

An era of globalization and free trade ending?

One of the most famous self-help books since the Second World War was "How to Win friends and Influence People". That Donald Trump hasn't read it seems rather obvious and indeed he seems to have adopted a policy of snarling and snapping at friends while engaging in an on-again/off-again flirtation with Russia. Ok, so the guy's erratic...

So the election in November of 2016 delivered a mandate for getting tough with trade partners that were ripping the US off. All well and good... the people had spoken. The trouble was that the most egregious example of trade imbalances, that of the US with China, has not been dealt with. In fact it seems like the Administration has retreated from its tough talk in that direction to instead go for a soft target (in Canada). Whether the new target will prove to be "soft" is yet to be proven, but Trump clearly thinks it's easier to kick sand in the face of friends than foes in a classic bully manoeuvre. The problem he has here is that not even his "base" regards Canada as kick-worthy and it will beg the question over the long-term as to why he is not doing anything about China.

The China Syndrome

Much of the campaign period in 2016 was larded with attacks upon China and how it was stealing jobs (and technology) from the US and how its currency policies were manipulative and distortive and directed towards enhancing the shift of industries and trade in their direction. Frankly we had little to argue with the first thesis. Having been involved up close and personal with the Rare Earth industry this was a classic example of the Chinese *modus operandi*. Very little happens by chance even in areas that one might feel there is not much to

gain. So the idea of taking punitive action, for instance against Chinese steel-dumping, has quite a lot of appeal and definitely Trump's opponents were flailing around and on fragile ground when trying to arguing that China had NOT stolen US jobs. On the second thesis of China as a currency manipulator we suspect that Trump was looking at a rather out of date copy of Time in the dentist's waiting room when he proposed that thesis. That view is so totally 2007 and outmoded. China has not been finding it easy to control its currency in recent times (welcome to the rest of the world) and if anything has been trying to stem capital flight.

In any case Trump's election came as a shock to the Chinese and the sabres continued to be rattled during the interregnum leading up to the inauguration. Taiwan and South China Sea issues unsettled nerves and it looked like a serious tussle might evolve and that the new import duty regime and the tax credits linked to it (the Border Adjustment Tax) could put the US and China on a road to locking horns.

Then peace broke out. China was deemed useful for putting North Korea in its place (despite them being the main sustainers of the wayward regime for over 60 years now). Meals were partaken at *Mar a Lago* with the Chinese leader and all was well in the world, or at least in Sino-US relations.

The problem with this outcome is that it sets up the scene for appeasement on the South China Sea and will not deliver back a single job to the US. It does not deliver for "the base" in the Rust Belt who thought that some, if not all, of the lost jobs would be brought home. It does not deliver for those of us who had hoped to see a removal or lessening of China's rather sinister hidden hand in a lot of commodity pricing and trading. It does nothing for those who hope to see resource independence (read security) in the West from Chinese machinations. Essentially Trump wimped out.

Randomness

“Erratic” is not a critique in the Trump Administration it’s virtually a mantra. If a policy decision is consistent with something said or done before then clearly someone “didn’t get the memo”. The wild swings and roundabouts have lead to daily embarrassments (not that anyone on this crew would blush at anything they have done or said). Strangely the worst events have usually involved close allies and long-term friends. The Australian Prime Minister was insulted (and hung up on), the German Chancellor was excoriated for not paying her share of NATO, the Mexicans have been accused of bringing Biblical style plagues of misfortune upon the US and now the Canadians have been given the first taste of Trump’s new get-tough trade policy.

As a result of this there appears to be no grand plan. That Canada has been the first victim of the “trade realignment” is probably because it is perceived as a soft target for a quick news opportunity in the absence of any action on the China issue. The perception, possibly mistaken, is that Canada won’t respond. Meanwhile little consideration seems to have gone into the opinions of the US housebuilding industry where on average timber worth \$15,000 goes into each new dwelling constructed and that the new measures against Canadian timber imports might add \$1,500 to the cost of each house. That must cut into margins or increase the cost (and affordability) of new houses, or both. It is also somewhat ironic that the beneficiaries of this action are in the timber states of the US of which the two largest are Oregon and Washington that both went with the Democrats. How does this deliver for Ohio or West Virginia?

