say in the fall or late summer. So I think that probably in the immediate term, prices probably went... They went as high as they needed to go to get everybody to pause, to say, "What next?" Right? For new crop and by new crop, I mean either November or September or November or December futures for corn and spring wheat and soybeans and canola, I would say that I personally see more risk, more risk in there. I would need to have some assurances about both Russian supply entering the market. They've done a pretty good job. I thought that there would be a bigger issue within Russia and maybe that's yet to come of trying to keep some of their own grain supplies at home to buffer the prices that people are facing there.

Neil Townsend:

We really haven't seen that beyond what was already a consideration prior to the conflict. And then Ukraine, I mean, I would just say that I think you could go as low as 50% of expected exports to as high as 70 to 80%, but we really don't know, but I think that's a tangible risk. And it's a risk for all prices, but it's a bigger risk for certain markets like AMENA, like Middle East, North Africa, very big risk for them. I also think it's a big risk for the European Union, for their feed supplies, for places like Spain and just generally speaking there. So I do think there's more risk of higher prices in new crop that depending on what the outcome is, maybe isn't completely factored into the market yet.

Jacob Shapiro:

And who's on the other side of the trade? So, I mean, this gets to your point about a lot of food being about supply and distribution. So let's say with what you just said that Ukraine loses 50% of its exportable surplus. Does that translate into direct opportunity for Canadian grain exporters or is that just a certain segment of the market is just not going to get the wheat that they were before and is it



going to have to substitute or not have wheat. Is there space for that to be an opportunity for folks or does supply and distribution just make that just sort of a fact that's going to drive prices up even more and drive food insecurity higher?

Neil Townsend:

Yeah. I think that the United States, Canada, Argentina, Australia, those are the four big ones I would say. And then for other commodities such as like corn, you'd also throw in Brazil and again, Argentina, maybe even South Africa. I think that those countries are going to export more than they might otherwise export. Some of them like Australia, who just had a very big crop, they'll run up against logistical constraints and maybe they won't maybe act quite as you thought they would, based on that, just because they run out of capacity. But I think countries that have excess capacity in the system like Canada and the US, and to a lesser degree, Argentina, and maybe Brazil, they will step up and try to export more and they should export more.

Neil Townsend:

And that could probably... The thing is there's an old sort of saying in the grain industry that North America's a high price island. And to pull out that sort of incremental ton from the United States to get them to go below a certain threshold of stocks to use, because there's always some farmers in the US or Canada who are like, they're bullish, right? I always compare them to Charlton Heston, the cold dead hands. They're not going to give their grain away for free. And there's a lot of, especially in the United States, there's a lot of supports that allow a farmer to be relatively patient, particularly on the wheat side and particularly in the Northern Plains where they have a higher proportion of their own storage than they maybe have for the average corn and soybean farmer.

Neil Townsend:

So traditionally when there's been years like this in the past, like back in 2008, around that period of time up until 2012, there were some two successive droughts in three years in the black sea region. And we had to pull more wheat out of the US. And you saw prices spiked to record levels because it costs more to get to free the wheat from the farmer's hands there. So the larger the percentage of global trade that is done from the United States and Canada, typically that would be indicative of higher prices. And you asked about who's on the other side of the trade. Yeah. I think it's definitely Canada, the US. There's also the other factor. And that's the factor, what is the real capacity of say China or Saudi Arabia or Egypt, or many of these buyers to soften their demand?

Neil Townsend:

What else are they doing that would allow them to forego the calories that maybe come from wheat or corn and obviously high prices solve high prices and necessity is the mother of invention. But I do think that since the war started about 35 days ago, we've seen more sort of wait and see approach from a lot of the buyers. The longer the war goes on and the more certain that there is going to be a loss of productive capacity and export capacity from Ukraine in particular, I think the less resolved some of those countries can have. And I mean, I think they're going to have to step in and buy. And at that point,



I mean Egypt's talking to India, Egypt's talking to Argentina, Egypt's talking to the US about buying more of those wheat and those are places where they haven't bought wheat from in any great quantity in the most recent 10, 20 years.

Jacob Shapiro:

Yeah. I mean, we can at least say that Egypt is being proactive though. I mean, I was looking at Tunisia the other day. You and I were talking about Tunisia. I mean, they're just fiddling while Tunis is burning. I don't know what they're doing. They're having political arguments inside of Tunisia. I don't see them running around trying to get any alternate supplies from anyone and they get most, they get what? Half of their wheat or something like that from Ukraine. So to your point, there seemed to be a couple countries out there that food insecurity for them is already baked in. Even if the war ended tomorrow and Putin said Zelensky can have everything he wants, that we would have countries that would be facing that kind of situation. Is that right?

