



INSIDER

Providing the world's Best Investment Ideas
from the World's Sharpest Investors.

We're adopting a bullish view towards the Agricultural sector. There are a number of factors that are leading us to believe that prices of agricultural commodities will rise materially over the coming years. These factors include:

- the effects of monetary debasement as central banks fight to save economies from the effects of CoronaVirus shutdowns,
- supply chain disruptions as a result of the CoronaV shutdowns
- ridiculous government policies and interventions in the free market resulting in shortages
- changing global weather patterns

There's not a helluva lot of good things one can say about being locked in for weeks on end. Aside from not having any Jehovah's witness knocking on my door, what it has done is allow for an even greater amount of research to be done. And I can assure you that's coming off a high base. My wife complains that I do little else. Maybe.

I do think it's been an important time for the average person who perhaps doesn't spend too much time to be able to witness what happens when the government is put in charge of or at least has an even greater say in things like distribution of goods and services. What you get is exactly what any student of history would be able to tell you, you'll get. Shortages.

So far none of us are going hungry but there are rather strong probabilities that hunger will be in the headlines in a big way within the next 5 years.

Beneath still waters the devil is doing his thing Trouble is brewing and the western world can't, or doesn't want to see it. As I type this crops are missed being harvested and sown,

and cattle herds are being cut in supply. What's led to this taking place is unfortunately not likely going away and is going to have long term economic and social implications that few are prepared for.

We want to NOT be in that camp.

In a nutshell.

As you're likely at this point intensely familiar with. Our analyses of the long-term political and social consequences of what we're going through are that the current crisis is simply accelerating the trends that were underway. These trends in a nutshell are increasing geopolitical tensions combined with and accelerating de-globalization, rapid increase in authoritarianism, and populism in western democracies. All of which independently are inflationary. Combined they're a potential veritable storm.

Thanks to the government reactions to the virus we can see more clearly the catalyst for agriculture.

What you are probably not aware of is that we have been mulling over the Agricultural sector for a couple of years now. We recognize that the sector has been out of favour for more than a decade. It was and is at levels which make it the cheapest it's been relative to indices such as the DOW or S&P for decades. However, just because a sector is out of favour doesn't necessarily mean it's a good investment unless there is a strong fundamental proposition.

We read far, wide and varied and kept coming up against the same stumbling block - how can we possibly forecast the supply of grains coming out of Russia, Brazil, Aussie, Europe and North America? Forecasting production coming out of Aussie (close to home) is challenging enough especially with the floods, droughts etc. But what of the rest of the world? And Russia, China?

Moreover, it is the seasonality of agriculturals that makes it really challenging. Let's say we could forecast what is going to happen next season with the production of wheat, corn, rice etc. And let's say it's going to be a crappy crop next year with prices rocketing. But what of the following year or a few more years out? Our investing style is to position for where markets will be 5+ yrs out - we don't think we have any edge in forecasting where markets will be less than 2yrs out.

So time and time again we hit a wall. It is so frustrating because experience tells us that nasty long term bear markets are followed by bull markets that surprise everyone to the upside. But to add an objective fundamental narrative to this “heuristic” proved elusive.....or was it we haven’t looked hard enough or was there something else from a higher macro order we were missing?

We suspect we were missing something of the higher macro order and that something wasn’t obvious from the popular narrative.

Then along comes the CoronaV.....and everything becomes so much clearer to us. In short, it is a story of national food security (deglobalization) of food production and supply destruction.

Technology

But first let me provide you with the bear case. The main bearish argument for agriculture has been and still is a steady advancement in technology.

Perhaps you recall all those scary stories we read when we were in high school about how we would all starve due to food shortages. Turned out they were wrong. Technology solved the problems. But technology and it’s advancement into every corner of the world had its underpinnings in globalisation, increasing free trade and the ability to transfer technology advancements not only in fertilizers, but in lowering the costs of almost every input. That tractor ploughing a field in Brazil that was manufactured in Japan, the fuel to power it that was imported from the US, the capital investment into the farmland from a private equity fund based in Cayman, the enormous and tightly coordinated distribution and supply chains of the end products allowing someone in Taipei to enjoy a cup of coffee that originated in Ghana and myriad other agricultural products from all over this ball of dirt we call home.

It is that entire structure that is suddenly at risk in a way we’ve never experienced in our lifetimes. Will it mean our investments in this sector turn out to be profitable?

We think so but we must consider the possibility of being wrong. In other words what are the risks?

Well are we buying into something akin to Uber, Tesla or Wefukt? In other words, shit that can go to zero. Obviously not. And not only that we're at historical lows.

Ok...onward

Everyone is Transfixed on the Virus and Lockdowns

The lockdown touted as a "cure" for the virus promises to be a curse and absolutely worse than the Corona would have ever been. Worse by orders of magnitude. It sucks but we have what we have and must deal with the world as it is...not as we'd wish it to be.

This is a big deal that few are taking seriously - while everyone has been focusing on stats like this:

Confirmed Covid-19 cases

Total

2,403,253

cases

165,788

deaths

620,696

recovered

	Cases	Deaths
United States**	759,118	41,379
Spain	198,674	20,453
Italy	178,972	23,660
France	154,097	19,744
Germany	145,742	4,642
United Kingdom	121,172	16,095
Turkey	86,306	2,017
Mainland China	83,737	4,632
Iran	82,211	5,118
Russia	42,853	361

Scroll to see more countries/regions

*based on the WHO's Covid-19 situation reports **includes presumptive cases
Sources: JHU, WHO and health authorities

LAST UPDATED: APR 20, 1.21PM

Freaking out over apocalyptic scenes like this:



Or “entertaining” themselves by watching all the drama over folks resisting asinine lockdown rules, like this poor fellow lying all alone on the grass at Sydney’s legendary Bondi Beach:

Coronavirus arrest: Man struggles with police at Bondi after alleged COVID-19 breach

Digital Staff • 7NEWS • Monday, 20 April 2020 12:02 pm



Or this fair maiden almost in tears because she is almost out of makeup.



And being scared shitless by this sort of apocalyptic nonsense:

Coronavirus Victoria: This is what would happen if restrictions were lifted now

Elizabeth Daoud • 7NEWS © Monday, 20 April 2020 11:50 am



File photo of a gravestone. Credit: Getty Images/iStockphoto

The level of distraction from what really actually matters will go down in history books as one of the most epic fuck ups in human history. The crowd has failed to appreciate an even greater emerging problem - global food production.

As trade walls go up and governments panic about preserving their own food sources, the government's actions to this virus threaten to disrupt global supply chains. **Millions of migrant workers involved in agriculture and food production are now immobile due to border crackdowns.** This has left produce unharvested and much-needed food left to rot in fields.

