

# ECONOMY

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THINK STRATEGICALLY:

## The Causes of the Global Food Shortages

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### How the Ukraine Conflict is Impacting Food Supplies

As each day goes by, the war between Ukraine and Russia continues to destroy lives, with more than 7.7 million Ukrainian refugees, another eight million displaced within other parts of Ukraine, more than 25,000 civilians dead, and hundreds of ruined cities.

This genocide is the second time Russia kills millions of innocent Ukrainians. A stark reminder of the first genocide is a statue named “The Bitter Memory of Childhood,” which stands proudly on the facade of the Ukrainian National Holodomor Genocide Museum in Kyiv. The statue of a little girl clutching ears of wheat against her chest symbolizes the artificial famine created by Stalin in Soviet Ukraine in the early 1930s.

However, as the war ravages Ukraine, its impact is being felt globally. As the Russian Navy is blocking most seaports with ships and mines, it does not allow shipments of at least six million tons of agricultural products.

Many nations from the Middle East, Africa and Asia are feeling the worst impact of the lack of food supplies.

The Ukrainian authorities have stated that less than one million tons of food products per month, or 14 percent of the total output, is being shipped by train, truck or through the Danube river.

Ukraine produces 18 percent of the world’s sunflower seed, safflower, or cottonseed oil exports, or \$3.75 billion worth; 13 percent of corn production, \$4.7 billion; 12 percent of global barley

exports; 19 percent of total exports of cereals, wheat and meslin, \$9.4 billion; and 11.7 percent of animal/vegetable fats, oils and waxes for \$5.8 billion

In absolute figures, Ukraine’s food exports surpass \$23.6 billion annually, and it is worth noting that Ukraine’s top trading partner, comprising \$15.3 billion of its total exports, is China, a key Russian ally.

Rising food prices and shortages are being felt everywhere from the Indian, African and Middle Eastern regions to the U.S. and Puerto Rico.

If you thought the Russian-Ukraine war would not affect you, think again. We chose to analyze the impact on the U.S. food supply and selected six essential farm products to study their price increase year-over-year.

All product prices are what the farm received when it delivered the goods, including eggs, wheat, milk, corn, cattle and hogs.

– U.S. Eggs Farm Price’s most recent price was \$2.29 per dozen eggs versus \$0.85 last year, a 169.41 percent increase.

– U.S. Wheat Farm Price’s most recent price was \$10.20 versus \$6.04, a 68.87 percent increase.

– U.S. Milk Farm Price’s most recent price was \$27.10, versus \$18.33, a 47.85 percent increase.

– U.S. Corn Farm Price’s most recent price was \$7.08, versus \$5.31, a 33.33 percent increase.

– U.S. Cattle Farm Price’s most recent price was \$142, versus \$121, a 17.36 percent increase.

– U.S. Hog Farm Price’s most recent price was \$75.40, versus \$75.40; while seemingly unchanged, its prices have fluctuated as low as \$66 and as high as \$84.

The average Increase considering these six food staples was a whopping 56.14 percent.

The World Trade Organization sees food supply affected for two years.

According to the World Trade Organization, if a compromise is not established allowing shipments of Ukrainian food products to be safely shipped, many regions will feel the pain of shortages, rising prices and even starvation for at least two years.

The shortages affect Egypt, Turkey, Sudan and Nigeria; it will also affect most nations in eastern Europe, including Romania, Poland and Hungary. Moreover, price increases and shortages are and will be further felt throughout Latin America.

As a result, most of the countries experiencing rising food costs are also adding the conflict in Ukraine to their list of issues, particularly all of those we have mentioned, which import soft commodities from Ukraine.

In conclusion, consider that Puerto Rico only produces 15 percent of its total consumption, relying on the other 85 percent to be imported mainly via maritime vessels and to a lesser degree by air transport. The island receives a double impact on its food costs, those associated with rising food prices and those of rising shipping rates. If there was ever an incentive to change our food paradigm and make efforts to raise the local production to at least 50 percent in five years, it is now.

