

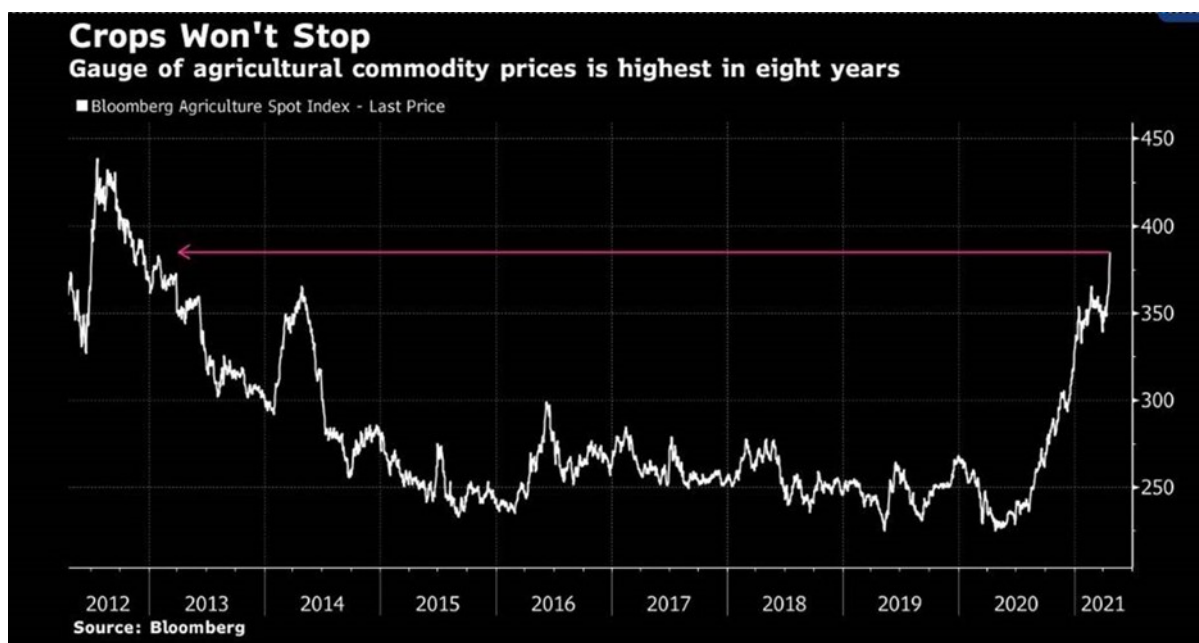


## Friday Morning Coffee

### Nr. 149 — Food Inflation

The inflation theme is everywhere in the financial press. However, central banks remain pretty silent on the matter and downplay the risks. On the all-important inflation question the statement from the Fed this Wednesday states "inflation has risen, largely reflecting transitory factors.". The Fed appears to ignore the surge in raw materials like industrial metals, agricultural products and lumber and the soaring transport costs.

In this morning coffee, we focus on agricultural prices. The Bloomberg Agriculture Spot Index, capturing the price movements of key agricultural products like corn, wheat, soybeans, and vegetable oils, has reached its highest level in 8 years. Prices have increased by 2/3 since Spring 2020. **These higher prices will ultimately find their way through the supply chain and lead to more expensive shopping baskets for the consumer. With inflation becoming more tangible for households, the sad thing is that the first ones feeling the pain are the poorer households who already struggle to feed their families.** Repercussions are also felt differently between poorer and developed countries and can lead to social tensions. We all remember that one of the reasons explaining the manifestations and uprisings in North Africa and Middle East a decade ago, the so-called Arab Spring, were the rising corn prices.



Source: Bloomberg

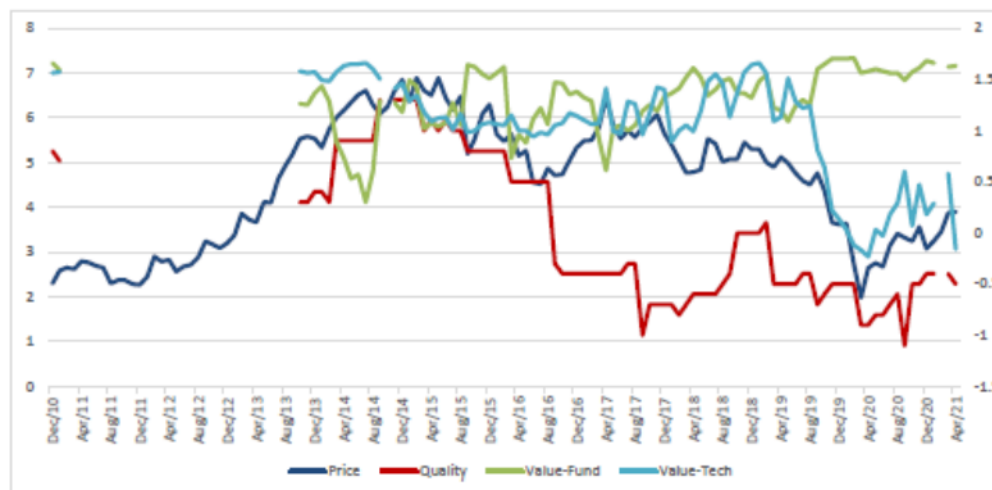
What explains the rising agricultural commodity prices? First, demand from China has substantially increased as the country is restocking following several seasons of weak harvest. Secondly, many countries continue to buy agricultural products on the world market to secure their needs during the pandemic. You add difficult weather conditions in the biggest exporting countries like a drought in Brazil and an extreme cold in the US and the result is a shift in supply/demand balance explaining the rise in commodity prices.

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As the agricultural prices rise, the economics for the farmer improve. We have one investment in our European portfolio that is directly exposed to this trend, namely the Irish Origin Enterprises. Origin is a leading provider of agricultural services, inputs, and crop technology. It supports the primary crop production sectors in Ireland, the UK, Central Eastern Europe, and Brazil. The company has been through a difficult operating environment due to poor weather conditions, especially in the rainy UK. We believe this is temporary and demand for Origin's products will recover soon as the farmers have now a high incentive to increase production.

Origin Enterprises LTD



Source: ECP

The graph represents Origins in our proprietary quality-value framework. As the operating environment is improving, we are convinced the quality score of the company (red line) will increase again and recover to its historical mean. **At the same time, the company is 1.5 standard deviations cheaper than the average European company on our valuation score (green line). It trades on 8.5 times this year's consensus earnings and has a dividend yield of 6.5%. We believe the current surge in agricultural prices will provide additional tailwind to unlock the value of this investment.**

Have a nice weekend,

Léon Kirch, CFA  
Partner & Chief Investment Officer  
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