

DISRUPTED SUPPLY CHAINS & HUNGER

STEVEN MCCLURG & LEAH WALD

DEFIANCE #039
WITH PETER MCCORMACK



DEF039 - STEVEN MCCLURG & LEAH WALD INTERVIEW TRANSCRIPTION

DISRUPTED SUPPLY CHAINS & HUNGER

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Peter McCormack 00:02:23:
Steve, Leah, how are you both?

Steven McClurg 00:02:25:
Fantastic, how are you?

Peter McCormack 00:02:27:
Good, good to see you again.

Leah Wald 00:02:28:
Good, thank you Peter.

Peter McCormack 00:02:30:
Hey Leah. So I saw Leah last in Vegas and Steve, it was Mexico and I don't know when I'll ever see you both in person again. We're in a very strange world right now.

Leah Wald 00:02:43:

Yeah, that is true, that is true.

Peter McCormack 00:02:48:

How are you both holding up?

Steven McClurg 00:02:50:

On my end, I'm fantastic, we live in a little more rural area so it's been quite... we've been away from the epicenters of the world and I've actually kind of gone back to basics working from home.

Leah Wald 00:03:10:

It's pretty weird here, it came as the second wave, here in Singapore, I should say. It was originally here and now it's back and now it's more of a lockdown situation. So things are getting a little stranger when we thought it was the litmus test of Asia creating a good confinement situation but the world is definitely in an uncomfortable place right now.

Peter McCormack 00:03:38:

Yeah, Leah, explain what's going on because we were talking before we started recording, but Singapore has been used as one of those examples, fantastic examples of good containment policy, but things are changing, right?

Leah Wald 00:03:51:

Yeah, very quickly, very, very quickly, which I guess is indicative of this virus. It came here first really, with our proximity to China and with the Chinese New Year, so we had really wave one. And I remember a lot of my family members and friends asking, "Are you safe for you? Are you okay?" And it's before it had really spread to the rest of the world and it was completely contained, it was very safe here and then it hit the States and it exploded everywhere.

Leah Wald 00:04:28:

I think, no one was really prepared for wave two. So when it came back and it was all, for the most part, from residents who had just visited in the States or the UK specifically, but also generally in Europe, it exploded. They've been instituting more measures really exponentially each day, but it's not looking great. We're on the same waves of mandatory wearing masks outside and all the dystopian narratives and looking at it every single day, apocalyptic.

Peter McCormack 00:05:12:

Well, stay safe. I do want to see you again at some point, hopefully a poker tournament and take your money. All right, well, listen guys, thanks for getting in touch. And by the way, it's a great article. I was fascinated by it and it covered a couple of things that I've been concerned about or thinking about.

Now, listen, I won't pretend I understand everything and lots of the economics that you cover, and the analysis of the market and what the fed could and should be doing.

Peter McCormack 00:05:40:

It does go way over my head and people know me by now to know that I don't really understand all this shit, but the kind of conclusions you come into, and the actual risk to people with regards to the breakdown of supply chains and the potential results or negative results for certain countries with regards to access to food, actually, it's a very important story.

Peter McCormack 00:06:01:

And I recently did an interview with Raul Powell, he's based in the Cayman Islands. And one thing that had come to mind with me with the breakdown of travel and people not going on holidays, there are a number of islands which rely on tourists as one of their main income streams, but also that these islands also rely on imports for a number of their foods and food sources. I did start to think about what can these small island nations do if the supply chains break down, they can't import food. So it was a timely article and I want to go through it. I'm using the article as a structure for this.

Peter McCormack 00:06:38:

Actually, Steven, quite funnily I wrote down, my first question as like, "What the fuck is going on right now?" Because everything seems insane. Today, we've had the oil prices crashing, it's almost unreal what's going on right now? Can you explain what's going on, how are you interpreting all of this?

