

FOOD FIGHT

Potash Becomes the Lever
In the Geo-Politics of Food

| Edited by Gregor Macdonald

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FOOD FIGHT

The long Canadian Pacific trains wending their way out of Saskatoon have so many cars they might be carrying coal. Headed for the Pacific Coast at either Vancouver, BC, or Vancouver/Portland USA, they ferry their precious cargo to a world hungry for yield. Agricultural yield, that is. Welcome to the optimization of agriculture, where foreign land is leased, and crops are jacked on fertilizer, to feed a hungry world.

FEATURES

Gold Theory 5

You've heard all the gold bubble theories. How about and anti-bubble theory of gold?

Dollar Watch 6

It was only 6 months ago that the \$USD was a haven, from crisis in the EU. Next crisis in the \$USD?

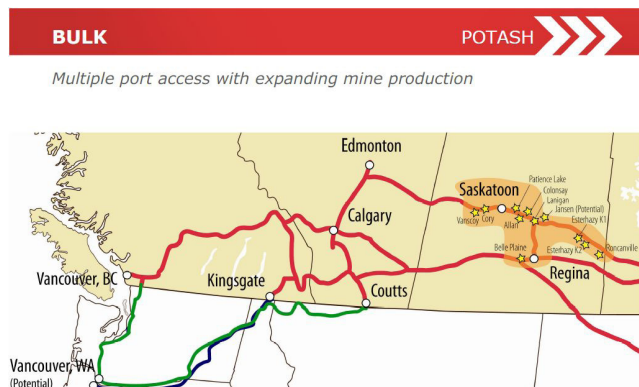
Photo of the Week 6

Banned from fishing for two months, China's Agriculture Ministry allows boats back to sea.

A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: gregor@stocktwits.com



BULK

POTASH

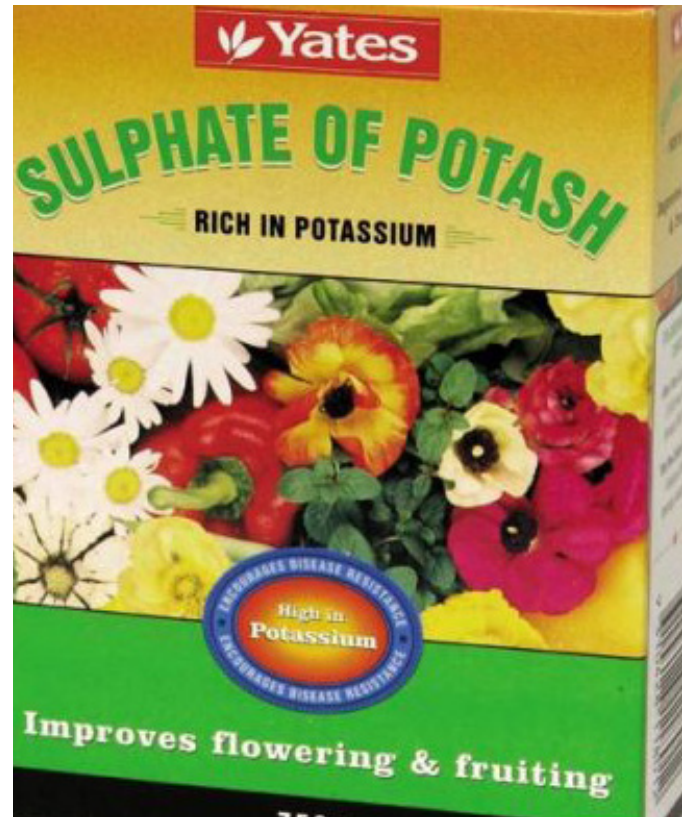
Multiple port access with expanding mine production

An advertisement for Gregor Weekly. It features the Gregor Weekly logo and website (gregorweekly.com). A yellow starburst says "Premium Blog". Below, it lists "Member Benefits":

- Hand crafted model portfolio
- Real time changes to model portfolio
- Mid-week portfolio discussion
- Weekly macro note

A red banner at the bottom says "Sign up for two-week free trial".

