The silent giant – emerging economies & shifting market demands for the grain industry

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AAAC (WA) Outlook
Perth, Australia
24 November 2016
2016 – started volatile – ends volatile. The calm before the storm?

- Lack of growth – global recession
- Poor economic performance – does this cause consumer & industrial demand for good & services to contract?
- U.S. economy – suddenly viewed as a pillar of strength (the U.S. people – and those supporters of Trump… not so much)
- The U.S. Fed versus rest of the world’s Central Banks – and more negative interest rates with 25% of the world’s economies “participating” … as well Central Banks of the world have indeed been on asset buying roll – from $3 trillion at the start of 2000, the aggregated sum of the assets in these six central banks has risen to nearly $19 trillion – monetization at a frantic pace.
- Too much exportable surplus chasing too little demand
- The world is becoming more efficient and is able to live with lower stocks. And right now – supplies of grains & oilseeds are at / near record levels
World politics – two countries are sitting in a bar

BRITIAN: Brexit was the stupidest, most self-destructive act a country could undertake

USA: Hold my drink
Global wealth pyramid – wealth “at the top” doubles in 6 years

Figure 1
The global wealth pyramid

- > USD 1 million: 33 m (0.7%)
- USD 100,000 to 1 million: 365 m (7.5%)
- USD 10,000 to 100,000: 897 m (18.5%)
- < USD 10,000: 3,546 m (73.2%)

Total wealth: USD 115.5 trn (45.6%)
USD 103.9 trn (40.6%)
USD 29.1 trn (11.4%)
USD 6.1 trn (2.4%)

Number of adults (percent of world population)

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2016
Mid-range wealth – the world’s “middle class”

- High proportion of the world’s middle class
- 900 million persons
- Net worth = $29 trillion
- Considerable economic clout
- India & Africa – under-represented
- India – 3.1% of this global “middle class”
- China’s share is disproportionately high (33%) – it has doubled since 2000

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2016
Trump says no to TPP – who wins? Pretty much everyone else

IMF Data Mapper ©
Real GDP growth (2021)
Source: World Economic Outlook (October 2016)

Growth always drives trade.
Trade doesn’t always drive growth
The new growth in demand: The Southern Silk Route

Massive expansion in South: South Trade, as new economies such as China invest overseas to secure raw material supply.

Movements of Oil, Iron Ore, Coal, Grain, minor bulks etc. from emerging nations in return for investment/infrastructure, Oil/Steel products from China/India, helping new economies to grow.
Very real pressures of the world food system

The Global Cost Of Diabetes
Worldwide healthcare expenditure due to diabetes in 2015 and 2040, by region*

- North America & Caribbean: $348bn in 2015, $390bn in 2040
- South & Central America: $35bn in 2015, $56bn in 2040
- Middle East & North Africa: $17bn in 2015, $31bn in 2040
- Europe: $156bn in 2015, $174bn in 2040
- Western Pacific: $106bn in 2015, $133bn in 2040
- Southeast Asia: $7bn in 2015, $13bn in 2040
- Africa: $3bn in 2015, $6bn in 2040

* 2040 figures are forecasts
Source: International Diabetes Federation
Food industry – global demand & constraints

Supply constraints
- Ag inputs
- Arable land
- Water availability
- Climate change

Demand constraints
- Population growth
- Higher quality calories
- Protein consumption
- Biofuel & bioenergy

Food industry disruptions
- Disparities in nutrition
- Convenience versus premium
- Food activism versus food safety
- Resource constraints
- Infrastructures

Global constraints will drive new innovations
What is the world consuming – ag production trends

World wheat consumption (000MT)

World feed wheat demand

World wheat consumption – up 44% in the past two decades

World feed wheat consumption – on average accounts for 20% of world wheat consumption – will serve as a growth engine for wheat (advantage: feed alternative – non-biotech)
What is the world consuming – ag production trends

