

From: [REDACTED] >

To: Jeffrey Epstein <jeevacation@gmail.com>

Subject: Inflation and investing and the foundation.

Date: Tue, 15 Feb 2011 16:57:39 +0000

Is this macroeconomics? Do you have a comment? See note below

From: Tren Griffin [mailto:[REDACTED]]

Sent: Tuesday, February 15, 2011 5:06 AM

To: [REDACTED]

Subject: FW: Inflation and investing and the foundation.

From: Tren Griffin

Sent: Tuesday, February 15, 2011 5:05 AM

To: Bill Gates; Michael Larson; Jerry St. Dennis; Alan Heuberger

Cc: Boris Nikolic (bgC3); Larry Cohen

Subject: Inflation and investing and the foundation.

It is obviously important to keep an eye on issues related to inflation both in terms of investing and in the work of the foundation. Assembling current data in one place is helpful in understanding the phenomenon,

Food inflation including a nice chart: <http://blogs.ft.com/beyond-brics/2011/02/14/chart-of-the-week-fighting-inflation/>

IMF http://online.wsj.com/article/SB10001424052748703361904576142901753380400.html?mod=googlenews_wsj

"We are concerned that inflation is spilling over" into underlying demand, Mr. Singh said in an interview.

Monetary policy alone won't be enough to contain these pressures and exchange-rate reform is essential.

"There's certainly much more room for much of Asia to have more-flexible exchange rates and to have more strengthening," Mr. Singh said.

"We do see flexibility and appreciation of many currencies in Asia as part of the process of normalizing the policy stance."

Some governments are reluctant to allow their exchange rate to float freely, or appreciate in value as they seek to protect their exporters, and some authorities routinely intervene to weaken their currency.

Mr. Singh, who has been the IMF's Asia chief since 2008, said policy makers can't have effective monetary policy with controlled exchange rates. Mr. Singh didn't single out a specific country, but a number of economists pin part of the blame for regional imbalances on China, which allows the yuan to move only in a limited range compared with the U.S. dollar.

Much of the blame for Asia's quickening inflation has been pinned on ultra-loose monetary policy in the developed world, prompting a surge in capital inflows into higher-yielding emerging nations. This is a criticism that Federal Reserve Chairman Ben Bernanke has pointedly rebuffed in recent weeks, saying U.S. policy is not to blame. Instead, some of the underlying demand in Asia can be attributed to a widening middle class, which means the price increases may not be as temporary as some policy makers suggest, Mr. Singh said.

"What we're seeing in food prices is partly supply, cyclical, and weather developments, but you are also seeing more structural shifts which we need to bear in mind in the medium term," the IMF official said. "We are concerned that although we should be pleased by the high growth rate and recovery in Asia, we have to look at the sustainability of it and quality of it."

On the IMF's planned overhauls to the basket of currencies the fund's 187 members can use as a reserve asset, known as Special Drawing Rights, Mr. Singh said consideration will be given to including the yuan, which he said remains "undervalued."

"If you look ahead to the countries that will be part of the Special Drawing Rights, certainly it makes sense to extend it to emerging-market currencies, and the yuan is one," to consider, Mr. Singh said, adding the process will take time. The SDR at present has only four constituents: the euro, sterling, dollar and yen.

FAO and wheat: <http://www.ft.com/cms/s/0/9f1ee7fc-381b-11e0-8257-00144feabdc0.html#axzz1DxvftkOR>

India's problem is primarily distribution and storage: http://www.moneycontrol.com/news/business/key-to-food-security-is-distribution-fix-expert_522630.html

"... distribution, rather than production, remains the key issue for India, Gulati said, and the recent mini-crisis around onions could prompt the government to take action here.

"Governments act when there is a crisis. So this crisis may turn into an opportunity to change. At least the right noises are coming out of this," he said.

Earlier this month, Singh called for a "paradigm shift" to improve availability of foods domestically and Gulati echoed the view that distribution networks needed upgrading, especially as Indians shift their diet towards perishable fruit and vegetables.

"You need to invest in facilities that can store them and increase their shelf life. That is where investments are needed and where the laws have to be cleaned up," he said.

As much as 40% of India's fruit and vegetable production is wasted because of poor networks and a lack of cold storage facilities, with much product still sold on flat-bottomed carts by smallholders even in the centre of cities such as Delhi.

Gulati said the government could move as early as the next budget, due on February 28, to bring incentives to the sector.

"If you clean up the laws, this country doesn't have a dearth of entrepreneurs and investors ... I am sure they are preparing some policy paper on that to change ... it could be as early as this month in the budget," he said.

He said the government should look at increasing incomes of its half a billion poor who live on less than USD 1.25 per day, rather than handing out free or subsidised grain.

"Our view is the best way is to mainstream these people into high productivity activities so that their incomes go up," he said. "But that takes a little time and therefore in the short term you may have to keep feeding them," he said.

IFPRI would favour cash transfers on a targeted basis, such as for specific foods or for children, rather than subsidising foods or intervening on exports and imports, he added.

With many of India's poor spending up to 60% of incomes on food, price volatility is a much more important issue than in the United States, for example, where only 10% of average incomes goes on groceries.

And he added that health issues had to be addressed at the same time as ensuring people could afford to eat.

"Nutrition also depends on hygiene. You may be feeding the child but if the water is not clean it's washed away in diarrhoea."

US farm income effects: <http://www.bloomberg.com/news/2011-02-14/usda-farm-income-and-costs-forecast-report-for-2011-text-.html>

Net Farm Income Forecast Up Nearly 20 Percent in 2011

Net farm income is forecast to be \$94.7 billion in 2011, up \$15.7 billion (19.8 percent) from the 2010 forecast. The 2011 forecast is the second highest inflation-adjusted value for net farm income recorded in the past 35 years. The top five earnings years for the past three decades have occurred since 2004, attesting to the profitability of farming this decade.

http://online.wsj.com/article/SB10001424052748703843004576140762706032294.html?mod=googlenews_wsj

Mr. Bernanke swore this [global] inflation would not spread here. But then Mr. Bernanke once predicted the subprime mortgage mess would not spread, either. ... Republicans gave Mr. Bernanke a pretty hard time, challenging his boast that as soon as higher inflation inevitably rears its head, he'll guillotine it with a gentle pull of his interest-rate lever.

...A new form of inflation is increasingly described in the blogosphere. It better explains the pricing paradox Mr. Bernanke has failed to embrace.

It's called "biflation."

Everything you already own -- a house, a car, a stock portfolio -- has rapidly declined in value. Everything you actually need to buy -- food, gasoline, medicine, education -- is going up.

Biflation is apparently what happens when the Fed creates trillions of new dollars out of nothing, but mostly just gives it to the banks.

Hedge Funds Increase Bullish Wheat Bets to Highest Since 2007- <http://www.bloomberg.com/news/2011-02-14/hedge-funds-boost-bullish-wheat-bets-to-highest-in-more-than-three-years.html>

[Inflation Hits 4 Percent in Britain](#) - New York Times

[China inflation ex-food at decade high, adds to tightening case](#) - Reuters