Neil Townsend:

Well, you're raising a great point because all of this is also unfolding during a period of very concerning inflation on everything, right? It's not just food that's getting more expensive. It's basically all of the articles that we need to live in modern society or the way everybody wants to live now. So your gas is more expensive, your electricity, your heat, your clothes, everything is more expensive, partly a byproduct of supply chain with COVID and partly a product byproduct of maybe COVID ending and everybody trying to spend their money as fast as they can that they saved up or whatever. But I mean, and that's where food is not just... It's not the only item people are consuming, but they're going to notice the food because they need to buy that every single day.

Neil Townsend:

And I wonder how that gets resolved in places like Egypt and Algeria to a lesser extent. I mean, Algeria has more maybe crude oil, they're benefiting a bit, so maybe they can afford pay a bit higher prices. But we saw the last time that we had the big run up in prices, I'm not going to say it's the only reason the Arab spring happened, but it certainly helped the Arab spring happen and a combination of higher food prices and relatively underemployment of young people. And I don't think they've resolved the relative underemployment of young people in those areas either. So now that cost of living is going up quite a bit, I mean, it could have some political repercussions. I'm not an expert in that field. You're more of an expert in that field, but I would be concerned about that.

Neil Townsend:

And again, I wouldn't want to be in the Tunisian government because when you're relying on imports of a lot of your food staples to provide food security for the country, it's like, where do you pick to start? And how much money is left in the kitty to be able to mitigate the cost of living increases that your entire population is going to face? And the amazing thing about Tunisia, as you pointed out in a really excellent article you wrote last week, there aren't that many Tunisians. I mean, it's a pretty small country, but you extrapolate that to bigger countries in Africa or in the Middle East, or even in Latin



America, because not every country in Latin America's food self-sufficient either in terms of grains and oil seeds and you get a lot of question marks on how the governments are going to be able to cope with that.

Jacob Shapiro:

Yeah. And I want to ask you about inputs too. Well, and something you said that you're not an expert in sort of the political fallout of these things. I'm pretty sure nobody's an expert in the situation we're seeing unfold right now at all. I certainly don't feel like one. I don't think there's any historical precedence for what the world is going through right now. There are certainly folks who have experience in agriculture and have experience in geopolitics, but there's this old Hemingway quote that's been running through my head. In the quote, he's talking about what it takes to be a great writer. And he talks about how writers really just acquire information quicker than other folks, and then are able to spit it back out. I think that's where we are analytically, because you need all those old frameworks to get some sense of direction and context of where we're going, but where we go from here, it's really just read as much as you, find out as much as you can and rebuild models on the fly.

Jacob Shapiro:

Because I certainly don't feel like anything in my experience, even the Arab spring analogy, isn't going to allow us to predict perfectly what's going to happen next. There's just that much uncertainty out there. And on that note, before we leave the meaner region, the country we haven't talked about yet, and one that in some ways is most confounding for me in all of this situation and has been from the beginning is Turkey. They're the ones that are hosting the Russia Ukrainian talks. They were very strident at the beginning of the war. Now they're sort of taking a softer tone. I know they import a lot of energy and food from Russia. Where are you seeing Turkey from your perspective and where do you think it goes from here? And is that one of those countries that might have food insecurity or can they make up some of the gap?

Neil Townsend:

Well, there's two issues with Turkey. They're sort of a relatively big producer of wheat and other crops like pulse and stuff like that. They had sort of drier conditions. They've sort of alleviated some of that dryness now, but I mean, I would say that they're probably looking at a sub average crop, maybe it won't quite be good. So that hurts them a little bit. Second thing is they've become a bit of a grocery store for that region in terms of value added products. They're one of the biggest exporters of milled products, like flour products and lots of food products and processed products.

Neil Townsend:

And then the third thing, I guess, if I had that one other thing is even before the war, they were having a lot of fiscal uncertainty and problems with their own economy, which makes sort of that break bulk trade, like where you buy a big Panamax of something in make it into something else, even just repackaging it into smaller pieces, it makes it attractive in one sense, because a lot of that is conducted with US dollars, which would be a harder currency than the Turkish Lira right now and probably always.