Steven McClurg 00:06:55:

Yeah, well, a lot of price has to do with supply and demand and for food, there's plenty of supply, there's always demand but right now we're experiencing an issue with supply chain. So supply chain radically affects the actual supply of food. So in the US, for instance, dairy farmers are dumping milk. It's not that people aren't really demanding much milk, but what happened was, as people started holing up, and self-isolating or forced isolation, initially they went out and bought a ton of milk and a ton of cheese and a ton of other things and realised that all these things are perishable and people are starting to live off of nonperishable foods more and more. So milk is sitting with the farmers, there's no demand and the suppliers for people wanting to buy milk.

Steven McClurg 00:07:56:

Also, global export is a huge part of the supply chain. And with people afraid of the coronavirus or afraid of COVID-19, less and less people are willing to actually be part of that supply chain for fears of getting infection, especially if

it's globally. So China is a huge importer of US milk and without that supply chain, that supply chain being broken the milk is being dumped.

Steven McClurg 00:08:27:

The non-perishables, and sometimes wheat is thought of as a nonperishable because it can be stored for a very long time. A lot of countries are blocking their exports of wheat, particularly countries like Kazakhstan, they were the very first ones. And Kazakhstan is the exporter of wheat to all the other countries who ends in astan, Uzbekistan and everything else in central Asia.

Steven McClurg 00:08:57:

So that's a concern right there, they may not be island nations, but they are pretty landlocked and there aren't a whole lot of supply chains that reached them outside of the massive amounts of wheat grown in Kazakhstan. And Kazakhstan, by the way, is only one of the top 10, they're not in the top five, but they are in the top 10. But think about some of the countries that are top 10 wheat producers, you've got Russia, Ukraine, United States and Canada as the top four, these are also countries that produce a large amount of oil.

Steven McClurg 00:09:35:

So there is a relationship there, somewhat. Oil prices are dropping so what do you want to do when oil prices drop. By the way, Kazakhstan is also a very large producer of oil. So if oil prices are dropping and nobody wants to buy your oil, well, you shut off the supply chain for wheat and drive the price of wheat up and make up for it in that way, so I believe some of that is happening as well.

Steven McClurg 00:09:59:

Onto the oil problem, nobody's consuming oil, airlines have grounded mostly 90% of their jets for the most part or their planes for the most part. People aren't driving so there's just no demand for oil. I mentioned a week ago that oil could go negative and a lot of people thought I was a little bit crazy. Over the last two weeks, there's actually-

Peter McCormack 00:10:21:

Well, it just did, didn't it?

Steven McClurg 00:10:23:

Yeah, it just got negative in Western Canada this morning?

Peter McCormack 00:10:27:

Okay, listen, you've got to help me out here. I can understand negative interest rates, I can understand the fear, this was explained to me before, that the fear of money becoming worth less in the future so it makes sense to pay people

to borrow money from you. It sounds stupid, but it was explained to me in a way that I was like, okay, I can understand that, it's differing risk. I cannot understand a negative price for oil, it doesn't make sense.

Steven McClurg 00:10:54:

It's actually quite simple. There's only so many places that you can actually store oil. Back when the oil crashed about eight years ago, the reason why it crashed is Cushing, Oklahoma is where most of the US oil is stored. And because of fracking, the price of West Texas intermediary had gone down quite a bit and at the same time, more fuel-efficient cars were on the road. So there was more supply than there was demand and they ran out of capacity to store.

Steven McClurg 00:11:32:

So they started storing them freighters sitting out in the ocean. Well, that's happening right now, there's no more capacity in freighters, there's no more storage in Cushing, Oklahoma. By the way, you can also store oil in the pipelines that transport it and pipelines are now full.

Steven McClurg 00:11:52:

So what's happened is in Western Canada... So Western Canada and Western US don't move their oil to the Eastern part of the US where Oklahoma is. When I say Eastern, the continental divide is a mountain range going right down the middle of the United States and Canada, and oil doesn't flow uphill, so to speak, it can but not that high. So it essentially has across the Rockies.