A new tone has been set here. There could very well be a slew of random tariff actions take place from now on against a range of products and countries and there are sure to be countervailing actions by those countries affected to show that they will not take this lying down.

Conclusion

Trump quite likes being folksy so we might remind him of the old adage “What comes around, goes around”. Whatever the revenge that Canada exacts for the latest slap in the face it will probably be more subtle than anything the Donald might understand as “revenge”. If he has resolved on a course of trade actions against everyone EXCEPT China then the US will find itself exceedingly isolated for the rest of his term with foreign dignitaries staying at home and trade talks becoming a distant memory.

If Trump is right in one thing it is that China (and a few other nations) have gamed the WTO rules for a long while now with seeming impunity. The US has decided to join that exclusive grouping of rule-breakers. The response of those negatively impacted will be “see you in court” and the Trump approach is “bite me”. An era of globalization and free trade is ending. If the US thinks it can rule the globalized world while simultaneously dismantling it, it has a rude shock coming its way.

President Obama's strategy against Islamic State is highly flawed

❌ President Obama's plan to destroy the Islamic State (IS, former ISIS) is ineffective at best. Rather, NATO allies should aim toward forcing the terrorist organization that is destabilizing the territories of Iraq and Syria to implode from within. Beyond the White House's valid intentions, there is little solidarity within the coalition that has been assembled to take action. With the exception of the United

Kingdom, the United States had not secured any solid assurances from the 'allies' forming the 'Atlantic Alliance' to back up its overly military focused strategy; it may even have obtained some rejection. Most of all, the Atlantic Alliance cannot work because it has excluded Syria's Bashar al-Assad, which is as much an omission as it is a contradiction in terms.

The inception of IS was largely favored by the fact that some of the West's allies – namely Saudi Arabia and Qatar – have promoted the armed opposition against the regime of President Bashar al-Asad, which, as dictatorial it may be, has yet to find any credible – or reasonable – alternative. Obama's strategy was conceived and delivered far more to respond to internal pressures from Republicans and 'hawks' rather than to actually resolve the IS problem. Perhaps, that is the weakness of his foreign policy. Obama wants to disengage from many international crisis situations but he has been forced to succumb to internal pressure rather than seeking alternative solutions. Meanwhile, the West wants American leadership and it is just getting the same old tired solutions to problems in the Middle East, Ukraine and China with which relations have deteriorated.

The fact that President Obama has remained reluctant to intervene militarily in Syria to influence the outcome of the civil war over the past three years suggests that he has realized that working with the Syrian regime offers the only real chance of eradicating IS the terrorist group. Moreover, the Atlantic Alliance is fully aware that the Syrian army, the Kurdish Peshmerga and units of the Iranian Revolutionary Guard are the ones performing the actual "dirty work" (i.e. combat) on the ground; and this very important latter part is exactly what the allies will not be doing. Meanwhile, inasmuch as Obama has framed the strategy as a war against ISIS rather than against Islam, it will be a difficult sell for some of the Arab governments called to participate. In fact, some of

the West's most reliable regional allies, Jordan and Turkey, will offer only minor logistical support. This is because, IS's goal of creating a large Islamic state and converting the West are concepts well rooted in the Qur'an and constitutes an attraction for some of the 'allied' states. While, none of these would ever engage in messianic wars, their military participation in the anti-ISIS alliance, would only serve to exacerbate the conflict within the Islamic world between Sunnis and Shiites. From a strictly military point of view, Obama's offensive against IS will be largely based on air raids. Air raids are not sufficient.