Neil Townsend:

But yeah, I think Turkey does play a huge role. And again, I really like your comments just before saying we're all sort of trying to figure out the directionality of everything and we don't have a roadmap that tells us where it's going to go and we have to really acknowledge that it's unfolding in a... There's just so many things happening everywhere all at once. Heightened uncertainty and elevated volatility. And Turkey's definitely a contributor to that because I think just the instability of their economy has been something that's been a factor in the grain and oils seed trade for some time, because they are a key component of places like Syria, Lebanon, Egypt and Iraq and all those countries in terms of buying finished products from them.

Neil Townsend:

And it seems like it's working so far. And again, even with the Russians, they have this system where the Russians sort of ship a bunch of grain over there and then store it in warehouses and then sell it to them at a later date. But you would think that might be a little bit of an issue. And also just the fact like today they have found another mine and yesterday they found a mine. If a ship does blow up in the Dardanelles or something like that, I mean, that's going to have a costal impact on ship insurance and all of that kind of stuff. So it's a pretty interesting situation, which I don't really have a complete answer to. But just to say that I think Turkey is a watch point that we have to watch very carefully, both on a policy and procedure basis.

Jacob Shapiro:

I'm not sure whether I'm relieved or even more worried that you're as confused about Turkey as I am. So we'll leave that there. Let's go to the other thing I wanted to pick your brain about was fertilizer, because that's one of the big things coming out of this Russia Ukraine war. And again, this is another one of those issues that was already there before, because we were talking about fertilizer with Belarus originally. I mean, what? It feels like five years ago now. I have no sense of space time anymore, but whenever Belarus and Lukashenko were having their protests, you had force majeure on a lot of Belarusian exports already.

Jacob Shapiro:

You had the Chinese banning phosphate exports, I guess around this time last year. Maybe let's start more specific and we can work our way out. For Canadian farmers in particular, are they feeling the squeeze of those fertilizer prices? And then maybe we can zoom out from there, but let's start just with how are Canadian farmers dealing with the rise in fertilizer prices?

Neil Townsend:

Definitely. I think just broadly speaking, input prices, fertilizer being a main one, are really causing some consternation and some concern for Canadian farmers. More so though is the fact that in certain instances, availability has been an issue. And even the Ontario farmers rely quite heavily on imports from Russia. So I think they last I heard was that maybe they have about 70% of their needs for this year, including what they might top dress winter wheat with, and then what they need for the corn crop. But



that is a 30% gap, which I mean, would have to be delivered through the St Lawrence Seaway channel system. And I mean, again, if they're coming in on Russian boats, they're not allowed right now. So that is a big concern, is just actual physical availability and price as well for Canadian farmers.

Neil Townsend:

We're hearing a lot of questions on that. And I mean, again, there is definitely a correlation between prices and oil and energy prices. And even before the war with Ukraine and Russia, my view on crude oil prices was that they were going to go higher and spend meaningful time above a hundred dollars a barrel because we just haven't put on the productive capacity in the rest of the world, but in particular in the US and Canada, we haven't got back to the levels that we were at pre-coronavirus.

Neil Townsend:

And it looks like it's very sticky coming back. And a lot of the companies are trying to be very conservative, maybe not because the company wants to be, but because their shareholders are demanding it. That is probably the biggest factor there. And I mean, again, I just think that if we're going to be having a higher energy price sector for the next 12 to 18 months, then that's going to make the solving the problem on the fertilizer side, even a little bit more difficult because there is such a correlation between those productions and the price of gas and other energies.

Jacob Shapiro:

Is there any saving grace in food prices rising for farmers? Are they going to be able to make up some of the increase in inputs off of those prices or are those prices misbalanced? Are the price of the inputs rising faster than maybe it than the higher food prices means anything for them?

Neil Townsend:

Yeah. I mean, I think that, again, right now, the prices that appear for planting decisions for say the North American farmer, for like corn soybeans, wheat canola, et cetera, even with the higher cost of inputs, there's still penciling out with a positive ROI, return on investment. I think that what farmers are struggling with is they're worried that because they're only comfortable selling so far forward a physical crop that they haven't grown yet. Right? They're worried about what if it's a very successful growing season and the prices collapse and the war ends quickly. So I think that a lot of people have said like, "Oh, why won't maybe more acres should be put into production?" I have my own opinion and it could be wrong here is that farmers are going to be pretty conservative in this coming cycle to plant more than what they've ordinarily planted in the last four or five years.