Seasonal laborers from Eastern Europe are missing on the farms of Spain, Germany, Italy, and France. India has limited rice exports due to labor shortages. Russia, the world's largest wheat exporter, is limiting grain exports from April to June. Egypt, the world's biggest wheat importer, has ramped up grain purchases and halted all exports of legumes. Vietnam and Myanmar have banned rice exports and this folks is just an appetiser of supply restrictions. Did you know all of this is going on? I suspect not. The hysterical wailing and gnashing of teeth by the hand wringing mainstream media aren't interested in what truly matters. Certainly not in the truth that's for bloody sure and as a consequence market participants from sea to shining sea seem gleefully oblivious to the problems that are coming down the track like a freight train.

We read reports of farmers having to euthanize (a pretty word for shoot) pigs that were ready for slaughter and aborting sows in pig, and gassing chickens. It's disgusting, maddening and heartbreaking all at once but that is what happens when supply chains are messed with.

BUSINESS NEWS APRIL 28, 2020 / 7:41 AM / UPDATED AN HOUR AGO

Piglets aborted, chickens gassed as pandemic slams meat sector

Tom Polansek, P.J. Huffstutter

9 MIN READ

Dairy farmers are spilling milk that can't be sold to processors, broiler operations have been breaking eggs to reduce supplies and hectares upon hectares of fruit and vegetables are rotting in fields amid labor and distribution disruptions.

Now we are staring down the barrel of [meat shortages](#):

Plant shutdowns are leaving the U.S. dangerously close to meat shortages as coronavirus outbreaks now spread to suppliers across the Americas.

Almost a third of U.S. pork capacity is down, the first big poultry plants closed on Friday and experts are warning that domestic shortages are just weeks away. Brazil, the world's No. 1 shipper of chicken and beef, saw its first major closure with the halt of a poultry

plant owned by JBS SA, the world's biggest meat company. Key operations are also down in Canada, the latest being a British Columbia poultry plant.

While hundreds of plants in the Americas are still running, the staggering acceleration of supply disruptions is now raising questions over global shortfalls. Taken together, the U.S., Brazil and Canada account for about 65% of world meat trade.

"It's absolutely unprecedented," said Brett Stuart, president of Denver-based consulting firm Global AgriTrends. "It's a lose-lose situation where we have producers at the risk of losing everything and consumers at the risk of paying higher prices. Restaurants in a week could be out of fresh ground beef."

I don't want to deluge you with the overall matrix of this we've been working on but suffice to say it's not a minor problem.

If you want a little more explicit detail.....

From Thailand:



Posted: 03/27/20

Themes: COVID-19, Labour Migration

Bangkok – As Thailand curtails economic activity and begins to close its borders to limit the spread of the COVID-19, thousands of jobless migrant workers from neighbouring Myanmar, Cambodia and the Lao People's Democratic Republic are returning home.

The announcement of wide-ranging business closures by Bangkok Governor Aswin Kwanmuang on 21 March and the subsequent Emergency Decree announced by the Thai Government on 26 March has also triggered a mass movement of Thai migrant workers from Bangkok to their home provinces.

The movements come at a time when Thailand and its neighbours are encouraging people to stay at home and enforcing social distancing to contain the virus, and could have unintended consequences, according to IOM Regional Migration Health Specialist Dr. Patrick Duigan.

Europe - from the FT:

Each summer Bartoszyce, a town in north-east Poland, empties out as much of its working-age population heads to France to help its vineyards with their grape harvest. But this year border closures to limit the spread of coronavirus may prevent them from making that journey.

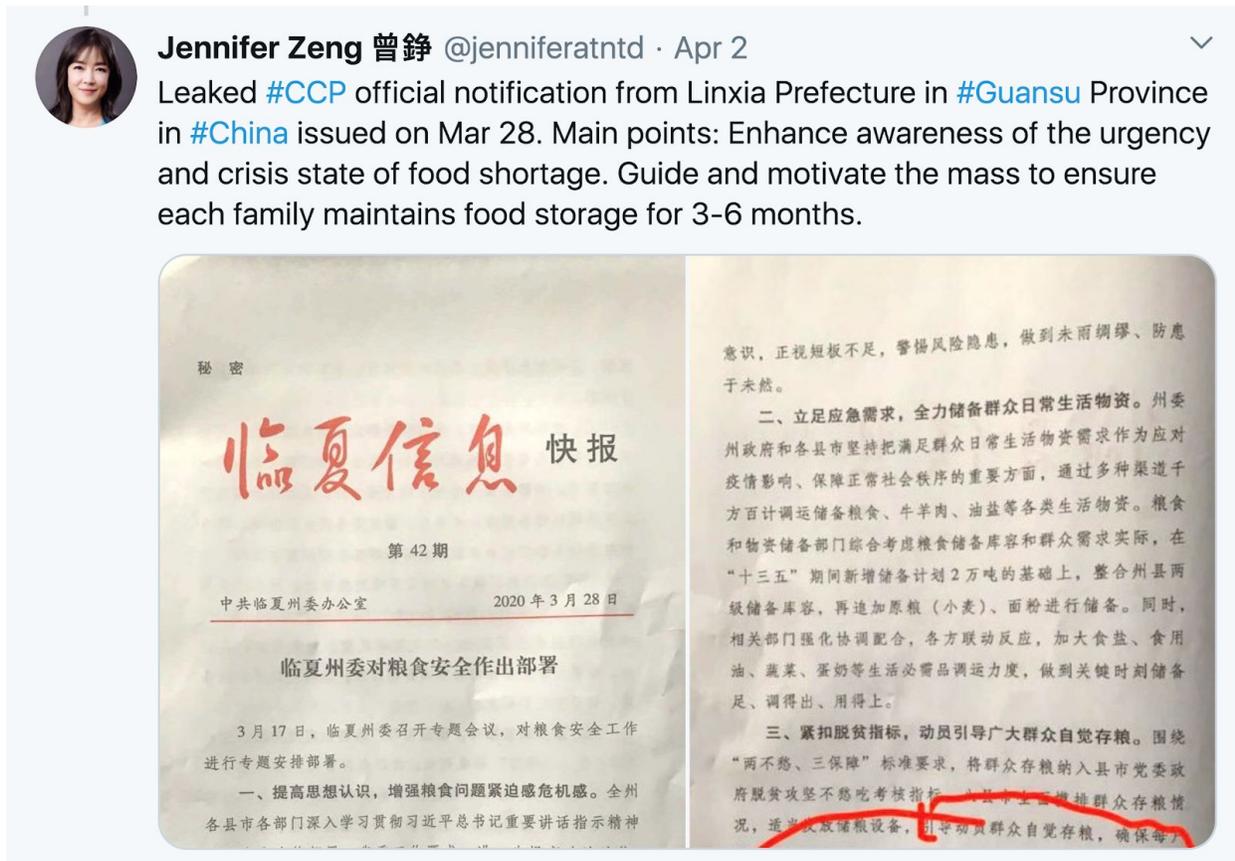
Until this year, Bartoszyce's residents were part of a mass movement of seasonal workers from eastern Europe and north Africa to western Europe; each spring and summer, hundreds of thousands of people crossed international borders to pick crops, playing a vital role in the continent's food chain.