The problem is not whether to send drones or fighter jets; surely, they will be all be used. Rather, such a conflict as one targeting a well rooted, armed and financed militant group as Islamic State, which controls an area the size of the United Kingdom (including Scotland) requires the kind of massive commitment that nobody can assure, neither the Americans and especially not the Arab allies. Obama is promoting a war by half measures and this cannot work. IS has appropriated many armored vehicles, tanks, guns, ammunition during their numerous raids against the Iraqi and Syrian armies. Yes, the allies can bomb them successfully out in the open using aircraft but the terrorists would then seek refuge in the cities, starting a guerrilla war that can only be addressed with troops on the ground. This is exactly what the rebels have done in Syria, increasing civilian casualties and destruction to property. The West – especially the United States – has little appetite to get involved in such a war again. No, IS cannot be defeated by air strikes, bombs and bullets aimed at hitting the infrastructure and the strategic objectives of the organization.

IS has enjoyed operational and tactical successes on the ground while it is clear that it has an important nerve center in the West, especially the USA and the UK. No war against IS can be won without stopping its rise and its propaganda to

recruit members in the West – members who come from Muslim and non-Muslim backgrounds alike. In addition, Western governments should borrow from the anti-Mafia and anti-drug cartel struggles playbook to tackle IS: target its funding and wealth. The military strategy should focus on driving IS away from the oil fields they are controlling. IS also has an actual public administration, provinces, a judicial system, tax collection and, of course, an army, which the CIA has estimated at being over 30,000 troops strong (but according to other estimates it might be as high as 50,000). The air strikes must be part of an offensive conducted simultaneously from multiple directions with Syrian and Iraqi ground forces backed by the air forces of the United States or any other Western countries.

IS should be treated in the same way as a rogue State; it should be made bankrupt and force to self implode. Without funds, IS will not be able to provide the kinds of benefits it has promised its backers. It will prove incapable of governing a well-defined territory for quite a long time such that its leadership would emerge discredited beyond repair. The actions proposed by the West, in contrast, may only increase the global popularity of IS.

Ukraine crisis pushing Russia to form rare earths alliance with China

✘ In 1986, Deng Xiaoping, launched the “863 program”, aimed to gain control of the rare earths market in the sector saying: “The Arab countries have oil, China has rare earths.”

The 15 “rare elements” along with yttrium, scandium (‘15+2’), have the characteristic of retaining a strong magnetic property, resistant even at high temperatures. They are essential for the production of hard drives, satellites, lasers, digital cameras, wind turbines, fluorescent lights, electric motors, hybrid, mobile phones, guided projectiles, new generation radar and many other items that are of special military interest. In truth, these elements are not as “rare” as the name would suggest, but, their extraction and treatment requires expensive technology, because these elements are not found in nature in its pure state and they must be refined. Their abundance betrays the fact that most are found in deposits at low concentration, making it economically unwise to extract. China is the country with the largest reserves of rare metals (between 35 and 45%) and, since 1986, has made the greatest effort to support technological research in the field. Taking advantage of the significant economies of scale, low labor costs and minimal regulatory impediments, it has been able to optimize the supply chain in order to offer prices that have eliminated all competitors. Russia has the largest reserves after China – about 20% of the world’s known reserves – but recently there have been new discoveries in the region of Murmansk and the Kola Peninsula. In addition, while the known North American, South African, Australians, Indian and Brazilian rare earth deposits do not ensure a supply of the full range of “15 + 2”, it is virtually certain that the Russian deposits would be able to provide the entire series.

Russia has every incentive to exploit these resources and the recent tensions with the West and NATO over Ukraine, have generated even more interest, given their demand in industrialized countries and their importance to military technology. And, in fact, the fall in the supply of China (which has been discussed extensively in InvestorIntel) has left Russia a serendipitous opportunity to enter the rare earths market. In late 2013, the IST group, founded by Aleksandr Nesis, has formed a joint venture with the state-

owned company Rostekh, and a large investment fund in order to invest at least a billion dollars, by 2018, to exploit of an area of about 250 square kilometers in the Yacuzia region in hopes of expectation of extracting 154 million tons of elements such as yttrium, niobium, scandium and terbium. The plant is expected to be finished by 2017, to enter into full swing only in the following year. ICT's plans have gained stronger momentum as a result of the tensions resulting from the political and military crisis in Ukraine. The United States has never quite warmed up to the EU's reliance on Russia for gas supplies (and for capital), always finding ways to disrupt the South Stream project – a pipeline bringing Russian to Europe via Bulgaria, avoiding Ukraine).