Neil Townsend:

And I would suspect that Canadian farmers and American farmers will not increase the acreage base too much unless it's absolutely low hanging fruit, but if they have to work the land to get it back into production and buy things and this kind of stuff, I don't think that's going to happen because I mean, I just think that they have too much risk on... Again, they're individual people, but collectively I think there's a big concern that they're going to face a big inverse at one point, if the growing season is



successful and that's sort of keeping them in their channels in Canada, on their rotations and in the US on the absolute acreage base that they will farm.

Jacob Shapiro:

Makes sense. If we're zooming out a little bit more, because again, it seems like fertilizer, it matters more for some countries than other countries. There's a reason Jair Bolsonaro was in Russia two weeks before the war talking to Putin because Brazil needs an awful lot of fertilizer. Are there particular countries from your perspective that are really at risk of either food insecurity or normal exporters that we should be expecting lower crops from because of the fertilizer shortages or has it not gotten quite there yet?

Neil Townsend:

Well, again, I would say, if you ask me, the way I'm going to answer this question is going to say the most important variable in the whole context of food right now. And this is an interesting one because it typically is the most important, but I suspected that this year it might not be, but now it's absolutely back to being the most important variable, is US corn yield in 2022. And if you just pencil it out and you look at the expected acres and we're going to get a report on Thursday of this week on March 31st about the prospective plantings in the United States. And the number seems to be coalescing around 92 million acres, that actually at 92 million acres, the only outcome that would prevent prices from gaining support would be a record corn yield. So you need 177 bushels or higher. And they've only accomplished obviously 177 bushels last year.

Neil Townsend:

Now in that context, if there is a farmer in the US or enough farmers in the US like 10, 20% who didn't buy enough forward fast enough, or it's slow getting there, and you get a yield drag on those two 20% of say, even two or 3%, just because they don't have the fertilizer they're used to having, and that contributes to a 1% or 2% national decline in yield, you end up in a interesting scenario. So even like a 174 bushels break, we're not even talking about weather yet. Right? And so I would say the US, even though it's such a great country and a great agricultural producer is even in the US, there could be a tangible impact because fertilizer is not as readily available or more expensive or people are going to risk, maybe just shorten the amount they put on a little bit to save them a bit of money and time and stuff like that.

Neil Townsend:

And then you mentioned the other one, quite critically Brazil, because the other crop that's absolutely paramountly important in the world right now is the 2022/2023, so that's the marketing year, Brazilians soybean crop. There's no possible way that the US crop on its own can solve the sort of tightness that we're going to experience in the global oil seeds market and soybeans in particular. So it's just a bridge to get to the next and the most important crop, which is that Brazilians soybean crop, which they'll start to plant this fall and harvest around this time next year, a little bit earlier. And that's a crop that in conjunction with their corn crop, even if they don't need a lot of fertilizer, but the way that they farm



there, they need to make sure that they're getting their fertilizer in and everything like this for their corn crop and farmer might get a little bit nervous if he thinks that he's having trouble getting the fertilizer he needs. Does that mean he plants more soybeans, less soybeans, more corn, less corn? I mean, I think it's a big issue.

Jacob Shapiro:

Yeah. And I mean, speaking of weather, I mean, well, first of all, don't talk to me about weather. We just had a tornado in downtown New Orleans. So weather feed crazy to me, but Brazil in particular, they're dealing with a major drought and who knows if it's going to be over by the time they're planting. I mean, I guess hopefully. I mean, we've had this double dip La Nina. I guess it's supposed to go out, but I don't think anybody's ever made a career out of perfectly predicting the weather. So just based on what I know, I would be pretty pessimistic about Brazil in particular. Is that where you are or are we getting ahead of ourselves?

Neil Townsend:

Yeah. I mean, I think I'll answer that question by saying that I'll put a bias out there. I am a believer in global climate change. Something's happening and if we look at the modeling and we say that what happened 20 years ago or 15 years ago, that might not be as predictive of the future as it used to be. And I think the scenario that we're in '22 right now is that we really need the European Union to hit a crop. We need Canada to hit a crop. We need the US to hit a crop. And then when we go to South America, we need Argentina to hit their crop. We need Brazil and Australia to hit their crop. And the unknown ones are sort of like, well, yeah, we'd like Russia to hit crop, we'd like Ukraine to hit their crop, Kazakhstan to hit their crop. But those are a little bit more circumspect, but it's just hard to imagine a scenario when we need sort of trend or better yields in all of those places.

