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Inflation has reached the tables of developing countries

◆ In the past six months, corn prices have risen 76.65%, soybean prices are up 58.1%, wheat prices have risen 29.6%, while rice prices have risen 11%.

◆ Rising energy prices could also increase agricultural costs, apart from pushing fuel costs higher.

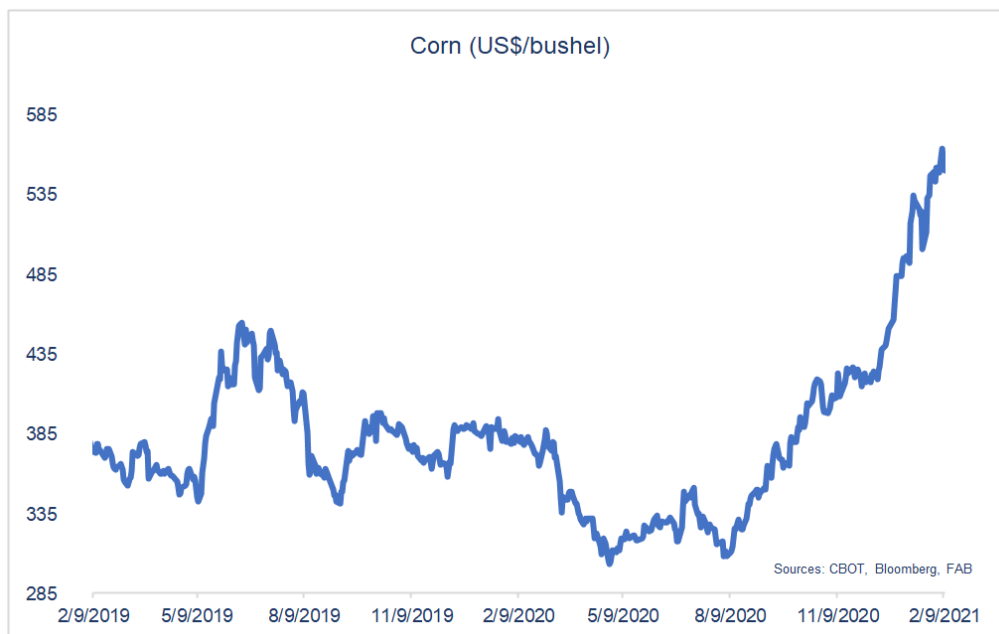
◆ Some developing nations also have the additional price pressure from recent currency depreciation.

◆ The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight alternatives.

Central banks like to look at what they call core inflation, which excludes energy and food prices. To justify this, economists argue that food and energy prices are too volatile and therefore could force central banks to react to what may be a temporary shift in the direction of prices.

Away from econometric models, people on the street probably would say that food and energy are, perhaps, the most tangible part of inflation. And these two elements are being especially felt in developing nations recently.

The prices of basic staples for some of the world's most populous countries in the world have risen significantly in the past six months. The price of soybeans, used for a variety of foods, but also the main oilseed used for animal feed, has risen 58.1% in the period. The price of corn, another key input for animal feed, has risen 76.65%. As for humans, wheat prices have increased 29.6% and rice prices are up 11%. And gasoline prices have increased 38.66%, in line with oil.



These numbers are in dollars, the currency used to price most commodities. Many emerging nations have seen their currencies recover over the past six months as the dollar index fell 3.42% in the period. This has helped mitigate some of the food and energy price increases.

However, many of these emerging nations were coming from long periods of currency depreciation, so food and energy prices were already on the rise before for them. This has resulted in some of the highest inflation prints in decades for some large economies last year.

Brazil reported broad inflation of 25.71% in January, the highest since 2003. Turkey's inflation is back at 14.97%, reversing some of the gains the country had made in its fight against price increases. In Nigeria, inflation has risen to 15.8%, despite its stable currency, and many countries in Africa are also struggling with stubborn double-digit inflation.

Corn prices have risen 76.65% in the past six months, the steepest rise since 2011

Luckily for the common people in these countries, their central banks are not likely to react by increasing interest rates because they watch core inflation, which excludes food and energy. Such food inflation can also be a boon for some of these countries — Brazil, for instance, is a very big exporter of soybeans.

However, food and energy inflation increase the pressure on wages. Eventually, this could translate into broader inflation. Plus, people become restless if their grocery and gas bill keeps growing faster than their salaries. That could be an issue especially in developing nations, many of which are nearing elections. It may be dismissed as 'noise' by central bankers, but food prices matter.

Investment Strategy Update

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