

# King of the Hill: Who Feeds a Growing World?

By Diana Klemme

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hat kid hasn't played "King of the Hill" at some point — battling to the top, and then having to defend their hard-won turf? U.S. grain exporters have faced that same battle in recent years even as global consumption, production and imports around the world have climbed sharply. Let's face it: The U.S. has lost our position at the top of the hill in most exports. Chart 1 shows that exports of corn, soybeans and wheat have been nearly flat overall for 20 years, while foreign exports have tripled! Exports vary by commodity, however. Wheat exports peaked in 1998, corn exports peaked in 2007 crop, while soybean exports have doubled since the early '90s — hitting 45% of U.S. production in recent years. But we're not even No. 1 in soybeans anymore.

Consider how things have changed:

- The U.S. is still No. 1 in corn exports but others are gaining fast.
- The FSU-12 was 2% of world corn exports in 2007; now it's at 33%. The Ukraine alone is now tied for third in corn exports.
- South America's total corn exports have topped the U.S. since '11 crop.
- Soybeans: Brazil and Argentina combined have topped the U.S. since 2003.
- Brazil soybean exports alone exceeded the U.S. both in 2012 and 2013 crops.
- The U.S. was No. 1 in world wheat exports until 2007. But in '04 the U.S. held 26% share; that dropped to 23% this year.
- The FSU-12 is the faster gainer and has been the world's No. 1 wheat exporter five of the last six years (including '13 crop).



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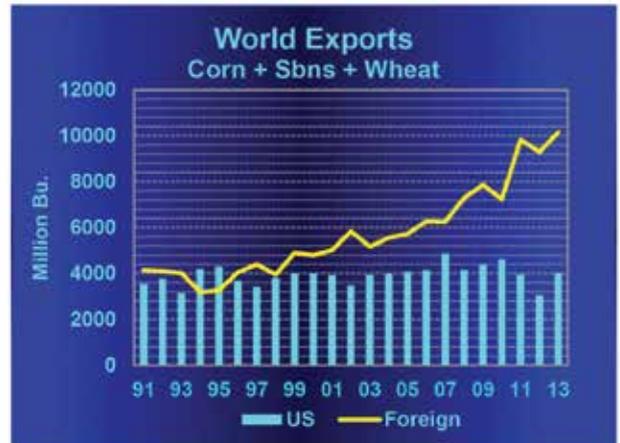


Chart 1



Chart 2



Chart 3

Aside from massive investments in South America, the “grain majors” recognize the Black Sea region’s potential. Cargill just invested into a 25% share of a Black Sea export facility, Dreyfus is already in a joint venture there, and global trading firm Glencore also bought a terminal in that growing export region.

The diversification of exports of bulk commodities has ramifications. Having more origins reduces the global systemic risk associated with a major regional crop failure — not a small concern given recent weather extremes. Diversification also reduces the potential costs from a terrorist threat to infrastructure at a single location; if the world is concerned about the Strait of Hormuz and oil shipping, we should be equally concerned about losing export facilities at New Orleans, the PNW, Brazil or the Black Sea. But at least the world is no longer so dependent only on New Orleans.

Feeding the world in the years ahead will bring other and ever bigger challenges. The world’s population hit 7 billion on Oct. 31, 2011, according to the UN, nearly tripling from the approximate 2.4 billion in 1950. Now the outlook is for nine to 10 billion people by 2050 — and the challenge is how to feed them. The rising standards of living in large parts of Asia bode well for protein-based diets, with less dependence on rice and other plant-based diets. Not all of the world’s population growth will be in such areas, however. Pakistan, along with sizable areas of Africa, especially Nigeria, is forecast to see dramatic population growth — areas where the per capita income won’t support middle-class diets. Nigeria’s population alone is forecast to top the U.S. by 2050, with 300 million or so mouths to feed in an area only slightly smaller than Texas and Arizona combined. And Sub-Saharan Africa is not well suited to raising cereal crops. So it’s important to differentiate between

food and feed. The demand in some high-growth regions may still be for plant-based food(s), supplemented with alternative protein sources ranging from aquaculture to farmed insects to milk products. (Are cultivated cricket farms any less feasible than catfish farms or confinement housing of poultry or hogs?)

People will eat what they can afford and what’s available: Better diets follow if incomes and opportunities arise. Far-sighted businesses are already considering alternative food and feed opportunities that may seem far-fetched today. Crickets are high in protein and calcium, and easy to raise, for example.

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They can be made into protein flour, or toasted or roasted. And who can argue that frog legs aren't a delicacy? As for growth in global feed consumption, the fastest growing sector is aquaculture, although poultry remains No. 1 — for now.

Demand will continue to grow for conventional protein sources and

the U.S. will play an important role in that growth, whether it's from exporting meat products, feed or bulk commodities.

### World consumption of animal proteins

The U.S. is making inroads in these areas: U.S. exports of beef,

pork and poultry have climbed steadily since 1991, although they remain at less than 2% of world consumption. But the rising star is DDGs where exports from the U.S. have soared from less than 900K tons in 2003 to 9 million short tons in 2012 crop — the equivalent of 320M (million) bushels of whole corn, with around one-third going to China. Maybe the U.S. is just climbing a new hill!

One challenge for U.S. farmers and grain handlers is that diversification across world production and exports buffers the impact of ag events here in the U.S.. Our futures markets increasingly reflect the global picture; a 1 bushel/acre cut in Iowa's corn yield equates to about 137M bushels, or about 1% of the U.S. corn crop, but that is only one-third of 1% of this year's world corn production. U.S. ending soybean stocks this summer will be no bigger than last year, but world soybean stocks in 2014 will be a new record high. U.S. wheat stocks will be lower this summer but foreign wheat stocks will be up 7%, and 11 times U.S. stocks; it's little wonder wheat futures are floundering.

Ignoring reality won't change it; production and exports have gone global. One result may be that futures will increasingly reflect the broad picture, while basis has to do more of the heavy lifting to adjust price to reflect U.S. domestic needs. We already see signs of this: Gulf soybean and wheat basis and domestic corn basis at record high levels this fall in the face of record harvest volumes and declining futures. Not being King of the World's Hill is a bummer for sure and it makes merchandising tougher than ever. ■

*Editor's note: Hypothetical performance results have certain inherent limitations, and do not represent actual trading. Past results are not indicative of futures outcomes. Trading futures involves risk of loss.*



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