



Climate Change and its Impact on Commodities

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While Global Warming has been talked about for some years now, most of us haven't taken it seriously. On the contrary, while scientists have been warning us of a rise in temperatures of about 2 degrees celsius over the next couple of decades, the truth is that the consequences seem to be happening at a much faster pace!

This year, N.E USA and parts of Canada had their warmest Christmas in decades. According to a report by Bloomberg, the snowfall in New York City on 10th Jan, the first this winter, was the latest since records began in 1869. This is a 138-year record! After a very warm start to winter, the USA is now experiencing an Ice Storm in the last two days, which is affecting states in the south and closer to the Mexican border. Arizona, a desert state, is experiencing temperatures below 15C. Now is all this normal?

Floods have been occurring in various parts of the world and with increasing intensity and frequency. We had the floods in Mumbai, then the big hurricane Katrina in the Gulf of Mexico. Malaysia is just recovering from floods caused just a few days ago. Droughts are also showing signs of increasing damage. Australia just had one of its worst ever droughts in 2006 and lost its huge Wheat crop. These are not normal climate conditions.

Very few of us understand, Crude Oil's volatility in 2006-07 has been to a great extent caused by Global Warming (definitely we don't mean to deprecate it's strong fundamentals). It scaled a new peak to \$78 in the wake of Katrina's damage. Its current crash to \$52 is for an extraordinarily warm winter in the NE USA. Now, in 2007, the focus could very well shift to agricultural commodities such as Wheat, Corn, Soybeans, Coffee, Orange Juice, etc. Weather and climate have a far more determining role to play in agriculture than in industries. 2007 is a year of El Nino and is expected to be among the more powerful El Ninos in recent years. In the US, California (a warm state) has been grappling with cold temperatures this week and the orange farmers are having a tough time in saving their crop trying to prevent the formation of frost. Last year, India had a difficult time with weather conditions, experiencing a late drop in temperature and uncharacteristically timed rains. Result – a bad wheat crop. We're well onto the second half of January and there have been no signs of rain showers across our wheat growing regions this year. Any further delay will only leave lesser cushion for our farmers to save their crops should we have another bout of untimely change in Feb weather.

Climate Change is not just 'warming' as we read in 'Global Warming'. It's a rise in the atmospheric temperature causing wider change in sea temperatures and thus affecting the sea tides and wind patterns. This brings about a complete chain of connected weather conditions impacting rainfall, temperatures, wind conditions and the tides. Global Warming is bringing about a Climate Change. Climate Change means extreme temperatures (both warmer and colder), extreme rainfall /snow patterns, increasing frequency and intensity of storms, unusual timing of weather conditions and seasons, shift in rainfall intensity and locations and increasing floods and droughts. These uncertainties are by no means easy to tackle. Only a farmer can experience the hardships. Human lives are lost and farms are destroyed.

The world now has a population close to 6.5 billion as compared to about 2 billion in 1950. The Asians, who constitute around 40% of that figure, are young in age and the new middle-class entrants. The stocks-to-usage ratio in most agricultural commodities is at multi-year lows and leaves barely any cushion for damages to crop. While Crude oil in its initial bull phase during 2003-04 had commenced pricing in geo-political risks, agri commodities have yet to begin pricing in any of the weather risks. And of course, the fundamentals remain as strong as they were and remain for crude oil.



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