This year many will not do so. Some countries, such as Poland, have all but closed their borders, while others, such as France, are in lockdown, restricting travel outside the home. Farmers say the practical difficulties of travelling are compounded by workers' [fears of contracting coronavirus](#) or being unable to return home.

That leaves European farms facing an acute labour shortage. With early crops such as asparagus already sprouting, there are fears of price rises, rotting crops and shortages of fresh fruit and vegetables.

China.....hmm

[Rumors are spreading](#) in China of impending food shortage and these rumors appear well founded. Naturally we should be careful of jumping to conclusions based on one [tweet](#) but where there is smoke there is usually fire:



Sure enough contacts of ours in China and Singapore (who are invested in Chinese ag supply chains) confirm this for us. Chinese people may grumble when pork prices double but history indicates that when staple food stuffs rise so the people revolt. Things can get ugly and quickly.

While I do view data from government and NGO organisations with a healthy degree of scepticism the World Food Program director David Beasley [suggests](#) in no uncertain terms that the number of people starving in the world is set to double by year end:

In my conversations with world leaders over the past many months, before the Coronavirus even became an issue, I was saying that 2020 would be facing the worst humanitarian crisis since World War II for a number of reasons.

Such as the wars in Syria and Yemen. The deepening crisis in places like South Sudan and, as Jan Egeland will no doubt set out, Burkina Faso and the Central Sahel region. The desert locust swarms in Africa, as Director General Qu highlighted in his remarks. And more frequent natural disasters and changing weather patterns. The economic crisis in Lebanon affecting millions of Syrian refugees. DRC, Sudan, Ethiopia. And the list goes on. We're already facing a perfect storm.

So today, with COVID-19, I want to stress that we are not only facing a global health pandemic but also a global humanitarian catastrophe. Millions of civilians living in conflict-scarred nations, including many women and children, face being pushed to the brink of starvation, with the spectre of famine a very real and dangerous possibility.

This sounds truly shocking but let me give you the numbers: 821 million people go to bed hungry every night all over the world, chronically hungry, and as the new Global Report on Food Crisis published today shows, there are a further 135 million people facing crisis levels of hunger or worse. That means 135 million people on earth are marching towards the brink of starvation. But now the World Food Programme analysis shows that, due to the Coronavirus, an additional 130 million people could be pushed to the brink of starvation by the end of 2020. That's a total of 265 million people.

Granted this might be a little dramatic but there is some substance to what Beasley is saying and these figures aren't plucked out from mid air.

Echoes of the 2008 and 2011 Crisis.

The looming food shortage has an echo of the financial crisis of 2008, when large exporters that were worried about food supplies, limited exports causing a global price surge. In response, other countries began importing food like there was no tomorrow. This bolstered demand, pushing prices up even further.

Wheat



Rough Rice



Remember what happened about 10yrs ago in the Middle East when the price of bread went sky high due to the price of wheat going up some 50%?

It was the rising cost of living - essentially food prices that sparked protests



Which led to riots, governments fell and many others were pushed to the brink:



Although the “Arab Spring” of 2010-11 was short lived, it illustrates a disastrous cycle of conflict, food insecurity, and forced migration. Food shortages sparked tension. Migration accelerated. As young people moved away, the farming sector suffered, yields declined, and competition for food increased among those who stay behind.

Today, trade restrictions and panic hoarding will only intensify the crisis and further disrupt supply chains. Unlike previous food crises, this one stands to be ***exacerbated by global restrictions on movement, increased government interventions, protectionism, trade wars, and of course good old fashioned money printing.***

If it sounds like the perfect storm that is somewhat where we've landed on our analysis after spending close to a month really digging into this.

Relaxing Restrictions on Movement

So you might be asking - when will restrictions on movement be relaxed? Already indications are that lockdowns or at least restrictions on travel will be enforced ***way longer than originally anticipated.***

But if lockdowns are relaxed as with restrictions on travel (however long that takes), are people going to resume their daily lives as if nothing happened? Unlikely.

Here is an example..... recently New Zealand's leader of the opposition, Simon Bridges [questioned](#) why the "lock-down" should be extended another week - he was hit with 1000s of "boos" on facebook. One thing is for sure - there isn't going to be much of a "party" once lockdowns are relaxed. Many folks, now fed on a steady diet of fear porn are just too terrified to venture out and be "within 1.5m" of someone else. It is a truly remarkable and sad state of affairs. Everything is affected from park benches, to movies, cafes, restaurants, airplanes...the whole enchilada.

This is speculation but what about reinfections and government reactions to them? Will governments enforce lockdowns again? Singapore extended lockdowns until the end of June as infections began to rise again. It is doubtful that lockdowns wouldn't be brought back if infection rates began to rise in other nations.

2nd Order Effects of Lockdowns

Here is something to ponder - could the stay-at-home/lockdowns backfire on governments? We (the world in general) have been discouraged from having contact with everyone else for fear of catching the virus for some 3 months . We have been brainwashed into thinking that staying at home saves lives - but does it?

Immunology 101 - the immune system is built by exposure to antigens (viruses & bacteria). We develop an immunity by being exposed to viruses and bacteria on a daily basis -

exposure develops a robust immune system. If we “shelter” and stay away from other people (viruses & bacteria) our immune system becomes fragile.

Cutting a long story short - a vast trove of evidence tells us that **Quarantining decreases the immune system.**

So what happens as people come out of isolation? Perhaps the lockdowns will ultimately create more harm than good from an immunology perspective.

Agriculture is Different from Manufacturing Sectors

Unlike other sectors, agriculture is heavily affected by the **timing** of the lockdown rather than the **duration** because of the **strict planting and harvesting calendar**. If the planting season is missed, there will be no crop for the season or for the entire year.

As discussed above - many countries and regions, such as China, North America and Europe, face labor shortages and supply line disruptions for their spring planting. If they miss the planting window, they are done for the entire year.

In many other parts of the world, such as in India and other South Asian countries, this is the harvest time for many winter crops such as wheat, potato, cotton and many other fruits and vegetables.

India's peak farm activity happens between April and June. This is when the winter crop - wheat, rice and pulses - are harvested and sold. It is also peak season for fruits. And it is also when farmers begin sowing the summer rain-fed crop, comprising paddy, pulses, cotton and sugarcane. A one punch knockout of the current harvest and for next year.