The IST rare earths supply from Russia would clearly tempt the EU in the same way that Russian gas has been doing with South Stream, promoting closer ties between many existing and potential NATO members and Russia – a perspective that most American foreign policy makers, especially on the neo-conservative side, regard with concern if not horror. If Russia cannot consider the EU as a reliable market because of geopolitics (European industrial powers needing rare earths will be hard pressed to promote sanctions against Russia), Moscow can still such outlets as Japan and the BRICS (Brazil, Russia, India, China, South Africa). Taking a page from the potash industry, where Russia had an alliance and pricing cartel mechanism with neighbor Belarus, Russian rare earth producers could establish a rare earths cartel of convenience with China. Last May, Russia and China (which are already linked by the “Shanghai Pact”) decided to increase their gas trade. A Sino-Russian rare earths cartel would be far more powerful than the gas one, being able to dictate world prices. Secondly, Russia could obtain the technology required to undertake a cost-effective exploitation of its resources. China, would gain deeper trade penetration toward Western Europe linking it to Germany more directly, potentially weakening the links with the United States. China and Russia

would also have all the materials needed to expand their military, thanks to the materials to advance new generation weapons from lasers to drones.

The Ukraine crisis – and China's rare earths industrial consolidation and reform – has given Russia an unprecedented incentive to develop a rare earths mining industry, which, in addition to its hydrocarbons, would give it further huge bargaining power on the world economy. It does not have the know-how, technology, refining plants yet but China can offer these. Rare earths are essential to the production of directed energy weapons: absolutely innovative systems that, instead of hitting a target with a bullet, invade it with electromagnetic radiation, plasma or high energy laser beams. They are weapons of power, precision and speed, offering much lower operating costs than conventional weapons. Now, the United States is at the forefront in the development of these systems, but for some years now, it has suffered projects delays, due to the difficulty of overcoming the supply problem. The US Department of Defense has launched some inquiries and legislative proposals to address the rare earths supply issue and the findings were discouraging.

Signs of US recovery while Ukrainian crisis puts pressure on Europe's economy

❑ The financial crisis of 2008 led to a 'Great Recession' and a sovereign debt crisis in Europe, the consequences of which continue to be felt thanks, also, to the geopolitical fallout from Ukraine, Gaza and the Middle East – not to

mention the tensions in East Asia between China and most of its neighbors. The West and NATO are pondering the adoption of tougher sanctions against Russia amid plans to run intensive military exercises that have clearly been announced with President Putin in mind. Most EU countries would rather avoid enforcing sanctions against Russia, which supplies much of the Union's energy along with several billion dollars of capital to its banks while serving as a key market for western luxury, agriculture and technology goods. As the summer of 2014 comes to a close, the European economy has yet to find respite while the United States, China and Japan have shown signs of health. Tensions abound and they come from all directions, generating a fog that makes it difficult to understand exactly what role the various individual factors, whether structural, political, economic, financial or military are having on the much awaited and often prematurely announced recovery.

The American economy improved in the second quarter, with GDP rising up 4.2% according to the Department of Commerce. The growth contrasts with the slowdown in the first quarter when the economy had contracted by 2.1%. The growth rate in the second quarter may temporarily lift fears of a slowdown or a recession in the American economy after the slowdown of the first quarter, which was such that the average growth rate for the first half of the year is actually lackluster at 1.05%. The confidence of European, and other, observers cannot be very high, considering look that the United States is still the biggest economy in the world and – despite the fact that China is catching up quickly – still the beacon that sets the direction of the international cycle. The USA is still the largest market in the world, absorbing exports from all over the world. There is also a psychological factor such that the world looks to 'America' for hope or perhaps at least some comfort that 'things will improve'. Indeed, this faith in America is not all misplaced.