Neil Townsend:

I would probably take the under on all of them hitting it. Right? And that's just because I would say that the weather is such an unknown right now and it's always being the risk inherent in farming, but I just heard so many farmers even say lately, "Yeah, I just don't know." The rain isn't coming at the time that it used to come or the temperature's getting higher. And I mean, we talk a lot about moisture, but last year we just had these extreme temperatures and a lot of the sort of... I'm not again, not a climate scientist, but I'm just saying just look at what happened in Antarctica. They're not growing anything in Antarctica, but they might be able to grow something in Antarctica pretty soon because they had a lot of days where they actually had good growing degree days like 70 degrees and stuff like that.

Neil Townsend:

And yeah, I would hate to predict a weather calamity anywhere. What I will be able to predict here is that I'm just going to say during the growing season, it's not going to be smooth sailing every day of the year of the growing season. And during that growing season, there's going to be at least one instance where market perceptions are going to be very worried about the crop. And during that time, we could see prices spike to very, very high levels. And again, I think things like the USDA crop ratings reports are



going to be very, very heavily subscribed to and read. I think people are going to be interested in what's happening with the Canadian crop, what's happening with the European Union crop. And I just think that during the growing season, we're going to see a continuation of heightened uncertainty and elevated volatility in the market.

Jacob Shapiro:

Well, this is why we have you on, Neil. You're full of insights. Before I let you go, two random questions. I don't know if you'll be able to answer them, but let's see. The first thing was, I certainly didn't know this until the Russia Ukraine war broke out, just how important Ukraine was in terms of global sunflower exports. Is there anybody who's going to take that Baton and run with it? Seems like a pretty big opportunity if Ukraine because it doesn't sound to me like even if you Ukraine gets some kind of cease fire with Russia next week, what they are going to plant is probably not going to be sunflowers. It's probably going to be things that the Ukrainians need themselves for food security reasons as well. So is there some reason Ukraine has 50% of sunflower production and is there some other country that can take over? I was sort of just baffled by that and wondered if you had any insight there.

Neil Townsend:

Yeah. I mean, I think that the short answer is no. I mean, Ukraine is sort of the end all and be all in the sunflower area. I mean, most other countries that grow sunflowers, they're self sufficient I guess. They're not really in the export market. Maybe they're not even self sufficient, but they're growing them to use them. I think you got to look at veg oils in totality and sunflowers certainly have an appeal over in European Union because in the European Union, they don't see rapeseed or what we call canola here as a human product. So you can't go to the grocery store in too many European cities and buy canola oil to put on your product or whatever. So when they talk about a catchall veggie oil there, that veg oil's going to be largely made of sunflower oil. They obviously use a lot of olive oils and things like that too.

Neil Townsend:

So sunflower oil and to a lesser extent, a little bit of soybean oil are key cooking oils in the European Union. In Canada and the US and a lot of the rest of the world, I mean, I think just from availability, the dominance of soybeans, I mean, that has a big market share of the human consumption. Although it's very rare to see in a lot of countries, any product that's actually called soybean oil, it's usually just a veg oil mix. So yeah, I don't see that problem being solved. Sunflowers even here in Canada, they were just talking about it and they were saying sunflower acres are going to be down this year in Canada. And the problem is the markets are very divergent in the sense that we're not really part of the global market for sunflowers.

Neil Townsend:

So a very, very small amount of sunflowers would be exported offshore at all. I mean, our entire market is to export to the US or something like that. So I think that is a critical crop. I also think that the two or 3 million tons of rapeseed that Ukraine produces is the marginal ton is contained within those two or 3 million tons because that almost all gets exported to the European Union for animal feed, but also for



the biodiesel program in the European Union, which is mandated. Right? And the European Union for a variety of factors, has been decreasing canola acreage, rapeseed acreage for the last five or six years, limiting the chemicals that farmers can use on canola.

Neil Townsend:

And now with Brexit, they also kicked out some other canola acres that were in Great Britain. So unless the European Union changes biodiesel mandate, I mean, they're going to have to try to compensate for, it doesn't sound like a lot, but it's a critical amount, the two and a half to 3 million tons of production that Ukraine did. Now, that's mostly a winter crop in Ukraine. So presumably that crop is in the ground and is ready to be tended to and then brought towards harvest. But that's the big unknown, what percentage of the land can be accessed right now? Is it two thirds or three quarters or four fifths? We're not sure.