World corn consumption – up 127% or 566MMT in the past two decades

Biofuels – ethanol boom is done & dusted. Demand will now shift back to feed – and it is feed that provides a much more price inelastic demand profile
What is the world consuming – ag production trends

World barley consumption – down 15.6% or 27MMT in the past two decades

World sorghum consumption – up 6.4% or 3.9MMT in the past two decades. China the major feature over the past 2 years. Advantage: non-biotech food & feed alternative
What is the world consuming – ag production trends

World soy consumption – up 222% or 226.6MMT in the past two decades

World canola consumption – up 246% or 49MMT in the past two decades. Emerged as a crop alternative: Australian production up from 83KMT to 3.7MMT this year. Canada from 3.7MMT to 18.5MMT
Demand game changer: India protein diets – its biotech policy

- **Eggs** – cheapest source of animal protein for Indian diets
- **Protein** – presently, India is not a player on the world market (imports or exports)
- **Animal welfare** – becoming a bigger issue as is pollution. Major challenge over the next 10 years
- **Consumes 54 million broilers / week** – average consumption = 2.5 kg / person (US = 30 kg / person). Neighbors such as Bangladesh are at 8-9 kg / person. Will need 110 million broilers / week by 2020
- **Poultry (broiler & layers)** – consumes 18MMT of meal – **by 2024/25 - meal demand = 50MMT**
- **Aquaculture** – India is #2 shrimp producer in the world behind China. Profitability is very high for shrimp with focus on exports. Massive upside potential

India’s veg oil imports have increased from 5.56MMT to 14.5MMT since 2000.

- Palm = 10.25MMT (4MMT)
- Soy = 3.6MMT (1.4MMT)

India accounts for 52% of world veg oil imports and is the world’s largest
Demand: growing demand to compete for world exportable supplies

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<tr>
<td>Soymeal</td>
<td>Sri Lanka</td>
<td>20.81 mil</td>
<td>122</td>
<td>225</td>
<td>84%</td>
<td>123</td>
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<td>Algeria</td>
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<td>India</td>
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<td>Pakistan</td>
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<td>Bangladesh</td>
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<td>1304</td>
<td>261%</td>
<td>317</td>
<td>300</td>
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<td>Brasil</td>
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<td>16600</td>
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<td>79.2 kg</td>
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<td></td>
<td>Europe</td>
<td>33525</td>
<td>31692</td>
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<td>-5.5%</td>
<td>22362</td>
<td>21150</td>
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<td>China</td>
<td>1.382 bil</td>
<td>27630</td>
<td>66638</td>
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<td>48.2 kg</td>
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<td>WORLD</td>
<td>7.462 bil</td>
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<td>50%</td>
<td>52741</td>
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Demand: growing demand to compete for world exportable supplies

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<thead>
<tr>
<th>Commodity</th>
<th>Country</th>
<th>Population (persons)</th>
<th>2006 demand (KMT)</th>
<th>2016 demand (KMT)</th>
<th>Growth</th>
<th>Per capita</th>
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<tr>
<td>Veg oil</td>
<td>Indonesia</td>
<td>258.3 mil</td>
<td>4208</td>
<td>4672</td>
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<td>Vietnam</td>
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<td></td>
<td>Australia</td>
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<td>342</td>
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<td>14.9 kg</td>
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<td>Nigeria</td>
<td>186 mil</td>
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<td>1257</td>
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<td>U.S.</td>
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<td>10863</td>
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<td>WORLD</td>
<td>7.462 bil</td>
<td>99918</td>
<td>105530</td>
<td>5.6%</td>
<td>14.1 kg</td>
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The firm’s services touch upon every part of the increasingly-complex agricultural markets, presenting a platform through which clients are able to gain a keen understanding of the integrated global agriculture industry; and to act upon this knowledge.

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• Coordinated risk management (hedge structures and brokerage / clearing services)
• Active advising services
• Dynamic trading strategies (proprietary speculative structures)
• “Right people” introductions
• Commodity execution services

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