

Forget oil, the new global crisis is food

BMO strategist Donald Coxe warns credit crunch and soaring oil prices will pale in comparison to looming catastrophe

Alia McMullen, Financial Post Published: Monday, January 07, 2008

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Corn grows in a farm field near Seneca, Illinois. Rising demand for grain to make fuel, food and livestock feed has helped push the prices of corn and soybeans.

A new crisis is emerging, a global food catastrophe that will reach further and be more crippling than anything the world has ever seen. The credit crunch and the reverberations of soaring oil prices around the world will pale in comparison to what is about to transpire, Donald Coxe, global portfolio strategist at BMO Financial Group said at the Empire Club's 14th annual investment outlook in Toronto on Thursday.

"It's not a matter of if, but when," he warned investors. "It's going to hit this year hard."

Mr. Coxe said the sharp rise in raw food prices in the past year will intensify in the next few years amid increased demand for meat and dairy products from the growing middle classes of countries such as China and India as well as heavy demand from the biofuels industry.

"The greatest challenge to the world is not US\$100 oil; it's getting enough food so that the new middle class can eat the way our middle class does, and that means we've got to expand food output dramatically," he said.

The impact of tighter food supply is already evident in raw food prices, which have risen 22% in the past year.

Mr. Coxe said in an interview that this surge would begin to show in the prices of consumer foods in the next six months. Consumers already paid 6.5% more for food in the past year.

Wheat prices alone have risen 92% in the past year, and yesterday closed at US\$9.45 a bushel on the Chicago Board of Trade.

At the centre of the imminent food catastrophe is corn - the main staple of the ethanol industry. The price of corn has risen about 44% over the past 15 months, closing at US\$4.66 a bushel on the CBOT yesterday - its best finish since June 1996.

This not only impacts the price of food products made using grains, but also the price of meat, with feed prices for livestock also increasing.

"You're going to have real problems in countries that are food short, because we're already getting embargoes on food exports from countries, who were trying desperately to sell their stuff before, but now they're embargoing exports," he said, citing Russia and India as examples.

"Those who have food are going to have a big edge."

With 54% of the world's corn supply grown in America's mid-west, the U.S. is one of those countries with an edge.

But Mr. Coxe warned U.S. corn exports were in danger of seizing up in about three years if the country continues to subsidize ethanol production. Biofuels are expected to eat up about a third of America's grain harvest in 2007.

The amount of U.S. grain currently stored for following seasons was the lowest on record, relative to consumption, he said.

"You should be there for it fully-hedged by having access to those stocks that benefit from rising food prices."

He said there are about two dozen stocks in the world that are going to redefine the world's food supplies, and "those stocks will have a precious value as we move forward."

Mr. Coxe said crop yields around the world need to increase to something close to what is achieved in the state of Illinois, which produces over 200 corn

bushes an acre compared with an average 30 bushes an acre in the rest of the world.

"That will be done with more fertilizer, with genetically modified seeds, and with advanced machinery and technology," he said.

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