The recent nationwide lockdown of Thailand witnessed the exodus of thousands of migrant workers from Cambodia, Myanmar and Laos. The planting of the main rice crop, maize and sugarcane in Thailand will begin in the next few weeks but will have serious consequences if the migrant workers don't return to work by planting time which is kinda like NOW.....and it doesn't appear that they are returning as lockdowns in Thailand aren't being relaxed. In fact I've just been in touch with the embassy there and they've extended

lockdowns to the 30th June. I don't see how this is going to work but true to form some dolt who makes a living by sitting in an office is making the calls.

What Will Accentuate the Food Crisis? - the Globalized Food System.

While the world has never been better equipped to work from home with online communication technology it has perhaps never been worse equipped to deal with a food crisis. ***Globalization has led to country after country being ever more dependent on each other for food production.*** It is also absolutely true that globalization has led to cheaper food but it has been at a silent yet unseen cost of a loss of self sufficiency.

We knew we had an interconnected globalised food supply chain but as we conducted our own on ground research (curiosity does that to me) we walked through supermarkets in Aussie and New Zealand truly stunned at just how much we import food from China, Portugal, Morocco, Thailand, Kenya, Ecuador and and and. For shits and giggles I would encourage you to just go through your pantry as an experiment. Empty out everything that doesn't come from wherever you live. See what's left. I hit less than 10% local. OK that excluded my freezer but I'm fortunate there as it's stacked with half a beast courtesy of the inlaws who are farmers. The point is that food security is already becoming a problem and really we think those problems are set to become bigger...possibly much bigger. I do wish it wasn't the case but that's like wishing I looked like Brad Pitt and sadly I'm probably more like a rather bad version of Bruce Willis without the smirk.

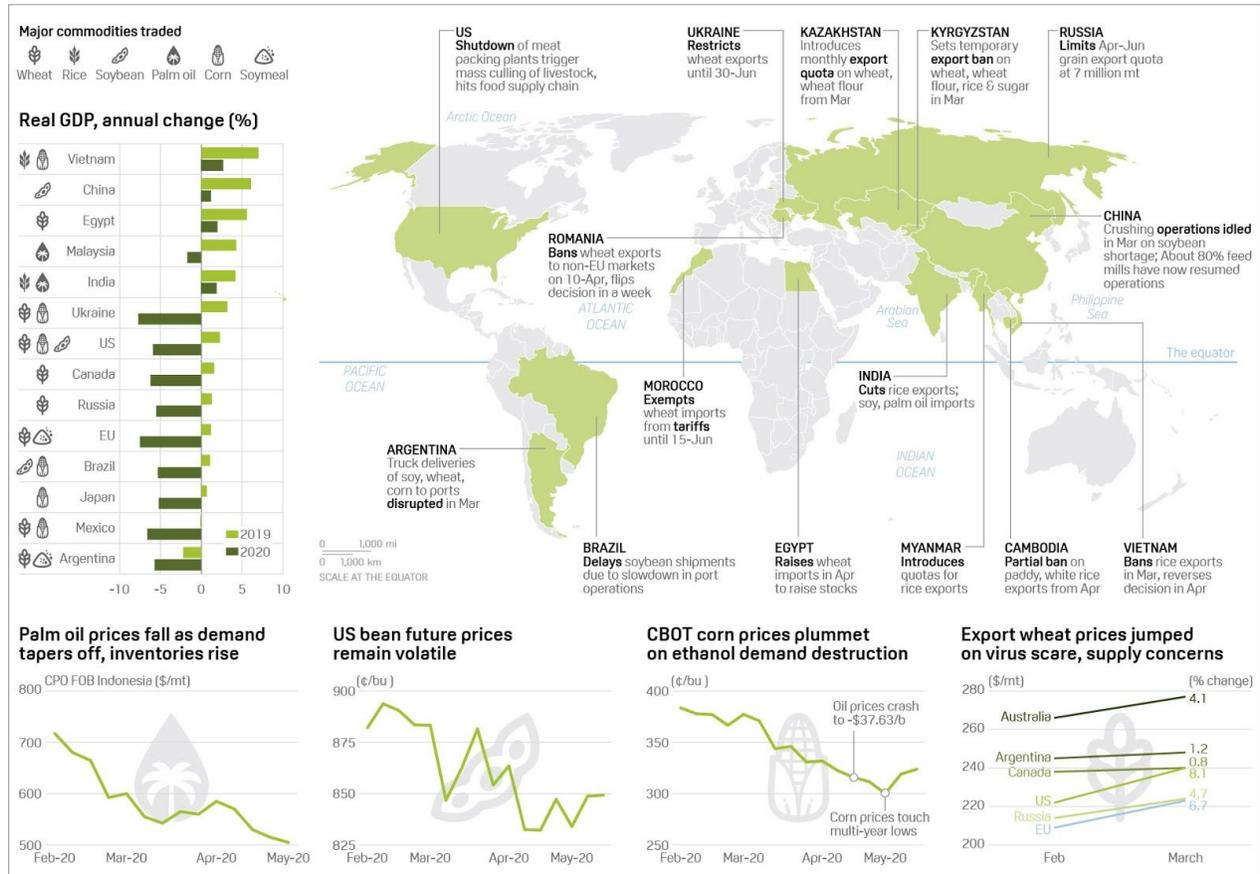
Granted this is just NZ and Aussie, however, we believe that the same result would happen if the experiment was repeated in any supermarket around the world. As you can appreciate - if countries go down the food security route and hoarding of food, we move rapidly into a situation where those supply chains are shattered in the name of "national interest".

I did find this really great visual of what's already happening in various parts of the world.

CORONAVIRUS PANDEMIC TESTS GLOBAL AGRICULTURE SUPPLY CHAIN, STOKES FOOD SECURITY FEARS

The coronavirus pandemic is weighing on the global agriculture supply chain as the world's top producers and consumers deal with a sharp rise in cases. This has forced many to take strict measures, disrupting the normal course of operations. The risk to agriculture supplies, trade and processing chains has never been larger. The Food and Agriculture organization says the impact of the pandemic on economic growth may also affect final demand as consumers lose purchasing power.

