World food crisis assignment

Microeconomics H. W. Assignment World Food Crisis Professor: Student: 2011 Food is the foundation of human live and people cannot survive without it. Food security is a vital issue facing the governments around the world. However, food shortage is becoming increasingly severe in this day and age. There are several reasons which led to the universal food shortage and they are interconnected to each other.

Increasing world population, extreme weather and the wide spread use of biofuels are the main causes of worldwide shortage of food. These factors lead to food price rises rapidly. Global food crisis is being compounded by several causes such as growing population, extreme weather and famers switching out of cereals to grow agro-fuels crops. According to Vidal (2007), " There is no one cause but a lot of things are coming together to lead to this. It's hard to separate out the factors. Global population is continuing growing nowadays; Eating habits are changed in many regions all over the world, especially in China and India; Extreme weather is caused by global climate anomaly which is related droughts and floods in many key production regions, such as a years-long drought in Australia; The wider use of agro-fuel led to divert food crops to grow biofuels crops; Agriculture costs are much higher, which are caused by soaring oil price, limited farmland and water. Population growth is one of the most important causes of food shortage.

According to Gritzner and Charles (2010, 60), " By mid-century there will be some 9 billion people—an increase of 2 billion more people than today—eating at the global dining table. "   This means that demand for food will continue to increase over the coming decade. Fact is, the food crisis of 2008 never really went away. True, food riots didn't break out in poor countries during 2009 and warehouse stores like Costco didn't ration 20-pound bags of rice…but supply remained tight. Prices for basic foodstuffs like corn and wheat remain below their 2008 highs. But they're a lot higher than they were before " the food crisis of 2008" took hold.

Here's what's happened to some key farm commodities so far in 2010… Corn: Up 63% Wheat: Up 84% Soybeans: Up 24% Sugar: Up 55% What was a slow and steady increase much of the year has gone into overdrive since late summer. Blame it on two factors… Aug. 5: A failed wheat harvest prompted Russia to ban grain exports through the end of the year. Later in August, the ban was extended through the end of 2011. Drought has wrecked the harvest in Russia, Ukraine and Kazakhstan – home to a quarter of world production Oct. 8: For a second month running, the Agriculture Department cut its forecast for US corn production.

The USDA predicts a 3. 4% decline from last year. Damage done by Midwestern floods in June was made worse by hot, dry weather in August. America's with year after year of " record harvests," depending on how you measure it. So when crisis hits elsewhere in the world, the burden of keeping the world fed falls on America's shoulders. According to Soren Schroder, CEO of the food conglomerate Bunge North America, US grain production has filled critical gaps in world supply three times in the last five years, including this summer… In 2010, when drought hit Russian wheat

In 2009, when drought hit Argentine soybeans In 2007–08, when drought hit Australian wheat So what happens when those " record harvests" no longer materialize? In September, the US Department of Agriculture estimated that global grain “ carryover stocks” – the amount in the world’s silos and stockpiles when the next harvest begins – totaled 432 million tons. That translates to 70 days of consumption. A month earlier, it was 71 days. The month before that, 72. At this rate, come next spring, we’ll be down to just 64 days – the figure reached in 2007 that touched off the food crisis of 2008.

But what happens if the U. S. scenario is worse than a “ nonrecord” harvest? What if there’s a Russia-scale crop failure here at home? “ When we have the first serious crop failure, which will happen,” says farm commodity expert Don Coxe, “ we will then have a full-blown food crisis” – one far worse than 2008. Coxe has studied the sector for more than 35 years as a strategist for BMO Financial Group. He says it didn’t have to come to this. “ We’ve got a situation where there has been no incentive to allocate significant new capital to agriculture or to develop new technologies to dramatically expand crop output. “ We’ve got complacency,” he sums up. “ So for those reasons, I believe the next food crisis – when it comes – will be a bigger shock than $150 oil. ” A recent report from HSBC isn’t quite so alarming…unless you read between the lines. “ World agricultural markets,” it says, “ have become so finely balanced between supply and demand that local disruptions can have a major impact on the global prices of the affected commodities and then reverberate throughout the entire food chain. ” That was the story in 2008. It’s becoming the story again now. It may go away in a few weeks or a few months.

But it won’t go away for good. It’ll keep coming back…for decades. There’s nothing you or I can do to change it. So we might as well “ hedge” our rising food costs by investing in the very commodities whose prices are rising now…and will keep rising for years to come. “ While investor eyes are focused on the gold price as it touches new highs,” reads a report from Japan’s Nomura Securities, “ the acceleration in global food price is unrestrained. We continue to believe that soft commodities will outperform base and precious metals in the future. ” So how do you do it?

As recently as 2006, the only way Main Street investors could play the trend was to buy commodity futures. It was complicated. It involved swimming in the same pool with the trading desks of the big commercial banks. And it usually involved buying on margin – that is, borrowing money from the brokerage. If the market went against you, you’d lose even more than your initial investment. Nowadays, an exchange-traded fund can do the heavy lifting for you, no margin required. The name of the fund is the PowerShares DB Agriculture ETF (DBA). There are at least a half-dozen ETFs that aim to profit when grain prices rise.

We like DBA the best because it’s easy to understand. It’s based on the performance of the Deutsche Bank Agriculture Index, which is composed of the following: Corn 12. 5% Soybeans 12. 5% Wheat 12. 5% Sugar 12. 5% Cocoa 11. 1% Coffee 11. 1% Cotton 2. 8% Live Cattle 12. 5% Feeder Cattle 4. 2% Lean Hogs 8. 3% So you have a mix here of 50% America’s staple crops of corn, beans, wheat and sugar…25% beef and pork…and 25% cocoa, coffee and cotton. It might not be a balanced diet (especially the cotton), but it makes for a good balance of assets within your first foray into “ ag” investing.

The meat weighting in here looks especially attractive compared to some of DBA’s competitors, which are more geared to the grains. It takes about six months for higher grain prices to translate to higher cattle and hog prices. You can capture that potential upside right now…and you’ll be glad you did when you sit down to a good steak dinner a few months down the line. After all, it’s going to cost you more. [pic] [pic] [pic] Used websites: http://blogs. forbes. com/greatspeculations/2010/10/27/the-food-crisis-of-2011/ http://www. fao. org/worldfoodsituation/foodpricesindex/en/