

NORD45 MONTHLY: DECEMBER 2022

GLOBAL MACRO

This FIFA World Cup has been of the poorest quality in living memory. With a few exceptions, some of the group football has been dire. Even some of the seeded teams have played well below expectations and very quickly it seems, we lost Germany, Belgium, Brazil, England and Holland. Yet for all the paucity in skill, the tension and entertainment value have been top notch.

Team USA played about as well as expected but need to figure out that running is secondary to passing and simply do not have the depth on the bench to win a World Cup, nor the public passion to want to. Argentina, despite their talismanic Messi, are really never going to win a title by pouting, fielding players under 5 foot 8 and being overly aggressive. Brazil, poor Brazil, all hair and no do. England, forever losing their bottle at the knock out stages.

Morocco though is everyone's delight. The true underdog who knows how to do two things well and sticks to its guns. Tactically smart, they have realized that defense is how you win a cup. If the WC was a league, they would never win; no bench, no infrastructure, no depth. But the WC is not a league and in a two horse race, anything can happen if you know how to defend. Which brings me to the second thing. The untouchable team spirit, belief, complicity and bravery that always defines winning teams. Throw a little luck in there and you have a decent chance of beating France and any of the other semifinalists. Imagine the odds on that bet a month ago!

It feels like a changing of the guard, a new King, a new era of dominance. That a team where you would struggle to name a single player is in the semifinals of the WC is truly astonishing. Football is after all a team game; maybe it's best to not idolize individuals like Ronaldo, Messi and Mbappe. Remain anonymous for the greater good. It reminds me of the larger geopolitical changing of the guard that is happening and again you'll miss it unless you're looking. Commodities have always been correlated to the value of money and these rules are changing too. If you're not looking, you wouldn't know.

AGRICULTURAL COMMODITIES

While inflation continues to be top of mind for those trying to determine what the Fed will do next, agricultural commodities continue to see price declines. Russia is expected to hit record highs for wheat exports in December, despite multiple barriers to export. Reports of Russian land and grain seizure from Ukraine may point towards moral breaches, but outside of the war's frontlines, grains are being harvested by whomever has access. From a supply perspective, this is good for most of the world, as food becomes more affordable and a key contributor to inflation should become less relevant. The UN's insistence and successful brokering of the renewal of the Black Sea Grain Initiative are indicators of the importance of reliable food supply for the entire globe.

In Latin America, Brazil is reporting that it will produce 15% more grains than the previous season, driven specifically by increased soybean and corn production. This too is good news for food affordability, although we do continue to believe demand for soybean for ethanol production will increase in the US, and Brazil is the likely candidate to fill that gap.

In China, farmers have been watching their crops go unharvested, forcing them to either destroy them or plough old vegetables into their land. This is due to Covid restrictions that remain in place. However, as the CCP begins to alleviate these restrictions, farmers can get back to their land and begin producing once again. If Chinese farmers can continue to operate normally, we would expect reliable production from China once again, another respite for global supply.

Lastly, fertilizer prices have been steadily decreasing for the better part of the year since peaking around April/May 2022. This should alleviate pricing pressure down at the farmgate level going forward. Just about everything we are seeing in the market is pointing towards higher production and supply of agri-commodities. This is being reflected in prices, and we expect this trend to continue.

Traditional investors may read “lower prices” and believe there are fewer opportunities in these markets. For those who have read our whitepaper on Lending in Elevated Commodity Price Periods (published in February 2022), you’ll know that it’s easier to invest in the period coming after prices decline. Our view is that the upcoming season will be telling. Participants along the agri-supply chain who benefited from a period of strong price growth will now have to prove themselves back in a more normal pricing environment. At the moment we are packing our pipeline with quality operators who have proven themselves across different market circumstances and have not over-extended themselves in the recent years, where profit margins were unusually large. We look forward to a period of immense opportunity as we enter 2023.