

Rapid Response Transcript – Sara Menker

“How global markets are reacting to Russia's war on Ukraine”

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SARA MENKER: When the Russian and Ukraine war started, it was adding fuel to a fire.

We're entering this phase in an even more fragile state as a world than we entered Covid in 2020. This is not a local problem for just Russia and Ukraine. It all results in extreme, extreme, unprecedented price moves, and we're seeing unreal disconnections.

Three, four years ago, the understanding that we had of the world on a real-time basis was significantly worse. It gives me hope because we can answer questions much faster than ever before.

BOB SAFIAN: That's Sara Menker, CEO of Gro Intelligence, a data research firm with deep insights on global supply and demand.

Sara was a guest on this show early on in the pandemic when fears about food shortages and other disruptions were acute.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to Sara again because, with Russia's invasion of Ukraine, we face a new kind of disruption and new risks.

Global markets, Sara explains, are not just in turmoil this time around. They're also more fragile.

While Sara's biggest focus is agriculture, her insights provide a window into how things are shifting across all parts of the economy and the supply chain.

She explains how advances in data and modeling give us richer understanding than even a few years ago.

The on-the-ground changes in Ukraine, she explains, are leading to on-the-ground changes all over in ways that each of us, and each business, need to be vigilant about and mindful of.

[THEME MUSIC]

SAFIAN: I'm Bob Safian, and I'm here with Sara Menker, the founder and CEO of Gro Intelligence. Sara, thanks for joining us.

MENKER: Thanks for having me.

SAFIAN: So, you were on this show before, at the early stages of the pandemic when lockdowns were still in place, and we faced a lot of uncertainty. You offered some insight and perspectives from the data you gathered, and your AI modeling about how global markets were reacting, and might react in the future.

Now, with the Russian invasion of Ukraine, we see a different kind of uncertainty. The events are localized, seemingly not planet-wide, like COVID-19, but there are already broad repercussions economically, and speculation about how broad the impacts might become. What do you see going on?

MENKER: Two years later, many of the concerns that I'd shared still stand. Many of the supply chain challenges that were in place in 2020 still exist in our markets and in our systems, and we're going into this next new crisis with things in even more of a fragile state than they were going into COVID, right? So if you think of the state of the world in 2020 and where our starting point was, it was much healthier, both literally and metaphorically. And so, when the Russian and Ukraine war started, it was adding fuel to a fire, not necessarily starting a new one.

SAFIAN: And I know you guys do a lot of modeling. Were you anticipating what might happen if Russia invaded, and how are those predictions playing out and adjusting as we look ahead?

MENKER: Would we have predicted that Russia would be invading Ukraine and declaring a full on war? No, but when sort of the rumblings came about, were we fast in being able to assess and say, "Which markets do we think will be most at risk, and what do we think are going to be the key themes of this year for global agriculture and food markets?" I would say we were spot on. It's maybe worth contextualizing why this is not a local problem for just Russia and Ukraine, why this war is truly a global war.

If you think of the importance of the Black Sea region as a whole, Russia and Ukraine combined today produce 14% of global wheat, but more importantly, they actually export and trade almost 30% of all wheat exports globally. So, if you think about that, 30% of global wheat exports come from these two countries. They're also similar in terms of their importance to barley. They also contribute almost 20% of world corn exports; they supply 76% of global sunflower oil.

This is a huge concentration risk that the world has, and then Russia in particular is one of the largest exporters in the world of three groups of major fertilizers. And so, any cuts to fertilizer markets can further inflate fertilizer prices, which are already really, really high.

Just going into the war, cash prices for urea, which is a form of fertilizer in the Midwest, were already up 90%. These have very global ramifications for our food systems, from everything that farmers are going to be able to plant, all the way to what we can get out into global markets, and onto our plates. So, it's very much a global war.

SAFIAN: A lot of the focus in a lot of the media is around the risk to the oil markets, oil and gas markets from Russia. We don't hear as much, at least yet, about the impacts on the food market.

MENKER: You're hearing more of it, but also, oil and gas are very connected to our food markets, and the reason Russia is a major producer of fertilizer is because it's a major producer of natural gas, and natural gas is one of the key components to producing fertilizer, and every time Russia shuts down its pipelines to even Western Europe, fertilizer prices spike. It has been a mechanism and a tool for exerting power against Western Europe for sort of a long time.

The other connection between energy markets and agriculture: a lot of agricultural products are used for the production of different types of oils and fuels — ethanol, and biodiesel either using corn in the U.S. for ethanol, or sugar in Brazil. In South Asia and Southeast Asia, it's using palm oil. So, any shocks to any market have these deep connections that people don't fully understand, but more importantly, I would argue we need to eat before we need to drive.

SAFIAN: And as you're mentioning this, you're talking about prices spiking, and then I guess there are potential supply issues too, right?

MENKER: So if you think about supply, there's supply as in, is it going to grow, right? And the season is well underway in Russia and Ukraine, and our predictive models indicate that actually, they're going to have pretty healthy harvests this year. So, the question is going to become, can the farmers make it out to the field to actually harvest, when time to harvest comes? And then, can you get them out? Basically, can you move ships and barges out of Russia and Ukraine to get them to markets, and who's going to be willing to trade with Russia?