Jacob Shapiro:

And then the other curve ball I wanted to throw at you was cotton, because that's something near and dear to my heart down here in the Southeast, because we've got a lot of cotton. And cotton futures in the market have been doing very weird things. A lot of which just has to do with the way the market is structured right now. And it looks like cotton is going to... Probably the bottom will fall out from under it or at least that was how it looked to me before the Russia Ukraine war started. Any thoughts on the cotton industry or is that outside your bailiwick?

Neil Townsend:

Well, I don't know much about cotton, but I will bring this up. And that's that the other X factor in the room, call it the elephant in the room or the dragon in the room, is China. And China's obviously an absolute integral part of all agricultural markets for the most part. And they're a dominant, dominant player in the cotton market. So one question I have about China and maybe you can discuss this with me as well is I think one of the things that's happened on Monday and Tuesday of this week so far is that COVID is clearly not over in China nor is the zero tolerance policy. And I think that is a significant risk factor going forward in all markets, but also in the ag markets as well, because a lot of the logistics of loading and coding or processing or whatever happens in those spaces. And I'm just wondering maybe by the summertime it will be clearer, but it's really a big unknown what this COVID is going to look like in China in the next, call it five to 50 days.

Jacob Shapiro:

Yeah. That's a tough one. I do have a couple thoughts there. The first is that the Chinese said that they've been... Well, let me start over. The China needs have been a little softer on the COVID-19 language in the last couple days, which I think is what made the lockdown in Shanghai so surprising. But that said, once you look at the actual lockdown in Shanghai, it's an eight day lockdown. And if you're going to lockdown, that's how you do it. You lock down all of a sudden, really, really hard to try and get ahead of it, to try and give your hospital system some breathing room to do some testing. And then you



let things go back open. Lockdowns are not something that societies, even ones that are tightly controlled like China, can maintain for long periods of time.

Jacob Shapiro:

The whole point of a lockdown is get everybody on board and buy yourself some time. So I think this Shanghai lockdown to me, it's what's going to happen when the eight days is up? Are they going to go back to vaccination or are they going to try and grip and control something that they can't control? I would expect them to do the former. Now that doesn't actually mean that things are going to be okay because China's got two things working against it. Number one, their vaccines just don't work as well as everybody else's. That's not even a secret at this point. I mean, you can't trust any real data out of China, but I've seen that there's actually been some stuff out of China that older people haven't been getting vaccinated as well. The guineas behind me are agreeing with me, but then the second thing is just China's a victim of its own success.

Jacob Shapiro:

They've actually done a really good job of controlling COVID and that means a lot of their population hasn't had it. So if we are going to relax COVID restrictions and the vaccines aren't as good, and there's going to be a surge for China, it's probably going to look pretty bad and China's going to look like parts of the Western world probably a year ago when things were really bad as well. So I think the country that has already gone through this, to compare with China's Vietnam, because Vietnam had a very successful lockdown period, didn't use vaccines all that much and then Omicron just hammered them. It was too contagious for their controls and everything spun out there. And it was a two to three month disruption. And I mean, I spoke to some clients who were there in the manufacturing space and factories were shut down and it was really scary there for two or three months. And then things came back to normal. So for me... Well, yeah. Go ahead.

Neil Townsend:

With Vietnam, this is a good question. Socially, what did that do to... Obviously COVID's being a big challenge to Western governments and even the approval ratings of Western politicians or whatever. In the Vietnam experience, what is the feeling of the population about the government at the moment?

Jacob Shapiro:

I wish I knew and if anybody out there figures out how to opinion poll the Vietnamese people, I would love to talk to you. You were talking about how India, it's hard to get information. Vietnam is one of the hardest countries I find to get information on, period. Their government is somewhat of a black box and they control things really tightly. The only proxies I have for that is, are the supply chains working? Are workers showing up in the factories? Are things moving? And for two or three months there, they weren't. It was really bad.

Jacob Shapiro:



And that's when you saw companies like Nike saying public, "Things are going to get bad here. Our supply chain is shut down." They're not anymore. So there was two or three months of, and I don't want to underplay it. It was two to three months of significant disruption that scared a lot of people who bet on Vietnam as opposed China Haven, but after two or three months, society evolved and managed to go back to it. So if there is underlying dissatisfaction, it hasn't stopped things beyond a couple months.