The United States was surely hit by a hard recession sparked

by debt and unscrupulous banking practices. The solution was to cut debt by promoting more savings, leading to lower consumption, which had the effect of slowing down the economy, given that the 'austerity' measures were practiced on a wide scale. Now, economists have suggested that American household budgets have improved and that their debt levels are more manageable even as housing values are recovering. In other words all the elements exist to warrant a healthy growth rate fueled by increased consumption and confidence. If the growth rate average for 2014 fails to inspire, despite some bursts of enthusiasm such as has occurred for the second quarter, it is because the improvements so far have mainly been registered at the individual family level. The extent of the 2008 crisis was such that it forced the State to intervene more directly in the American economy; public sector spending for the past six years has been unprecedented to compensate for the vastly reduced private sector spending. The public sector's coffers were stretched to the limit, hampering its continued ability to compensate for the absentee private sector.

Now, there is actual room for optimism. Household accounts, including public accounts in the United States have improved and even the federal deficit stands at 2.9% of gross domestic product while it had been as high as 10.8 percent at the peak of the crisis in 2009. So, the United States continue to be alive, and all the more so because technical progress never left; innovation at all levels of industry continued and even capital at the corporate level flowed much more freely than in many parts of Europe. This is the kind of optimism reflected by the record highs of the NY stock exchange, which have kept commodities low, even managing to absorb the heavy geopolitical risk that was supposed to have driven gold prices to new records. Indeed, China, whose slowdown from an average GDP growth rate of around 10% to one closer to 7% was supposed to have had dire consequences, has failed to materialize into a crisis. China certainly has some risks, but these are far more related to the population's rising demand for civil

liberties, of which the right to a cleaner environment is essential. Then, there is Japan, whose economic situation is similar to that in much of the European Union, the much acclaimed 'abonomics' (a package of fiscal reforms and stimulus measures) reforms launched by Prime Minister Shinzo Abe to promote growth have started to choke after an initial sense of success in 2013.

The Tokyo stock exchange has been growing as has GDP but the improvements have come largely as the result of monetary policies favoring inflation (printing more money) and cash stimulus. Structural reform remains an elusive target. Only structural reform can achieve the desired effect of long term growth. Europe continues to loiter in recessionary territory, albeit there is great discrepancy among individual members. The explanation is more geopolitical than economic as any indicators of confidence are waning even in the economic powerhouse of Germany, which stands to lose or gain the most from its proximity to Ukraine. If Germany sneezes, the rest of Europe catches a cold and its economy is suffering the repercussions of tensions even though the actual growth factors remain intact. The policy of military encirclement against Russia, backed by Washington and blindly accepted – if not convincingly absorbed – by European governments, have led to a crisis of trade relations with Moscow, for which Europe's productive apparatus has paid a great price, especially Germany, which is in turn the EU's economic locomotive. NATO is planning to increase the effectiveness and visibility of its forces in Eastern Europe in a Cold War like scenario to scare Moscow into reducing its involvement in the Ukrainian civil war.

This does not mean that The United States, Germany and other allies, have plans to increase the number of its troops in the region, which would vastly increase tensions with Moscow. They merely intend to show "unity and readiness" to respond to events in Ukraine. For now, NATO merely wants to make it clear

to Moscow that it is ready to send more troops in its bases in Eastern Europe if necessary through a “rapid deployment force”, through the enhancement of existing bases, logistics, supplies and infrastructure. It is doubtful that President Putin will feel any urge to reverse his strategy in Ukraine. However, Britain and six other states have announced they intention to create a multilateral force with at least 10,000 troops to respond to Russia in Ukraine according to the Financial Times. The official announcement is expected to be issued later this week at the NATO summit. The countries currently involved in the force, which will include naval units and ground troops, are Denmark, Latvia, Estonia, Lithuania, Norway and the Netherlands. Meanwhile, the Kremlin continues to deny any involvement, even though rumors abound that Russian speaking separatists in Ukraine are preparing to attack two key areas of Maryupol and Volnovakha in order to open a corridor between Donetsk until the Crimea. Should this be the case, NATO has stacked the deck too high in order to back down from taking more significant punitive actions with Moscow. This will only raise tensions in Europe, putting pressure on growth.

