

CIO Viewpoint

Food insecurity following Ukraine war set to drive more volatility

Investment Solutions

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After a three-day voyage from Greece, on 16 February 2022 the Liberian-registered ship *Polarstar* arrived in the Ukrainian port of Odesa. The 177-metre long bulk carrier hasn't moved since. Russia's invasion of Ukraine is preventing the export of a tenth of the world's wheat crop, triggering a United Nations warning that the globe faces food shortages.

The [Polarstar isn't the only vessel trapped](#) in a Ukrainian port. In total, 84 vessels and 450 merchant sailors remain stuck behind Ukraine's sea mines and Russian naval blockades, according to the United Nations' International Maritime Agency. Stranded vessels mean that Ukraine cannot deliver its grain harvest to the rest of the world. The country supplied 10% of the world's wheat exports in 2021, according to the UN. The war is cutting the amount of land sown to crops in Ukraine, the ability to hire labour, and fuel price hikes are lowering fertiliser supply and so cutting yields. Russia, whose exports are limited to many markets by international sanctions, accounted for an additional 17% of global wheat exports.

Once labelled the Soviet Union's 'breadbasket,' three decades later the Russian invasion has underlined the importance of Ukraine's rich soils and long growing season to global supply chains. The world's wheat market is highly concentrated: seven countries accounted for 89% of trade in 2021, with Russia and Ukraine the second and sixth-largest suppliers, according to a [United Nations' Food and Agricultural Organisation](#) (FAO) report published last week. Between them, Russia and Ukraine also supplied more than half of the world's sunflower seed.

The Ukrainian government says that 20 million tonnes of grain and pulses and 5 million tonnes of oilseed from the 2021 harvest remain blocked. If the crops cannot be exported, the situation will worsen when the new harvest begins in July as the country will lack facilities to store the additional production. Still, the US Department of Agriculture (USDA) estimates that [Ukraine's wheat crop will be 35% or 9 million tonnes lower](#) than the 2021 harvest.

Logistical corridors

Alternatives to moving grain by sea do not offer an immediate solution. Incompatible railway gauges between the European Union and Ukraine have slowed alternative overland routes to Romanian ports and the Danube. Turkey has hosted talks to open up sea routes that would allow grain exports and possibly, shipments of Russian



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key takeaways

- War in Ukraine has emphasised the fragility of global food security; with maritime routes blocked, alternative overland routes for the country's 2021 harvest are being developed
- As commodity prices rise, food inflation is impacting the poorest nations, and import-dependent economies hardest, with 276 million people worldwide facing acute shortages
- In emerging markets, food may make up as much as half of the goods used to calculate inflation, compared with little as 10% in the European Union and 8% in the US
- Food inflation has the potential to trigger social unrest. We remain prudent and monitor carefully any risks to the global outlook.

Important information: Please read the important information at the end of the document.

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fertiliser. The French, Dutch and Turkish governments have all offered to escort shipments with warships. However, Russia wants to trade-off Western economic sanctions in return for its agricultural resources.

Rising commodity costs are inevitably translating into higher food prices. In 2022, the world will spend an additional USD 51 billion more on food, according to the FAO. Wheat is trading 40% higher than a year ago, while soybeans are at a ten-year high. Global wheat production may reach 775 million metric tonnes over the 2022/23 June-May marketing year, 4 million tonnes lower than the year-earlier period, according to the USDA's latest forecasts. With total supply set to be smaller than consumption, inventories are likely to decline to 2007/08 levels.

Where farmers have responded to food shortages by planting more, their calculation is complicated by volatile crop prices and the higher costs of fertiliser and fuel, all of which are challenging their margins. The shortage of fertilizers from Belarus may undermine crop yield assumptions that underpin some of the USDA's, and private sector projections as well.

The nature of agricultural production means that the world may still be feeling the impact of Russia's invasion on grain markets through 2023, and longer. On 18 May, UN Secretary General António Guterres warned of "the spectre of a global food shortage in the coming months," creating problems that may last years. Already, the UN estimates that the number of people facing acute hunger has doubled in two years to 276 million.

In the even the longer run, the importance of addressing the food production chain remains a high priority. Food security depends on a shift to [more sustainable, and resilient, agricultural production](#) and offers investment opportunities. We do not invest directly in agricultural produce that could affect the prices of maize, wheat, soybeans and rice, because these are staple components of food security.