Steven McClurg 00:12:24:

So in the Western part of the United States and Canada, you can't get it to where all the storage is on the Eastern part. So they're storing it in the pipelines, there's no more capacity in the pipelines, oil producers have nowhere to put this oil that's just coming out of the ground and it costs too much to cap the wells. So they're paying people to take their oil and they're paying people more than what the end-user is actually paying for it, which creates this negative oil price. And you'll see that in Western Canada, you'll see that in some of the Western US pipelines. And by the way, you could see it in other places as well, including Brent.

Steven McClurg 00:13:05:

So, two-thirds of the entire oil being produced is priced off of Brent crude oil. And Brent is what is produced in the Northern sea up near Norway. And they're usually closer to water as opposed to West Texas Intermediate, which is pretty much landlocked areas that produce oil mostly in the United States and Canada and Mexico. So Brent is produced near the ocean. And the only way to ship them is through freighters and freighters aren't moving. So they're

going have to start paying these freighters to hold the oil that nobody wants, so that's how it gets a negative.

Peter McCormack 00:13:47:

Okay, so economics 101 supply and demand. Why aren't people just cutting down supply? Why aren't the oil producers cutting down supply heavily?

Steven McClurg 00:13:57:

Yeah, well, it's actually harder than it sounds. When you dig an oil rig, the oil starts coming out of the ground, and if you cap it, it costs too much money to actually stop the flow of oil, because then you have to start it back up again one day. And when you start it back up again, it costs so much money that... think about like sub-cost, you spent all this money just to tap it and now it's just kind of flowing very easily, it doesn't cost a whole lot just for it to come out of the ground. And they know that that cost is so high to cap it, that they don't want to spend it to cap it, they don't want to spend it to restart it. So they're hoping that oil prices will go up later.

Peter McCormack 00:14:43:

Right, okay. So this is exposing a lot of fragility in different economies and how reliant we are on a constantly moving economy. I don't think we've ever, certainly not in my lifetime, ever experienced anything like a hard stop to the economy so this is exposing a lot of fragility. Let's go back to a wheat because wheat's an interesting one. The only time I've ever known or considered wheat prices is back when I watched Trading Places, you remember the old film?

Steven McClurg 00:15:10:

Yeah, that's exactly right, that was a great movie.

Peter McCormack 00:15:12:

Yeah, they were talking about the price of wheat and the price of orange juice. So again, why is that so important? Why is the price of wheat so important?

Steven McClurg 00:15:22:

Well, the price of wheat and a lot of basic food commodities are so important is because half of the world or even more than half of the world spend a proportionately large part of their disposable income on these basic food items, wheat, rice, corn, it's the basics of diet. I know, Peter, we've talked about this quite a bit, and Leah, you're there now, in a lot of parts of Asia or most parts of Asia, people live off of three bowls of rice a day, if not two or if you go to places like Africa or the Middle East, people live off a loaf of bread.

Steven McClurg 00:16:06:

And that's the majority of the world's population, they're not like we are in a

developed country where we're eating lots of meat products and varieties of vegetables because there's that variety available, these are the basic building blocks of nutrition. So when rice or wheat or corn goes up in price, I mean, this has a massive detrimental effect on most of the world's population.

Peter McCormack 00:16:38:

And are we seeing this now? Are you seeing a change in the price of commodities, Leah?

Leah Wald 00:16:44:

So just to piggyback on that, I think that on top of everything, one of the most salient points that Steven was making there's, it's just simply put that it's sustenance. One of the biggest sources of carbs, of protein and fiber for especially the developing world. You think about India and naan, you think about really just the basics. And Steven was talking about rice for this area of the world, absolutely. So when we talk about food shortages, the way that rice is affecting Nigeria, we can get into that in a second, but especially wheat for the rest of the world for a very basic food staple cannot be overlooked.