So, there's supply as in, can you grow it? And then there's supply as in available supply, namely, can you get it out? And the can you get it out part is something that the market still is determining, and every day, brings with it all sorts of surprises. But ultimately, it all results in extreme, extreme, unprecedented price moves in wheat markets, and we're seeing unreal moves, and unreal disconnections, and traders are in a world of pain, because these moves are just so large day to day now.

SAFIAN: You advise a lot of big agricultural and food concerns. What are your clients asking you? And I guess there may be different questions that you might get from sort of operator clients, than from investor clients.

MENKER: Very different. The operator clients have what I call real-world problems of keeping their team safe, keeping their infrastructure safe, not having to shut down plants and processing facilities.

They're very heads down, and rightfully so. The investor-client front, it is all about volatility, where our market's headed. And by the way, the operator clients care about it a lot as well, because ultimately they need a surety of supply to produce the products that they're going to get on shelves.

To add to the mix is, and something that's not talked about: One of the bigger looming worries that we have as a company is one of the largest outlets for Russian and Ukrainian wheat was actually North Africa and the Middle East.

Egypt, namely, is by far the largest importer and heavily, heavily dependent on imports from that region. That North Africa, Middle East region is also experiencing an unprecedented drought, a drought that's worse than any drought it's faced in over 25 years.

So they're going to have record import requirements. They're going to have to have alternative markets that they go to that can exacerbate inflation and cause all sorts of issues.

It's all of these parts. The largest supplier of fertilizer to Brazil is Russia. Having access to fertilizer is a key component to making sure you can grow. There's all of those moving parts: the if, the when, the how, the what, all of those pieces.

SAFIAN: I know you have a background earlier on as a trader. Would you say this is an opportunity-laden moment for those in that business, or risk-laden moment?

MENKER: It's a risk-laden moment, and here's why. When you have moves that are up 7% one day, down 7% one day, dislocations between price points and things that just ... I'll give you an example.

One of the followed contracts in the U.S. wheat market is the difference between the price of wheat delivered in July versus wheat delivered in December. So it's the July-December spread.

It is now at \$1.65 per bushel, which is just unreal.

When it traded positive in the past, it's cents a bushel maybe, then it flips right back. If you look at what happened even in 2014, it didn't happen to this extent. And it shows you the level of fragility there is in the system.

SAFIAN: You mentioned the fragility in the system. When it comes to understanding the economy, there's practical, tangible data, and then there's the emotional component of it.

Do you think fundamentals are that much different from when they were in 2014?

MENKER: Oh, fundamentals are definitely significantly different. We went into this war where wheat stocks globally were at near-decade lows. We've had an unprecedented number of supply and demand-side shocks over the last couple of years.

I always say nothing can go wrong at this point in the growing season in Brazil and Argentina, which is happening right now.

But unfortunately, a lot is going wrong because they're having a second year of drought. And so their production is going to be down quite a lot from where estimates are. Our models are significantly lower than where USDA is currently projecting their harvest to end up.

So nothing can go wrong in the U.S. this summer, since it's already going wrong in South America. Let's hope we don't have any droughts or floods or anything in the U.S. this summer.

SAFIAN: It all sounds pretty scary when you talk about it, Sara. I mean, I know we talked last time. It was scary times. We were locked down with COVID.

As you describe the scenario now, it sounds almost like the risks are broader even than they were then?

MENKER: Yes, they're significantly broader, and prices are already significantly higher. That's why I said, we're entering this phase in an even more fragile state as a world than we entered COVID in 2020.

[AD BREAK]

SAFIAN: Before the break, we heard Sara Menker, CEO of Gro Intelligence, explain how the war in Ukraine is increasing the fragility in global markets. Now she shares what we need to understand about currency moves, Russia's trade with China, and largely overlooked impacts in the Middle East. She argues that recent advances in data and analytics have enhanced our ability to address these challenges. Plus, she stresses the need for all of us to continue to keep our eyes on climate change, despite the distractions.

We saw recently the U.S. release some of their Strategic Oil Reserves. Does that stuff have an actual, tangible impact? Or does the market just soak that up, and it's more an emotional balm for the moment?

MENKER: The release from the Strategic Oil Reserves is tiny, compared to how much oil is going to be needed. It's adding a little bit of relief, but it's not much. Russia is a major player in the global oil markets, and many countries don't have strategic reserve programs.

The U.S. is incredibly lucky, in terms of... One, it's the most food secure place on earth. Two, it's now also energy secure. Most countries are importers of both, and don't have the financial resources to keep reserves.

SAFIAN: I wanted to ask you about the drop in the value of the ruble. What are the implications of the changing value of the ruble in the economy and all of this?

MENKER: Certainly makes Russian goods cheaper to the global market, but that's if the market's willing to trade with Russia. It's being cut out of the global financial system, and people are pulling their businesses out of there. Oftentimes, when these types of currency moves happen, and we see this happening in South America and Argentina, et cetera, where those who control the goods that get exported tend to hold onto those goods because they serve as holding on to the equivalent of U.S. dollars.