Sanctions against Russia over Ukrainian crisis are counterproductive

✘ The tension and the ongoing civil war in Ukraine’s increasingly bloody battles will be expensive for the West and will damage what had been an already precarious relationship between the West and the former Soviet bloc. The West has embarked on an inexplicable ‘crusade’ against Moscow,

which has reacted in an entirely predictable manner to the political crisis in Ukraine and then to the civil war involving the largely pro-Russian population in eastern the eastern part of the country and the more pro-EU population in the western regions. Ukraine never existed as such and the struggle now is over border solutions adopted in the fallout of the Soviet Union under pressure from NATO. There was no actual State of Ukraine before the October 1917 Revolution that led the path to the formation of the Soviet Union.

Historical arguments aside, Russia has sufficient historical and diplomatic claims over Ukraine that its involvement is understandable and its concerns of Western interference entirely warranted if not downright justified. Nevertheless, the West, NATO, Canada and the United States in particular (though Canada playing an especially and comical role as part of Prime Minister Harper's 'hawkish' foreign policy) have put pressure on Russian President Putin to relinquish Russian interests in Ukraine. This policy is rather more ridiculous than it sounds. It is akin to having Russia and its allies (including China and the BRICS countries) demand that The United States and Canada relinquish interests in Mexico or the Caribbean.

The West's economic (and military) isolation and encirclement maneuver aims to weaken Russia in an effort to cut ties with the separatists Eastern Ukraine. However, the related sanctions will have a boomerang effect as they are counterproductive for the West. Apart from a predictable series of Russian responses – some of which have already been adopted – major Russian state-owned banks will no longer issue bonds and shares in the European markets and European companies are worried. Exports from food to arms, cars and luxury goods will be prohibited, causing major damage to the EU's economy; indeed, Europe will undoubtedly pay the highest price of this renewed "Cold War" and such countries as Poland, which on paper should be a Kiev supporter, stands to lose the

most. Russian sanctions will slow down its economic growth to the point of threatening a recession.

Moscow wants to block the import of fruits and vegetables from Poland. In fact, Moscow has decided to ban for a year, imports of meat, fish, dairy products, fruits and vegetables from the United States, European Union, Norway, Canada and Australia. The main effect of the sanctions against Russia will be to harm bilateral cooperation and international stability. Russia is a strategic market for Europe from the viewpoint of trade and energy and small, medium and large enterprises will suffer alike. Italian and German companies, which are among Russia's major trading partners, will suffer considerably. As an example, Adidas, the German sports apparel manufacturer, has been forced to cut their estimates of the net profit for 2014, having been forced to reduce expansion plans in Russia. In the first half of this year, Volkswagen sold in 8% fewer cars in Russia than a year ago. And the CEO of Siemens, Joe Kaeser, warned – according to the Financial Times – of the “serious risks” of growth for Europe for this year and next. The sanctions will be felt even by Erste Group, VDMA, Shell, Total and BP. Some American companies such as Visa, MasterCard and ExxonMobil will also feel the sting.

Russia is a strategic market for Europe in terms of trade and energy. However, it is not so much that the EU risks being cut off from Russian gas this winter; it is that the EU exports much of the oil and gas extraction and delivery technology and infrastructure to Russia. The effects will be delays to major infrastructure projects such as the construction of the South Stream gas pipeline, which affects the Eni and Saipem groups directly. Steel companies such as the Danieli Group will see losses as it has significant interests in Russia. As for the military sector, it is likely that Finmeccanica will have to review some strategies, given its cooperation in various civilian and military aerospace projects. A spirit of dialogue between Russia and the West is preferable by far. Europe and

Russia are forced to integrate by history and geography and now by the globalization of markets.