Leah Wald 00:17:31:

And just to chime in here for me, I think that food security breaks down really just to two elements. One is whether people have enough money to buy food and two, whether people can actually secure, have access to that food, so economic access and physical access. And right now, well generally, actually, I should say poor countries lack both. And if food prices go up people who spend most of their income on food purchases are unable to buy the food, that's what Steven was just talking about.

Leah Wald 00:18:07:

Recently, the UNDP said in a report last Monday right after we had written the piece said that nearly half of all the jobs in Africa could be lost. So they were warning that and grain, again, provides the necessary calories for the majority of the people there. So even if rich nations could deliver the food aid to the shores of these poor countries, and we can talk about Island nations, again, in a bit if we wanted, but the food will still not reach the people who need it if there's no means to transport it inland to the areas as well. So, so much of this does also come down to the disrupted supply chains.

Leah Wald 00:18:54:

So let's add one more current element, which is just access. And so also what we're talking about here, what you're saying about Kazakhstan and what we're talking about wheat and food protectionism, to add on to this whole equation is trade restrictions are breaking these supply chains and the lockdowns are preventing the laborers from working on the farms. So, as Steven was saying

that the dairy farms are throwing out the milk and other farmers in the United States, and we're a net food exporter are burning food.

Leah Wald 00:19:30:

You even have a situation, again, where there is a surplus of food but we can't even get it to countries that need it. So all these different elements that you're talking about of the price, food inflation becoming too expensive to be able to buy, that you're not able to even get it to those places that now I should just say that when you both have the economic and physical access denied to you in a developing country, you truly have a food crisis. And I think that what we're in right now is absolutely a food crisis.

Leah Wald 00:20:13:

And one last statement about island nations, I love the Caribbean, I do miss being in the United States, is that it's very much based on tourism in the Caribbean, at least if it... Sorry, right now, I'm just thinking about my Caribbean adventure so if that's okay. Obviously tourism, heavy industries, and I was reading earlier today that 80%-90% of all food consumed in the region, in the Caribbean, originates from foreign countries.

Leah Wald 00:20:43:

So again, if no one's coming, if you have these disrupted supply chains, if it's not even reaching there, if you don't, you have decimated economy based on what's happening in the international macroeconomic situation, you just have a trifecta of just everything is smashing at once. And it comes down to, as we're talking today, a food crisis, which is at the basis of life. We're dealing with the coronavirus killing, and honestly, and hunger, so.

Peter McCormack 00:21:21:

Well, interestingly, I did an interview with a health communications worker in Kenya, and she said that it's a very different situation there because most people would rather die from the disease than risk dying from starvation. And the ability to keep people locked down is going to be very difficult because it's a very different situation in somewhere like Kenya than it is in the US. They don't have the ability to just suddenly implement these big food distribution centers. It's a very different scenario.

Peter McCormack 00:21:53:

Now, listen, there seems to be two primary scenarios we're talking about here. We're talking about the impact on people in Western nations of which a lot of people listen to the show will be, there'll be from the States, the UK, Australia, Germany, et cetera. And then there's the impact on people in more developing countries. I think we should separate the two because it feels to me there's

two different issues here. So let's cover Western nations first because that's the majority of the listeners. This is something that will likely impact them.

Peter McCormack 00:22:19:

So let me talk to you about the things I've been seeing. So going to the supermarket, as you know, I went to the supermarket the other day, because I missed our interview. But one of the things I noticed that we're past the panic buying phase, the panic buying phase has happened. But as I go into the supermarket, now I'm noticing we've still got many empty shelves and I don't understand what's going on there. Is it that supply chains have broken down or is it just the amount of time it requires for the supply chain to build back up or even is it that certain producers are changing the things they're producing? That I don't understand.