You only sell what you need to sell to get the dollars that you need. So in Argentina, the oil is soybeans. Farmers will oftentimes keep soybeans in storage facilities on their fields and hide them and not report that they have them and then sell them as they need, and so it also creates weird perverse incentives for the local traders around how they look at the preservation of their wealth.

SAFIAN: Is there any clarity yet about what Russia's trade with China is going to be like. Is that where the trade might be happening?

MENKER: That's a very good question. I would say one of the most overlooked, but really, really important developments in the markets that occurred maybe a week or two before the war started was actually China finally approved the import of Russian wheat into China. Russia was previously not one of the seven countries that was actually an accepted exporter of wheat into China. Putin had started to lobby for this about two years ago on his trip to China when he met with Xi Jinping to get these doors opened, and that was allowed in a few weeks earlier. So the answer is most likely yes.

SAFIAN: I guess it's an outlet for the global market, but also a limitation on the impact of those sanctions and restrictions.

MENKER: Exactly.

SAFIAN: When we talked early in the pandemic, you noted that people were worried about their food supply, but overlooking the risk of a big locust infestation that was underway in Africa. Are

there things that people are overlooking today that we're being distracted from that could have implications for the economy, for supply chains, for food security?

MENKER: The Middle East issue is a real one, and we really need to watch out, because let's not forget the last Arab Spring sparked because of the price of bread. The largest producer of wheat in the Middle East is Iran, and Iran is also having an unprecedented drought, and it's expected that Iran will need to import 40% more wheat than it has imported in previous years. That's not an insignificant amount, and this goes back to the notion of health versus fragility, and that we are in a fragile state as a world. So it's going to take very little or very little more to create some type of outsized reaction.

SAFIAN: So what is the upside? Where do you go when you're looking for optimism?

MENKER: Honestly, I go to the fact that we can get these levels of insights today. Three or four years ago, the understanding that we had of the world on a real-time basis just was significantly worse, especially of regions like Russia and Ukraine, et cetera. Somebody asked me this question yesterday, "What gives you hope about the role that you feel like Gro can play in solving for challenges around food security and climate change?" And I said, "It gives me hope, because we are solving problems that didn't seem to be solvable."

Now we have the bigger problem, which we've solved on a technical front, it's changing human behavior. We're doing things that we never imagined possible, from a technical standpoint, now, and so next is going to be getting people to change their ways, but I think it's possible, because if you understand this, and then you change your behaviors as a result of it, you can drive long term structural change.

I feel hopeful because we can answer questions much faster than ever before, and sometimes having an answer itself is empowering.

SAFIAN: So we understand how global trade and supply chains work better than we did two, three years ago?

MENKER: Very much so. Companies like ours have spent an unbelievable amount of time and resources, essentially building out models that help us fill these gaps. And it comes from the fact that one, we're generating more data than ever before, and we continue to do that, but more importantly, we're synthesizing that data and generating insights from it much faster than ever before, and we're connecting the dots between those insights. So it's not just about having a model, it's about connecting the dots across models.

So first part of any journey, or even the world's journey on data, was like, "Can we get enough data?", and then it was like, "Oh, we have too much of it," and then, "Can we organize it?", and then it's like, "Okay, then what insights can we generate?", and that's

sort of where you build the model, but now you start to understand a system when each model speaks to one another. And we're sort of getting closer and closer to that world.

SAFIAN: The Ukraine crisis, we're still counting in days. How different might your models look in a week, in a month? I mean, you're feeding fresh data every day, right?

MENKER: Yeah, listen, some models will move more than others, right? Models around production have nothing to do with the war. They have everything to do with the war on climate, but they have nothing to do with the war between Russia and Ukraine. But then things like trade models, those swing around. Saw this morning that a ministry in Russia has suggested that they ban the export of all fertilizer.

Like I mentioned, Russia is one of the world's greatest fertilizer exporters. Why would they do that? That's them waging war against the world saying, "You need us. You need our fertilizer. And so now we're going to shut you out." They would need the money more than they need the fertilizer. But we're talking about Russia here. And so does that change trade patterns? Absolutely.

SAFIAN: Well, I always learn so much talking with you. What have we not talked about?

MENKER: What we're not talking about is climate change as much, although the IPCC issued a major report this week around that too. And people aren't as focused on it, but they'll focus when some major crop gets wiped out because some flood occurs or something like that. We're horrible as humans, right? Is that we always need some type of reminder that's so shaking to our core for us to pay attention again.

SAFIAN: Well, let's hope we don't need anything too traumatic, too much more traumatic, to get us to move.

MENKER: Yes. Because trauma, we have enough of it. We still have a pandemic that we're managing and now a war that is of proportions nobody ever imagined.

SAFIAN: Well, I hope the next time you and I get to talk, there are sunnier things for us to talk about. Thank you so much for taking the time and taking us through this. Always an education.

MENKER: Thank you so much for having me.