

What Japan's earthquake means for agricultural commodities



Japan's disaster may have a significant impact on grain prices. But not in a way that is not immediately apparent.

Sure, it is likely that the disaster will, for a while, continue to add to the negative pressure already weighing on agricultural commodities.

The country is, after all, one of the world's biggest (and perhaps the biggest) food importers, relying on bought-in products for 60% by calories of what its citizens eat, according to the US Department of Agriculture.

So any sign of a fall-off in its demand following the devastating earthquake and tsunami would be felt in easing up tight crop supply pipelines.

And external markets may not offer much support, given that investors were already in the mood for dumping riskier assets, such as shares and metals as well as crops.



Yen factor

For now, the potentially stimulating impact on Japanese food imports of the disaster are unlikely to get a look in.

The idea that Japan the need to import more food – albeit maybe of, say, finished products such as pork rather than feed corn - if much the country's own agricultural capabilities have been put out of action.

And of it having the stronger currency to make buy-ins more affordable. Ironically, one of the expected impacts of the disaster is to strengthen the yen, as insurers repatriate funds to pay claims, and the country sells foreign currency reserves, largely in US Treasury bonds, to raise cash.

After the Kobe earthquake in 2005, the yen appreciated by some 20% against the dollar within three months.

Food vs fuel

But a longer-term impact may become harder to ignore – in reviving the case for agricultural commodities as a source of energy as well as food.

Soaring food prices appeared, early in the year, to have the biofuels lobby on the ropes, with energy crops seen as taking farmland from its "true" purpose of feeding the world.

However, the nuclear reactor problems caused by Japan's earthquake have redrawn question marks over one key form of conventional energy creation at a time when the shortcomings of another, oil, were already being examined following the unrest in the Middle East and North Africa.

Fuel security is back on the agenda. And while other conventionals such as coal and natural gas will do their bit to fill the gap, as will alternative sources such as wind and tidal power, farmers will likely be asked to carry a bigger burden - even at a price in world food security.

Agrimony