Neil Townsend:

And I guess I asked the question because there are some critical benchmarks coming up in China where even President Xi has to get approved for another term and all of that kind of thing. And it just seems like the risk of letting Omicron rip through there and maybe, because they have done a fantastic job. Obviously if you're a Chinese person, chances are that your grandma and your grandpa are still alive because they haven't faced the COVID to the extent that the Western people have. There's been less people die there per capita than almost any country.

Neil Townsend:

And I don't want to be morbid, but I'm just saying, if it sort of gets out of control there for that two or three or four month period, that would be a heightened risk, I would think, just because of sort of the circumstances of where they are on their timeline for sort of decision making and cementing the current regime and the current attitudes and very much so I think that at least Xi and those top guys have been... The zero COVID is very much associated with them but-

Jacob Shapiro:

Yeah. And I would encourage listeners if you haven't already, and you, if you haven't seen in it Neil, to watch the documentary 76 Days. I'm not sure which streaming platform it's on, but somebody sent it to me sort of very early on in the pandemic. And it's the 76 days of lockdown in Wuhan after the virus appeared. And there was a documentary film crew there that filmed some really raw footage of what was happening in China. And this was at the very beginning before we knew what was going on, and maybe this was going to be like a station 11 level pandemic, rather than just what it turned out to be, which was horrible but could have been a lot worse. And for anybody who feels that COVID is politicized and things like that, I encourage them to watch that documentary because it goes to show you there's at a certain point, the virus doesn't care about politics.

Jacob Shapiro:

It was just killing people. And China had a front row seat before anybody else about how destructive it could be. And I think that informed how the Chinese government reacted to it, because it was so bad and it was so uncertain and they were the first ones to go through it. Nobody else gave them a playbook to go forward. I think now though, and this is a really important point you bring up and it'll be fascinating to see what happens with it, it seems to me that China's under a lot more economic pressure now than it even was two years ago and that she is doing a lot of things, especially in the real estate sector and especially in terms of trying to boost consumption and have some more fiscal discipline to where if they're going to shut down, now it's going to have real economic consequences.



Jacob Shapiro:

And I've been saying for the last three to six months now. So the most important thing for China right now is the performance of its domestic economy. I think that is the thing that she is thinking about most. And if that's what he's thinking about the most, his priorities are going to have to shift from zero COVID to how do we live with this and keep the economy going. That's what I think's going to happen. But if he does lock down, if Shanghai goes from an eight day lockdown to a 30 day lockdown and China shutting down like Vietnam was, then I'm wrong and then we're kind of in a completely different universe. So I think those are really, really important things to watch and we'll know fairly soon, which way the Chinese government is going to go.

Neil Townsend:

Yeah. And one of the reasons I bring that up is because again, when you talk about the supply situation in the world and production and all that, the key countries are countries like the US and Canada and Brazil. But when you talk about the demand, the key country is really China, and it dictates where we're going to go in terms of price because if we reach a price level where they stop buying, or if they're not able to buy because of some sort of... Like the pandemic is raging on there and they're dealing with other things, that's going to certainly have a outsized impact even relative to their overall import potential for certain crops. So when you talk about things like barley, or even malt barley, where you're making beer, or you talk about wheat or even spring wheat, where they like to buy some spring wheat for hotels or some products they make, but also they've had a tendency to like to store incremental tons of spring wheat as a strategic reserve.

Neil Townsend:

So they always have a bit of that, even though they don't grow very much of that. And even don't necessarily use much, but it's a good bang for the buck because of the protein and all of that. So yeah. And you'd started this off by talking about cotton and I would guess, even though I'm not a cotton expert, if you want to know about the cotton market, you probably have to know about what China's doing with cotton, both in terms of a demand and a supply aspect to it. So I find it fascinating. And again, it just shows you that's another unknown that can contribute to our sense of uncertainty and the fact that we might face elevated volatility for a longer period of time than we presumably would otherwise.

Jacob Shapiro:

Yeah. Well, I think it's going to last a while. So Neil, we'll have you back on in a little while and we'll see how wrong we were or how right. We were about some of this stuff, but I really appreciate you taking the time and good to see you, man. Cheers.

Neil Townsend:

Yeah. Thanks a lot.

Jacob Shapiro:



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