FOOD FIGHT—Late this summer the global mining giant BHP, which already has [potash operations in Saskatchewan, Canada](#), gave an enormous long-term export contract to the [Port of Vancouver, USA](#) which sits just across the Columbia river from Portland, Oregon. While exports from the combined ports of Vancouver USA/Portland, OR are up over 800% over the past decade, this was the largest contract ever granted to Vancouver, USA. The project involves developing 60 acres, and building additional rail lines. Already, potash exports from the [Port of Portland](#) have already been up nearly 200% since last year, and while Potash exports from these combined Columbia River ports is only half that from Vancouver, British Columbia (confusing, isn't it?) there is clearly momentum now to develop further a US alternative route for the very long, coal-like trains coming out of Saskatoon. The search for alternative export options is a classical, strategic move that has been repeated often in the history of resource extraction. And the task—no, the *mission*—to get potash out of Canada and to hungry Asia is becoming increasingly important in a world experiencing pressures in its agricultural systems. Indeed, beneath the surface of the BHP bid for [Potash Corp](#) of Canada, which has the banal veneer of a textbook corporate action, lies an emerging struggle to increase global crop yields as higher energy costs, populations, and available land collide in a story that is distinctly Malthusian.



Speaking of that troubling term, *Malthusian*, the hedge-fund manager and philosopher Peter Thiel dared to use it this week in an [on-air interview](#) with Bloomberg's Margaret Brennan. Explaining his view of our current juncture in economies and markets, Thiel asserted that the developed world absolutely cannot compete against the developing world in terms of

Indexes

INDU 10860	TNX 2.61	GOLD 1298.10	VIX 21.71	SPX 1148.67	DXY 79.30
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StockTwits.TV: Chartly.TV w/host Leigh Drogen



The all new [Chart.ly TV](#) has now launched, and is a great way to look at some trading set-ups, especially within various sectors. Host Leigh Drogen brings together a group each week from the StockTwits community to look at both individual stocks, and the market indexes.

This show, as Drogen [points out in the Chart.ly blog](#), was “born from conversations that various traders in the community were having via Skype at night. With the ease of Skype, and the ability to share your screen with anyone over the internet, a virtual trading desk was born. This is not unlike StockTwits itself, just a little more personal, private, and with more depth than Twitter or a chat room. The conversations I’ve had with friends across the community have led to many profitable trades, and a better understanding of different trading strategies.” [Watch the show here](#) for a terrific discussion this week of the much hated housing sector, and the major indexes.

[StockTwits.TV](#) can also be taken as an iTunes subscription.

labor costs, and, equally the global population cannot compete more generally if it’s only focus is rank, plodding resource extraction. The only solution, according to Thiel, was technology and innovation because without the improvements afforded by these, the world would be trapped perpetually in brutal race for resources. While Thiel’s point is certainly valid in a general sense, it kindles the old, false promise that technology and innovation can meaningfully push out limits on an otherwise finite planet. This is why the potash and global food fight story is so crucial at the moment because potash itself performs the exact function that Thiel imagines for technology: it pushes limits outward. And that’s why Asia and the Middle East, with their emerging scarcity of arable land, are so hungry for the stuff. Potash performs miracles.

Although proceeding for a couple of years now, it seems that only the soaring prices of corn, wheat, cotton, soybeans, and other soft commodities have helped the media turn its attention to Asia’s outsourcing of food supply. Along with the Middle East, Asia has entered Africa in [search of land that can be upgraded](#), in millions of hectares at a time. Of particular concern is China because behind the headline population level of 1.3 billion is a country that is accumulating cities of greater density in the eastern, coastal regions, as migrants pour out of the semi-arid western regions. Practically speaking, China is crowding out its remaining arable land along the coast, and is left without any remaining inventory of easily developed land within its confines. This not only explains China’s global sourcing of food on a simple contract basis, but, using the same model China has used to secure other resources, China is doing everything it can to effect quasi-colonization of its outsourced agricultural lands. Exporting Chinese personnel to foreign countries is a tactic that China has increasingly used in Africa. This only strengthens the idea that the global

food system is becoming increasingly optimized.