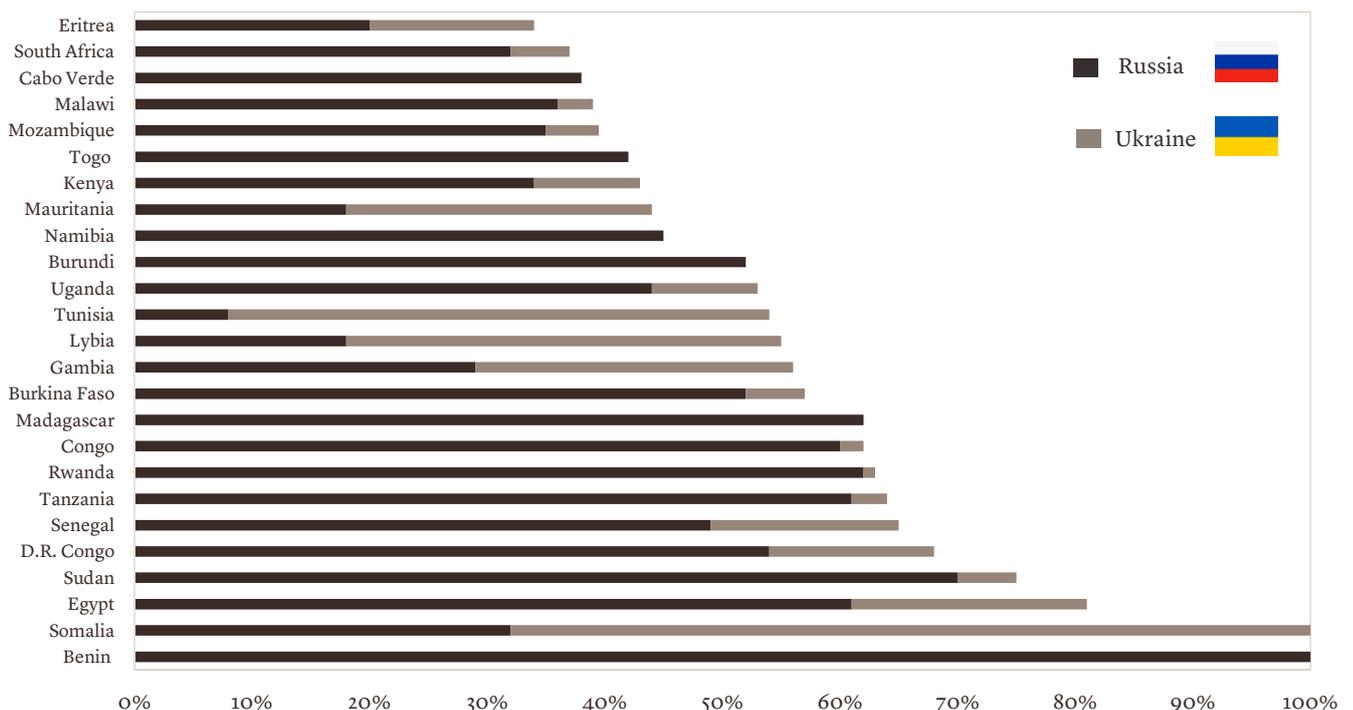
The price of poverty

Compounding the problems created by the war, extreme weather elsewhere in the world is lowering the outlook for grain. China's wheat production may hit a record low after severe weather, India has banned grain exports as it copes with a heatwave and [a drought that is now in its fourth season in eastern Africa](#) is threatening millions with starvation in Ethiopia, Somalia and Kenya.

The impact of higher food prices is falling unevenly, affecting the world's poorest nations, and those who are most dependent on food imports. In emerging markets, food can comprise between one-third and a half of the basket of goods used to calculate inflation, compared with as little as 10% in the European Union and 8% in the US.

In addition, some poorer nations, especially in Africa, are highly dependent on Russia and Ukraine. Benin, Somalia, Egypt and Sudan sourced all, or most of their wheat imports from Russia and Ukraine in 2021 (see chart). China, Egypt and Algeria, imported almost all of their sunflower oil from the two markets. Food-driven inflation has added to the economic

African countries' dependence on Russian and Ukrainian wheat



Source: UNCTAD, Lombard Odier

shocks in countries including Afghanistan, which is threatened with famine, and Sri Lanka where a lack of food, energy, medicines and fuel have triggered violence, a political crisis and the first government default in the country's history.

The world's poorest nations will spend USD 2.4 billion less on food purchases in 2022, the FAO estimates, as consumers cope with higher prices by buying fewer expensive products such as meat and oilseeds, concentrating instead on staples such as rice.

The implications of these stresses may be profound. We only have to look back to the effects of the 'Arab Spring', in 2010, when rising food prices and a lack of economic growth acted as catalysts to a wider series of popular uprisings in the Middle East and North Africa. Food inflation has the potential to fuel social unrest again, destabilising individual economies or whole regions, which then spark mass migrations. If unrest escalates, it may also exacerbate existing social and economic inequalities.

Any additional crisis in the currently fragile environment would only worsen the outlook for the global economy and generate more volatility in financial markets. We keep a prudent investment stance and monitor international developments very carefully.

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SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraiterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com

Credit institution supervised in Belgium by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA).

LONDON

Lombard Odier (Europe) S.A. · UK Branch²

Queensberry House · 3 Old Burlington Street · London
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Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
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Lombard Odier (Europe) S.A.

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8, rue Royale · 75008 Paris · France. RCS PARIS
B 803 905 157 · paris@lombardodier.com
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Avenida 9 de Julho No. 3624, Torre DGN 360, 6º andar · Jardim Paulista · CEP 01406-000 · São Paulo · Brasil
sao.paulo.office@lombardodier.com
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Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE
dubai@lombardodier.com
Under the supervisory authority of the Central Bank of the UAE.

ISRAEL

Israel Representative Office ·

Bank Lombard Odier & Co Ltd
Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv
6688312 · Israel · telaviv@lombardodier.com
Not supervised by the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office ·

Bank Lombard Odier & Co Ltd
4 Sandown Valley Crescent · Sandton · Johannesburg
2196 · South Africa · johannesburg@lombardodier.com
Authorised financial services provider Registration number 48505.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com
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Lombard Odier (Hong Kong) Limited

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Lombard Odier (Singapore) Ltd.

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048619 · singapore@lombardodier.com
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Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
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