- Despite healthy inventories, importers stocked up on wheat products in March on fear of supply risk, pushing prices higher
- Corn has seen the biggest fall-out, hitting multi-year lows on widespread ethanol demand destruction
- Depopulation of livestock in the US due to the idling of meat plants could affect long-term feed demand for corn, wheat and DDGS



Source: S&P Global Platts, FAO, USDA, Agroentregas S.A., GASC, FAS, IGC, IMF, Cofeed

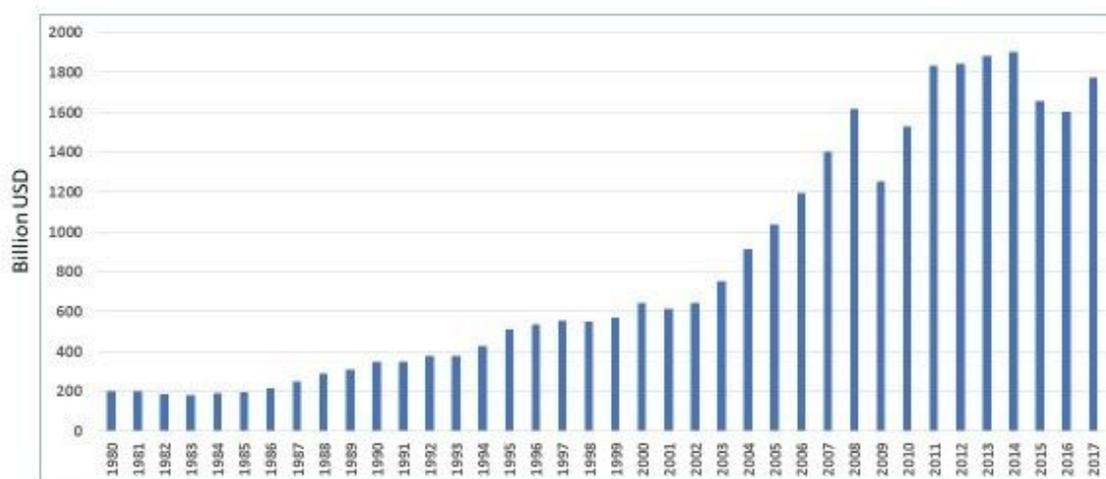
For the past 20yrs, agricultural trade has increased at an unprecedented pace with ever greater integration of the global food system. It has meant that we can be pretty much anywhere in the world and enjoy the fruits of ag labour done on the opposite side of the world. In fact I had my kids cook dinner on the weekend and record everything that was used in the dinner and the origin of the ingredients. 17 countries. 17.

Holy smokes.

The value of agricultural trade reached USD\$1.77 trillion in 2017 vis-à-vis USD\$640 billion in 2000, that's knocking on the door of *a threefold increase*. The salient feature of this trend is the broad participation in agricultural trade by emerging and low-income

countries. The export share of this group increased from 9 percent in 2000 to 20 percent in 2015, led by the likes of Brazil, China, India and Indonesia.

Figure 1. Value of World Agricultural Trade



Data Source: FAOSTAT (accessed on April 8, 2020)

More importantly, greater integration exists among food systems of middle and low-income countries, with the share of volume of imports of agricultural products by middle and low-income countries sourced from other middle and low-income countries rising from 42 percent in 2000 to 55 percent in 2017 (sorry we couldn't find more up to date stats). The volume of rice and wheat trade has increased by 80 percent despite two food crises (2008 and 2011) in the past two decades.

In theory a more integrated food system is a win-win situation for all. It provides greater choice of food to consumers at an increasingly affordable price due to the scale of economies being employed, and it improves food and nutrition security by redistributing from surplus areas to deficit areas. And in practise there is no question that the price of food has come down over the last 20yrs (adjusted for inflation).

This lower retail price makes a huge difference in the lives of the poor people who spend a large share of their total budget on food, with the poorest 20 percent of the population spending as much as 19 percent of their total budget on food. However, the flip side is that

cheap food imports discourage domestic agricultural/horticultural production and countries come to rely on other nations for their food production. This all bodes well while the going is good but when international trade is restricted, either physically or because nations don't trust each other, it's a recipe for disaster.

Government reaction to Corona - The Great Destroyer of Competition.

A massive implication of the governments reaction to the virus, which has caused a crisis of unimaginable proportions (which we'll be dealing with for decades to come) that few fully appreciate - ***an unprecedented wave of bankruptcies in smaller companies***. In the U.S. The Chamber of Commerce [hints](#) at more than 40 percent of the nation's 30 million small businesses permanently closing in the next six months because of the lockdowns. Even if this is only half right it will still be a massive problem.

While this might not come as a surprise, what few appreciate is the long term consequences of this. In short **the government induced crisis is going to result in less competition which will lead to higher prices.....that, in a word is Stagflation.**

From [Bloomberg](#):

Welcome to the post-pandemic U.S. economy.

The biggest companies are getting even bigger. Midsize players are running on fumes. Brick-and-mortar stores are struggling to get financing just to make it to next month. Startups -- the building blocks of a competitive economy -- are disappearing.

It all adds up to a sobering challenge for U.S. antitrust enforcers: The pandemic risks worsening the very problems of rising concentration and declining competition that they were already trying to address before the outbreak.

The Corona crisis didn't start this trend rather it has led to an accentuation of an existing trend which has been in place for quite some time. The last generation has seen the big get bigger

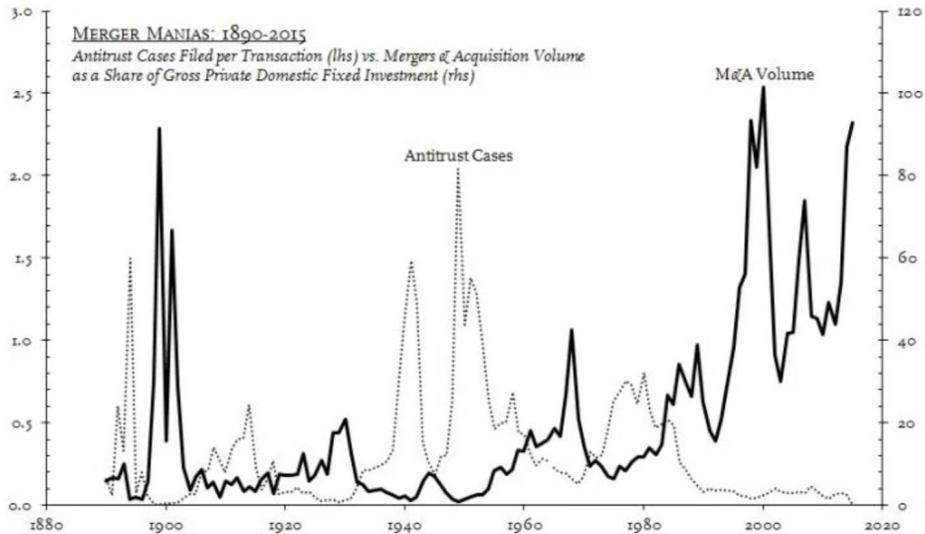
The pandemic is playing to the strengths of the biggest digital players, as seen in their earnings results for the quarter ending in March. Amazon.com Inc. has gone on a hiring spree to keep up with a surge in demand from millions of homebound consumers. In what is normally a slow quarter, sales jumped 26% to a record \$75.5 billion, though earnings fell 29% compared with the same period in 2019.