Peter McCormack 00:22:55:

Secondly, also prices are definitely going up. Now in the UK, they've reported the average price of a shopping basket has gone up seven pounds during the crisis. But the reason this was put down to was not that the cost of goods themselves have gone up in terms of production, but actually it's that the supermarkets don't have to provide any of the promotions anymore because there was so much panic buying and they got rid of all promotions just to kind of curb that. Now, I don't know if that's true, but what is going on with supply in developed countries, and what is going on with inflation?

Steven McClurg 00:23:29:

Yeah, well, I'll start there. So there's really three issues happening simultaneously. Number one, like I said, even the supply chains in the US are being disrupted. So I'll use the US example because that's what I'm most familiar with, living here. In the US we're in the Northern hemisphere, we produce most of our food for a large majority of the world, but we only do it half the year. The other half of the year, we get fresh fruits and vegetables from the Southern hemisphere.

Steven McClurg 00:24:06:

So we're in that stage right now where it's harvest time in the Southern hemisphere and we're not able to get the fruits and vegetables that we need up here. The same thing is the case for most of Europe as well. So there's this supply chain disruption, plain and simple. Now I live in California so for me, it's going to be a very different experience because we produce food year round and where I live it's right next to the farm so I get my farm delivery every week and I've been doing it for years. But people in the Eastern part of the nation where you actually have four seasons are having trouble getting food, same thing with the UK.

Steven McClurg 00:24:53:

So number one, supply chain issue, people don't want to get on boats to ship things over. People don't want to cross borders. People don't want to allow people across borders, plain and simple. The second thing is the actual source of the supply. And in the US for instance, many facilities have shut down. Whether it's, like I said, dairy farmers dumping milk, entire port facilities have shut down because of one person has coronavirus. Many chicken producing plants have shut down because they find somebody with Corona.

Steven McClurg 00:25:32:

People don't know how this stuff travels. If they're the producer and somebody is sick, they're afraid that if they're shipping food stuffs and somehow that infects somebody then there could be a lawsuit filed. So they have to shut it down entirely until they know that their workers actually are all well again and it's safe for them to ship food. So you've got the beginning of the supply chain, you've got the supply chain itself and then, of course, demand for things have changed pretty significantly.

Steven McClurg 00:26:06:

On the demand side, people are demanding foods that are non-perishable as opposed to foods that are perishable. Because if you're going out in the market, and this is happening in the US too, there's long queues in the markets, just in order to get in. And which means that you're risking exposure, standing there for an hour, people are afraid. So if you're going to go out to the market, you're going to get everything that you need in one shot and you don't want to go back. So you're not going to buy a bunch of nonperishable items, that's the psychology behind it. You're going to buy non-perishables, you're going to buy canned foods and things like that as opposed to fresh. So the whole dynamic is changing on the demand side.

Peter McCormack 00:26:51:

Okay, right. Let me ask you something also related to that because it does feel like we're still very early in this process. And one of the scary things is that we don't actually know when these lockdowns are going to end. People are talking about coming out of lockdowns, which could be a stutter process. I still feel like we're very early in this process. What are the real risks? Have you looked a little bit deeper about how bad things can get and what people should keep an eye on?

Peter McCormack 00:27:17:

So for example, you'd might not know, but I was recently out in Venezuela, a very good example of where a country gets impacted by hyperinflation, but it was actually very interesting to be there just to notice some of the little things, for example, no soaps in toilets, or that whenever we bought a bottle of beer

or a bottle of water, it was a really small bottle. There were lots of things like that which I saw, but what are some of the longer consequences that people might not be prepared for?

Steven McClurg 00:27:45:

Yeah, so look, I think as we go down the road here, I'm going to use the US as an example again. So if you look at payrolls, what's reported, we already have 14% unemployment reported, and that was on Thursday, but that was from data as of the week before. And if you look at payment companies, one of which I'm on the board for here in the US we're already seeing in small, medium-sized businesses, 40% reductions in payroll, meaning not reductions in... this is reductions in people. So small and medium-sized businesses have reduced their payroll size by 40%. We're not even seeing that come out in the data and in the numbers yet.