Puerto Rico could change its

agroindustrial model significantly and create a larger, more entrepreneurial agricultural class of business.

Do not forget to add to this list of global supply chain disruptions the difficulty of finding labor, including farmers, as well as food producers and grocery stores. Additionally, we must consider that there is also a shortage of truck drivers impacting shipments of all kinds.

So as we face the rising prices of most food staples stateside and in Puerto Rico, we expect this trend to continue until the end of 2022, impacting the lives of millions.

### The Week in Markets: Fed Raises Rates; Market Has Worst Week Since 2020.

The U.S. stock market had one of the most volatile weeks in history, recording the worst weekly loss since 2020. As the Federal Reserve raised interest rates by 75 basis points, the highest in 28 years, other central banks followed suit, including the Bank of England and the Swiss National Bank.

As the Consumer Price Index (CPI) in the U.S. rose to 8.58 percent and the Eurozone to 8.1 percent, the need to curb inflation became urgent. Changing the course of the biggest economy in the world is never easy; however, the same Fed that called inflation temporary, now admits it was wrong to assume that scenario; thus, it is nine months late in the fight against inflation. The problem is that raising rates too fast could lead the U.S. economy to a recession instead of a soft-landing.

Our view is that a recession is avoidable, and we are currently going through a transitional slowdown caused by the recurring themes of supply-chain disruptions and increasing oil prices.

On the flip side, we continue to see strong corporate earnings, robust labor markets and favorable access to capital.

While we should not consider any data point as more critical than others, we believe that as the CPI rose more than forecast, instead of falling as expected, it marked a pivotal point for the Fed and the response was to increase rates fast and high.

Is the U.S. economy strong enough to brush aside the inflation rise and keep growing?

As both the Fed and investors absorb the new market dynamic, we see a new development, which according to past instances, could mean a “V” or “U” shape recovery.

### Weekly Wall Street summary for June 17:

– Dow Jones Industrial Average closed at 29,888.78, down 1,504.01 points, or 4.79 percent, for a year-to-date (YTD) yield of -17.75 percent

– S&P 500 closed at 3,674.84, down 226.02 points, or 5.79 percent, for a YTD yield of -22.9 percent.

– Nasdaq Composite closed at 10,798.35, down 541.67 points, or 4.78 percent, for a YTD yield of -30.98 percent

– Birling Capital Puerto Rico Stock Index closed at 2,675.51, down 95.28 points, or 3.56 percent, for a YTD yield of -10.38 percent

– The U.S. 10-year Treasury note closed at 3.25 percent

– The U.S. 2-year Treasury note closed at 3.17 percent

### The Final Word: The Power of F.I.D.O.H.R

Markets such as the one we are experiencing can be worrisome; however, as we have often said, having the power of F.I.D.O.H.R. can help you immensely in navigating uncertainties:

– F: “Financial” goals and sticking to them are a solid tool

– I: Remain “invested” and focus on the future.

– D: “Diversified” portfolios are robust to abate downturns

– O: Become an “opportunistic” investor, knowing where the value in the market is

– H: Always bear in mind your time “horizon”; what works for a soon-to-be-retired individual, may not work for a 26-year-old.

– R: Know your “risk” tolerance levels.

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market Close Comparison	6/17/22	6/10/22	Return	YTD
Dow Jones Industrial Average	29,888.78	31,392.79	-4.79%	-17.75%
Standard & Poor's 500	3,674.84	3,900.86	-5.79%	-22.90%
Nasdaq Composite	10,798.35	11,340.02	-4.78%	-30.98%
Birling Puerto Rico Stock Index	2,580.23	2,675.51	-3.56%	-10.38%
U.S. Treasury 10-Year Note	3.25%	3.15%	3.17%	1.70%
U.S. Treasury 2-Year Note	3.17%	3.06%	3.59%	1.70%