Alphabet's revenue exceeded analysts' expectations. Facebook's shares soared on Thursday after its results eased some investor concerns about advertising weakness, though the real test could come in the months ahead. Investors were braced for one of the biggest annual sales declines in Apple Inc.'s history, but the company reported a surprising 1% revenue increase to \$58.3 billion.

At the same time, retailers, restaurants, airlines and hotels are struggling -- and more than 30 million Americans have suddenly become jobless.

Dominant companies were already on the march across industries, from the internet to wireless carriers and from health care to food processing, long before the virus hit. For years, antitrust experts and economists have been warning that markets were becoming less competitive, harming consumers and workers in the process.

Below are some interesting graphs that illustrate this notion of a contraction in competition.



The percent of industries controlled by the top 4 firms. From beer to glass to tires – Americans have increasingly less and less choice when purchasing their products.

(1) Industry	(2) Percentage of Industry Output* Produced by the Four Largest Firms	(3) Herfindahl Index for the Top 50 Firms
Primary copper	99	ND [†]
Cane sugar refining	99	ND
Cigarettes	95	ND
Household laundry equipment	93	ND
Beer	91	ND
Electric light bulbs	89	2582
Glass containers	88	2582
Turbines and generators	88	ND
Household refrigerators and freezers	85	1986
Primary aluminum	85	ND
Petrochemicals	85	2662
Small-arms ammunition	83	1901
Motor vehicles	81	2321
Men's slacks and jeans	80	2515
Aircraft	81	ND
Breakfast cereals	78	2521
Household vacuum cleaners	78	2096
Phosphate fertilizers	78	1853
Tires	77	1807
Electronic computers	76	2662
Alcohol distilleries	71	1609

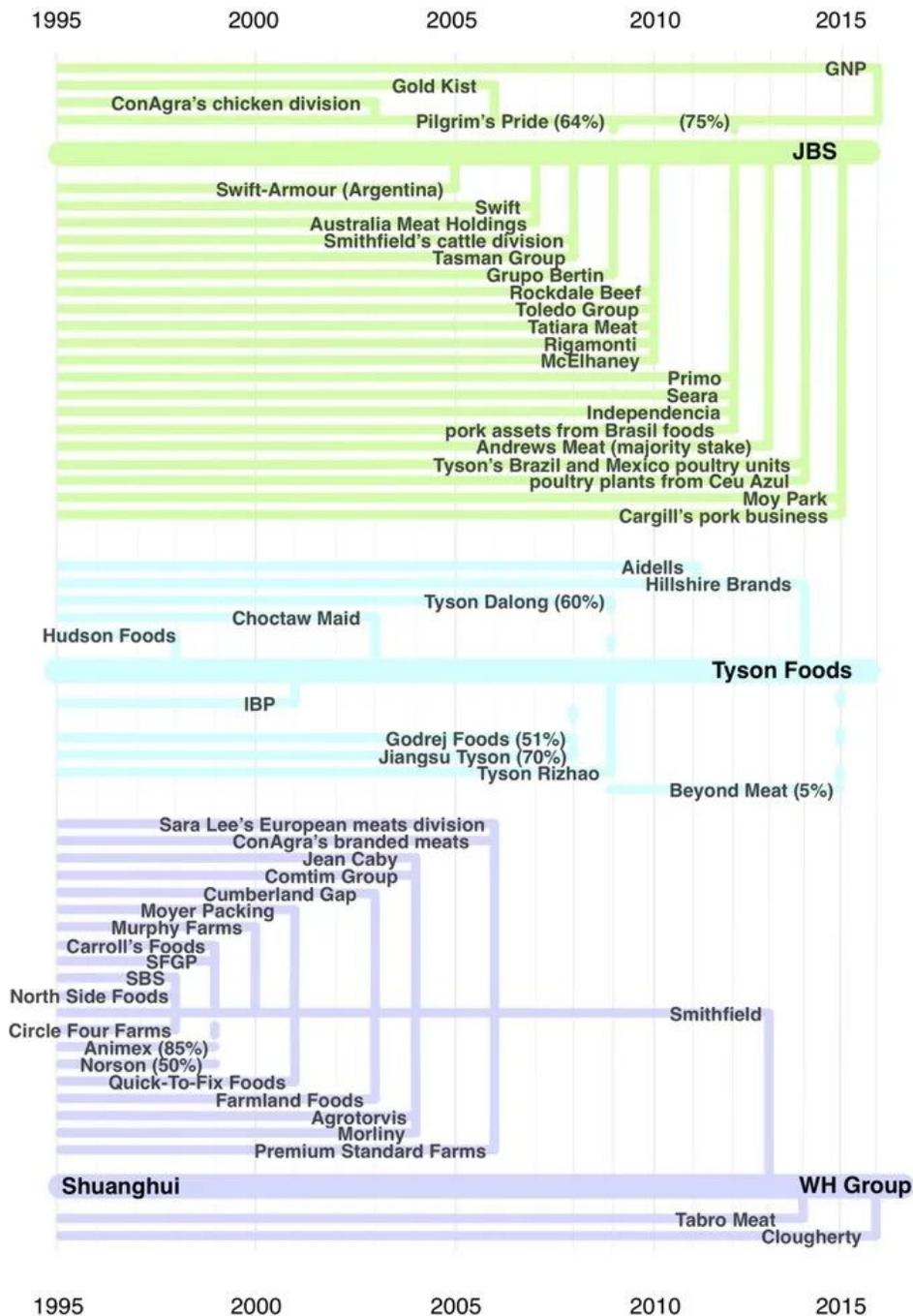
Now I don't want to frighten you but frankly this should. I tend not to be frightened by too much. Most things we humans will deal with. This market structure as you'll see is potentially really problematic.

Today only four corporations provide 60% of all poultry, 65% of all pork, and 80% of all beef sold in the United States. Over 96% of chickens are raised under production contracts with large companies like Tyson, that dictate exactly how they're raised and fed, the size of facilities, and many other conditions.

The pattern of big companies dictating terms to farmers is growing. Now some 40% of the entire value of U.S. agricultural production is governed by production or marketing contracts, up from 10% in 1969.

The impact of agricultural industry concentration has meant the ruin of smaller and mid tier farmers. Astonishingly, ***since 1980, 40% of all American cattle farmers and 90% of all hog farmers have gone out of business.*** Farms have become concentrated in the hands of fewer farmers.

Leading Global Meat Processing Firms Timeline of Ownership Changes, 1996 to 2016



And who is the WH Group? Formerly known as Shuanghui Group, is a publicly traded Chinese meat and food processing company headquartered in Hong Kong. Sometimes also known as Shineway Group in English-speaking countries. Now consider the geopolitical

environment we're in. A significant part of the US meat value chain is controlled by the Chinese.