The attraction of optimization is never-ending, and this precisely the “enhancement” that is most typically proposed to make large systems more efficient. It’s exactly the idea that Peter Thiel has in mind when he proposes technology and innovation as the solution to resource limits. The problem is that it’s not a solution. Making systems more efficient means making them less robust. The global food system is now proceeding in the same direction, therefore, as the global financial system, and we see how that has worked out.

Let’s consider the following, all-in process: China experiences a crowding out of arable land due to population growth and industrialization. Combined with rising incomes, Asian diets also go through a step change as meat, which represents a more intensive call on land productivity, is increasingly added to the diet. On the remaining arable land, the demand for higher yields on a more consistent basis skyrockets. Potash and other fertilizers are increasingly used to operate the remaining land at very high levels of productivity. Eventually, that too is insufficient and so the process of land-upgrading is repeated on a colonial basis, in regions like Africa. Meanwhile, logistics engineers in the Saskatchewan-Portland-Vancouver, BC triangle refashion rail cars, track-upgrades, and also strike contracts with railroads such as Canadian Pacific, and BNSF. It’s no accident that there are two routes out to the Pacific from the potash region of Saskatoon. That was conceived of some time ago by the potash trade body [Canpotex](#), and was specifically designed to give operational choice in the event of weather, infrastructure, and labor problems or to simply obviate monopolistic control by railroads. But the bottom line is that customers want their potash, and they do not want delays.

Gold Theory



In a follow-up to last week’s StockTwits Macro Weekly, Gold Explainer, it’s worth noting that with each new price high in gold, several of which were hit last week in succession, new theories fly and last week was no exception. The most popular remain theories of gold’s demise, and of course, the multi-year assertion that gold is bubble. This week, let’s turn our attention to another kind of theory.

For some years now there has been speculation that the futures markets in gold, also called the paper market, will eventually fail on the back of unsustainable hypothecation. No doubt you’ve heard the stories: that the contracts for future delivery greatly outweigh any ability or intention to deliver on those contracts. [FOFOA blog has an intriguing post](#) on this very subject this week. FOFOA’s theory is that the paper market will indeed eventually break, but that the price of gold will initially fall as a result of that breakdown. FOFOA, which also sees gold as a wealth storage unit (savings), sees this brief interregnum in the price advance before we convert totally to a purely physical market.

Dollar Watch



Since the July 18th issue of Stock-Twits Macro Weekly, [Dollar Time](#), which noted the kick-off of the current downtrend, the greenback has continued to fall steadily and now rests solidly below the 80.00 level on the USD index. As we noted in July, the Dollar was once again re-coupling with the US economy, after its Euro-Crisis induced rally. This time, however, the tumble of the world's reserve currency is causing its own series of crises. Mostly in Asia.

The USD's fall is very much behind the recent BOJ intervention to support USD against the Yen. Of course, this operation was dampened by [China's decision to buy Japanese bonds](#), which has not made Tokyo happy, to say the least. Meanwhile, central banks across the world are also trying to slow the USD's decline by doing their own USD buying. Brazil was the latest to do so at week's end. It appears this play by the FED to export deflation to the rest of the world will work, until the dogs of protectionism are fully unleashed. Uh-oh.

As the global food system becomes more over-optimized, the risk increases that millions of hectares of farmland in Africa--controlled by Asian and Middle Eastern countries--and also supply routes of the kind out of Canada become evermore politicized, and then become geo-political flash points. You can see this playing out already as Canada, the Province of Saskatchewan, and the potash exporters are unsure whether ultimate control of [Potash Corp](#) is better left in Canadian hands, BHP's hands, or possibly even in Chinese hands. As we go to press, there is once again talk that [Sinochem will bid for Potash](#). Indeed, the price-takers of iron, oil, and coal have learned their lessons well: when a giant like BHP gets control over a resource, they can not only dictate the annual price contracts but they can control enough of the world's production to reduce supply. Accordingly, the global agricultural system is starting to resemble the global oil system in which trade routes, country-to-country contracts, exchange-rates, and relationships are the stuff of diplomacy. Once the arteries of dependency are established in a highly optimized system--and this is exactly what's taking place now--then any attempt by governments to curtail the flow of fertilizer or agricultural products will then be seen as acts of war.

--Gregor Macdonald, 26 September--Amherst, Massachusetts