The economic war, the resurgence of armed conflicts and confrontation between Obama and Putin is a worrying sign for the international community. Sometimes compromises are considered petty gestures, but mediation is the only remedy to a conflict or a civil war. Canadian Prime Minister Harper and his unlikely and entirely inadequate foreign affairs minister John Baird have steered foreign policy away from diplomacy to adolescent threats that solve nothing, having forgotten (or possibly they are ignorant of history) that stomping on Russia's feet is a feat that ended the careers of many deluded conquerors from the Teutonic Knights (defeated by the legendary folk hero Alexander Nevsky) in the Middle Ages to Napoleon and Hitler in more recent times. The West has backed some rather ridiculous 'revolutions' lately with terrible consequences: think of Syria, Iraq or even Egypt. Ukraine appears headed in the same direction. It is for posterity to deliver the ultimate evaluation but from the present standpoint, Washington, Ottawa, Bruxelles and all of NATO are pursuing a fruitless and self defeating path by sanctioning Russia.

Crimea and cold US weather boost agricultural commodities and potash

☒ Over the past weekend, Russia completed its annexation of Crimea, occupying the majority of Ukrainian military and naval bases. So far, despite thundering to the contrary by

President Obama at the G7 Leaders' Summit in Rome, western sanctions have been limited to targeting individual figures close to the Russian Government. However, while Russia proceeds with the integration of Crimea within the Russian Federation – with little or no resistance, the West now fears possible Russian ambitions over parts of eastern Ukraine and even parts of former Soviet Republics such as Moldova. The West intends to persuade Russia, through sanctions, that it has committed a 'diplomatic own goal' and any retaliation will remain within the diplomatic sphere. Nevertheless, until such time as the Russian clearly commits to waiving territorial claims in Ukraine proper, the crisis could escalate. As far as the markets are concerned, most industrial stocks are at risk but the prices of agricultural commodities are set to increase. Indeed, corn, soybeans and wheat performed very well in Chicago.

The price of European wheat – mostly Russian, Romanian and Ukrainian – reached such high prices that even Egypt, decided found US wheat more competitive despite the much higher shipping charges (as much as USD\$ 16/ton extra). The situation in Ukraine has certainly helped increase wheat prices because of its role as one of the world's largest wheat exporters and producers; it is also a major corn and barley producer (some 30% of these crops grown in Crimea). The tensions in Ukraine have also sent jitters in Russia itself. The weakening Ruble and the prospect of further devaluations due to sanctions and other Western economic retaliatory measures, have led farmers to save their wheat rather than sell it at below market value – as a hedge, resulting in higher Russian wheat prices.

The cold and prolonged winter season in North America has also played a role in supporting crop prices. The late spring suggest farmers can expect a delayed planting season and yields later in the summer. Similarly, in Argentina, farmers have been hoarding soybeans as they hedge against a declining Peso. Soybeans have also increased in price in South America

due to poor weather in Brazil and Argentina (two of the world's largest producers). Soybean exports from the US have increased – mostly destined for China. This means that US soybean reserves have dropped faster than expected, suggesting prices will increase.

The favorable crop market (at least insofar as the prices of wheat, corn and soybeans are affected) should translate to higher prices for mineral fertilizers such as potash, phosphate and nitrogen. This pattern started in late 2013 where in central Europe, sales of nitrogen (and phosphate) fertilizer to the agricultural sector has almost doubled in the fourth quarter of 2013 (compared to the previous year). Last week, meanwhile, the UN reiterated that the demand for agricultural commodities will be a major driving factor for prices in the next few decades. The UN predicts an increase in the world population from the current 7.2 billion people to 9.6 billion by the year 2050, improving fundamentals of the mineral fertilizer industry.

The combination of long term demand for agricultural commodities and current price increase due to weather and geopolitical events suggest, if not confirm, that the USD 305/ton contract that China signed with Russia's Uralkali and the North American CANPOTEX members (PotashCorp, Agrium, Mosaic) is the new bottom and that a recovery may already be underway. Moreover, prices of pork and beef have also increased. The cattle population has declined since the 70s. This environment should also be positive for the poultry sector, which should also see higher demand. Potash intensive corn is the main feed for farm animals. The higher margins for farmers overall should encourage more use of mineral fertilizers, the market fundamentals of which continue to improve.