Walk into any supermarket in Europe or North America and you would be forgiven for thinking there is so much choice available. But the huge number of brands is an illusion as the diagram below suggests:



Beer is essentially down to just two companies. How the US beer market has come to be locked up by two companies is beyond reasonable comprehension - so much for US antitrust. The US beer market is an effective duopoly with two players (Molson Coors and AB InBev) controlling over 90% of beer.

So much for thinking that Fosters and Victoria Bitter were "Australian", or Sol was Mexican, or Tiger was Indian.



The merger between AB InBev and SABMiller is the largest beer deal in history, valued at \$107 billion. Once the dust settles, most global beer brands will be owned by just a few big conglomerates.



For antitrust reasons, some or all of these brands are expected to be sold to the Molson-Coors as a result of the merger.

MOLSON Coors



HEINEKEN



DIAGEO



It would seem that the concept of “anti-trust” is a faded memory.

Well all the foregoing give you a general idea.....the big are getting bigger, and so is their pricing power. Government mandated lockdowns have you will notice played nicely into big companies' hands.

Where does this all head?

Well it goes something like this.....prices rise due to a lack of competition, broken supply chains and it eventually gets so bad that the general population will start protesting on the streets about the cost of living and then the government steps in to “do something” and they begin nationalising these entities. Remember it’s not hard because they’re so concentrated. Even without any additional government poking their noses into the production and distribution of food they’ll do so via tariffs, quotas and any number of goofy

unproductive ideas. They'll do nothing but stifle innovation, crowd out competition which is what's needed to both derisk the entire food industry but also to lower what will be rising prices.

A Reversal of Globalization in Agriculture

Could the government lockdowns have started a trend of deglobalization in Agriculture?

We think so.

Agricultural trade has a history of shutting down during times of stress. Countries are particularly sensitive about the price of staples such as rice and wheat as their prices affect poor people in developing countries disproportionately more. During the fight against the pandemic and the long lockdown, a food crisis could really undermine a country's efforts to contain dissent and an angry populace. Think about it. On the one hand millions of people have been forced to NOT work in order to feed themselves. Now throw rising food prices at them and it's really like kicking a bloke in his jewels when he's already down. That unfortunately looks increasingly likely.

Unlike past crises, if countries are forced into a food crisis while battling another urgent health crisis, the effect will be long-lasting in people's minds. This might lead to a permanent reversal of globalization of agriculture with the reintroduction of non-tariff barriers, such as quotas and other quantitative restrictions. This would have serious adverse effects, leading to higher food prices in food-importing countries, less consumption diversity and greater food and nutrition insecurity among the poor. To get a sense of what it can look like at scale consider any country that's heavily sanctioned. I'll let you in on a secret. Everything not made locally costs a shit load and in many instances is simply not available at all. That which is made locally is super expensive in local currency.

But, more importantly, agriculture now faces climate change, (no not anthropogenic global warming) just the fact that the climate has been changing for billions of years and will continue to do so. More on this below.

Climate Change - An "Out There" Thought

Solarcycles impacting weather patterns and agricultural productivity?

Now coming from me you are probably thinking this is a little far fetched and oh look Chris has lost it and shortly we'll find him with his buttocks glued to a highway protesting alongside a green haired hemp wearing shrieking banshee.

Sorry no. In the past we have heard of people talking about sunspots and solar flares and their impact on global weather patterns. NASA have a treasure trove of information on the topic which is rather interesting. We'll try condense it for you or at least what it may mean for our ag positioning.

Our thinking towards the impact of solarcycles started to change when a good friend who is definitely not of the green haired, banshee shrieking variety. He is quite the opposite. Measured, considered and fact driven. He's a private banker which should immediately make him boring AF but you'd be oh so wrong there too. In any event this friend highlighted this to me about 6 months ago which was when I first began looking into the veracity (or lack of it) and then more recently we listened to [this](#) PODcast with Shawn Hackett. Hackett discusses the impact of solar cycles and ocean temperatures on weather patterns - in essence he is saying that we're entering into a decade long cooling cycle. I've no doubt he's been researching the same sources we've been doing but he does a good job of explaining it.

So we have been digging deeper into this concept. Indeed there does seem to be some reasonable scientific evidence supporting the notion of solar activity affecting global weather patterns.

The effect of a cooling climate will reduce yields on horticultural and agricultural produce, increasing prices of the goods and this in turn will increase demand for products like fertilizers used to increase or maintain productivity.

We encourage you to read the following two articles, they may open your thinking towards solarcycles:

SOLAR MINIMUM APPROACHING | A MINI ICE AGE?

COULD A DEEP SOLAR MINIMUM BRING ABOUT A NEW ICE AGE?

By Bob Berman

February 27, 2019

And another:

THE SOLAR CYCLE: LATEST UPDATES AND PREDICTIONS

SOLAR CYCLE 24 AND CYCLE 25

By The Editors

October 21, 2019



There is a helluva lot more on this topic but this report isn't meant to overwhelm you with this one topic but rather to bring you into our thinking of why. We'll get to how we execute part in a bit. We find this solar cycle concept fascinating. However, we do acknowledge that we aren't scientists and that this thinking on solar cycles is a theory. But how much importance do we place on it with respect to forming investment decisions?

We're not jumping to bullish conclusions based on the above discussion on solar cycles. There are many other fundamental factors to consider, at best we believe this to be a mildly bullish factor in our overall consideration.

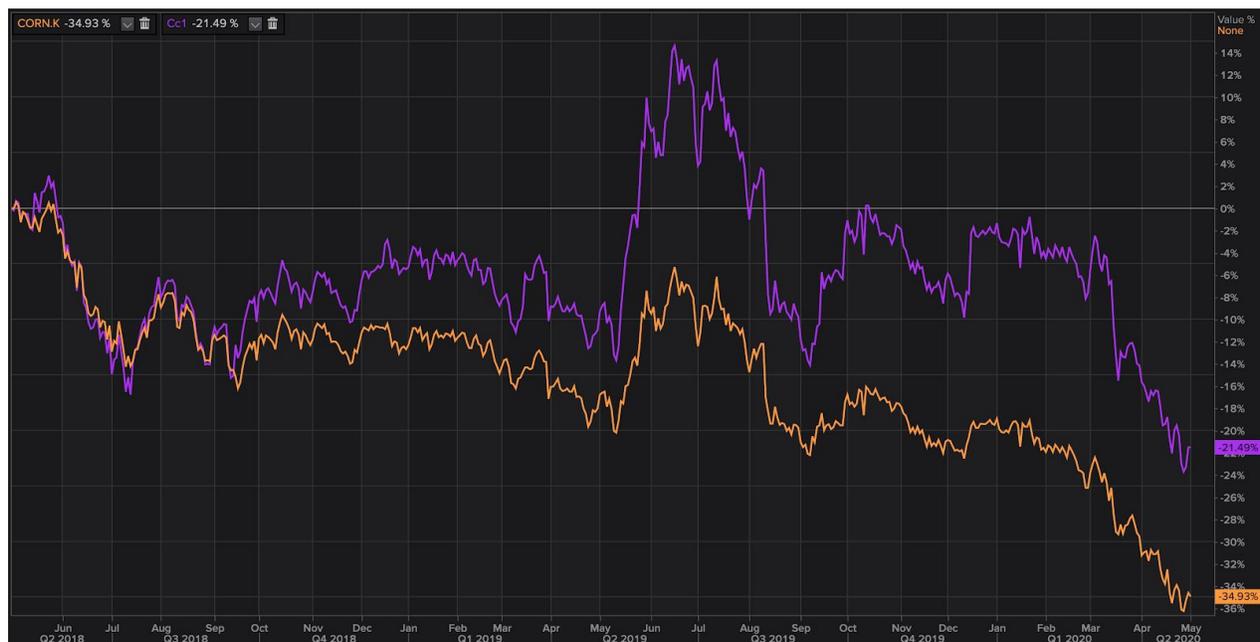
Applying a Bullish View on Food Prices

Adopting a bullish view on rising food prices isn't the real challenge rather it actually applying that view which is more tricky than you'd think.

But you may say - how can it be so tricky, just buy an ETF that tracks grain prices like wheat and corn? The problem is ETFs that track commodities, which are backed by futures, do a horrid job over the mid-long term at tracking the spot prices of respective commodities. This is due to the costs inherent in rolling from one contract to another. These bastards are literally designed to decay over time. We believe that these ETFs are

only good at earning fees for the ETF providers. They are perfectly fine for short term trading but that's not what our gig is here so they're basically worthless to us.

Corn ETF and Corn Futures Indexed to 0



Wheat ETF and Wheat Futures Indexed to 0



As you can see...horrible, just horrible in terms of providing exposure to ag.

So if investing in commodities directly via ETFs is out what next? Let's leave out trading in futures - that is a very specialized way to trade and only courts disaster for most investors.

This leaves us with investing in equities that track the prices of food commodities.

First let's bring up long term charts of four key food commodities,

Rice and Soybean Futures



Wheat and Corn Futures



Now let's quickly review Industries within the Agri Sector

Pharma/Animal Health

- Bayer,
- Zoetis,
- IDXX,
- Elan

Zoetis is probably the best pure play here but its price history only goes back to 2013. Even so it is still 7yrs of price history and while we certainly would have liked to have been invested in it for the last 7yrs its price history appears to have little/nothing to do with food prices.



Chemicals

- FMC Corp

- Nufarm
- Corteva (the unbundled agri interests of Dow and Dupont)
- Bayer

Corteva is the biggest operator in this industry but its price history doesn't go back far enough as it was only recently unbundled from DuPont. The other direct play with a long enough history is FMC.....and while a great company its stock price history doesn't have much to do with Food prices.



Machinery

- Deere & co
- Kubota
- CNH Ind (New Holland)
- Agco (Massey Fergusson)

While Ag equipment manufacturers definitely did perform well when agricultural prices took off in 2006-2008 ever since then there has been little relationship between agricultural commodity prices and equipment manufacturers.



Seed

- Corteva
- Bayer

The problem with Seed producers is that they are part of bigger conglomerates which also produce agricultural chemicals amongst others. The pure play here is Corteva (the unbundled agri interests of DuPont and Dow Chemical). While Corteva will do well as agricultural commodities rise, with a market cap of \$22bn its upside won't serve our "asymmetric" interests.

Processing

- Archer Daniels Midland
- Tyson Foods
- Wilmar
- Bunge
- Graincorp
- Gruppo Cherkizovo

- Australian Agricultural Co (ASX)

While there is some correlation between agricultural processors and food commodity prices, it isn't a very strong correlation.



- [Redacted]



- [Redacted]



██████████ stock that has the longest price history.....and it will give you an appreciation of the asymmetry offered by ██████████ stocks.



██████████ is the one industry that tracks the prices of food commodities really well. In fact they offer a geared play on agricultural commodity prices. This is the stuff we're looking for.

Below are the stock prices of ██████████ - two ██████████ stocks who have price histories going back far enough. While Corn and Wheat went up 250-300% from late 2004 - early 2008 ██████████ stocks went up some 900%.





██████████ companies are interesting because their stock prices are essentially 2nd order derivatives - the demand for their products (commodities) is based on the demand for food commodities (wheat, corn, soya etc).

██████████

- ██████████
- ██████████
- ██████████
- ██████████
- ██████████

Few have probably given any thought to investing in [REDACTED] from both an income and capital gain perspective. This isn't a popular investing strategy as there are only two such [REDACTED]

It stands to reason that if (or should we say when) agricultural commodity prices take off then so too will demand for [REDACTED].

Because the two [REDACTED] in the US have only been listed for 7yrs there isn't enough time to draw any conclusions between the relationship of [REDACTED] stock prices and the prices of Agri commodities. A further complication is that these [REDACTED] in a range of agricultural [REDACTED], from horticulture to agriculture so they are unlikely to have a direct 1:1 relationship with food commodity futures (soy, wheat, corn) - not that this is necessarily a problem.



Agricultural ETFs

There are essentially two Agricultural ETFs (at least two we believe are worthy of an investment consideration):

[REDACTED]

A broad ETF including all the industries discussed above. The top ten holdings are as per below:

[REDACTED]

[REDACTED]

As its name implies - [REDACTED] is a basket of [REDACTED] stocks from around the globe.

Since 2011 [REDACTED] stocks have underperformed general agri-business by some 50% probably closer to 65% if you take out the impact of [REDACTED] stocks on the general agribusiness sector.



The Trades

We're going to invest in [REDACTED]. This gives us the best correlation to agricultural food commodities and it gives us the most asymmetry while providing us diversification...an especially valuable thing given the uncertainty and geopolitical nature of the beast we're dealing with here.

We are also going to invest in [REDACTED]

Allocation

Our thinking is to allocate up to 5% in total to the Agri Sector - 3% into [REDACTED] 1% into [REDACTED] each.

As with all our positions, this is a long term trade. We're thinking of a 5yr time frame here at least, probably a lot longer. Buy it, stick it in the bottom draw and call me in 5 years.

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THIS IS A REDACTED VERSION OF THE ORIGINAL TRADE ALERT FOR INSIDER MEMBERS, WHICH THE PODCAST SERIES IS BASED ON.

LEFT OUT IS INFORMATION ON THE ACTUAL TRADES AND POSITIONING WE RECOMMEND FOR CLIENTS. TO GET ACCESS, JOIN INSIDER

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Sincerely,



Chris MacIntosh

Founder & Editor In Chief, Capitalist Exploits Independent Investment Research
Founder & Managing Partner, Glenorchy Capital

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