Steven McClurg 00:28:36:

So we're talking about if you do the math, our models show that we're probably already at 21% unemployment in the US, so think about how much unemployment you have in the rest of the world. A lot of the rest of the world was a gig economy where people are working day by day and using a day's salary from the day before to buy enough rice to feed them the next day. So the unintended consequences of a complete lockdown in a lot of places is people are going to go hungry, and that's both in the developed world and the undeveloped world.

Steven McClurg 00:29:13:

You can't buy food, toilet paper, you can't find it in the US. I'm sure you can't find it in other places as well. More sophisticated societies don't use toilet paper. They actually wash with water, which I think that's probably what will... that'll be the consequences of what happens in a lot of developed countries as well. Not only basic nutrition but just basic hygiene I think is going to be affected.

Steven McClurg 00:29:41:

So I would speculate that more people are going to die from diseases related to either hygiene or malnutrition than the coronavirus, which by the way, once you're already going down that road and already sick from some of these other things, the coronavirus is going to affect you more profoundly.

Peter McCormack 00:30:05:

Wow, so we get to this point, and this argument that has been coming back from some people who are very much against the lockdowns are saying the implication of the lockdowns might be far worse than the lockdown itself. The cure may be worse than the problem.

Steven McClurg 00:30:18:

That's exactly right.

Peter McCormack 00:30:21:

Okay, so that covers domestically. What about internationally? Because I still have a feeling as terrible and as difficult things might get in places like the UK, the US, we will find a way of getting through these things. Yes, we might have an increase in poverty, we might have an increase in suicides, all terrible things, but I think as countries, we've got the ammo and the tools to kind of get through this. But then I look at countries like Burundi, which you referred to in your article, or Nigeria, the implications are considerably worse, right?

Leah Wald 00:30:51:

Absolutely, I think both developing, developed world if there's one thing that the coronavirus is unearthing is the disparity between wealth gaps and especially a good metric is the Gini coefficient. Nigeria has an extraordinarily high Gini coefficient, which is the wealth disparity between the highest and the lowest poor. And honestly, I'm so terrified, I'm speechless, sorry, right there, of just thinking about how devastating this situation is going to be on so many different levels because you have an issue where the health infrastructure isn't in place.

Leah Wald 00:31:30:

You have extraordinarily indebted countries who are still trying to pay back loans from the IMF. You have, again, slums where you have extraordinarily packed people who don't have an ability to not... you can't order and deliver cures like the Paperless Post or whatever it's called, have to go to the markets to pick up food. A lot of people without access to electricity, a lot of people without access to running water, a lot of people in lands, you just have a myriad of issues that all come together in a terrible, not a perfect storm, a terrible storm.

Leah Wald 00:32:14:

One example that's coming to mind isn't Nigeria, it's work that I did in India. I worked to help a company called SEWA, Self-Employed Women's Association with a couple of former World Bank employees, the former VP of the Asia region of the World Bank. And we went over to help SEWA after they had lost a large grant from the Indian government. So SEWA is a labor union for the ultra poor for women. It's really the sister organisation of the TLA, Gandhi's.

Leah Wald 00:32:53:

Now, one of the biggest issues, again, was since they lost their funding, this labor union which has about 30 million women who make less than 20 cents a day, had no idea how to remain sustainable enough to even help the women

who, again, were making less than 20 cents a day, mortality rate around 35 years.

Leah Wald 00:33:17:

Now, a lot of what these women were doing is it was organise within unions, within this labor union and they all had been very entrepreneurial. And one of them that I'll never forget is there was 80,000 women in Ahmedabad in Gujarat who were fruit vendors, who went out and would sell in the informal market fruit on the streets. And they were able to support their families however they could with that.

Leah Wald 00:33:46:

Now with the lockdown, absolutely and a complete shuttered lockdown, especially in India, absolutely they're not allowed to go out and do anything like that. Now these women also after spending a lot of time with them and in the slums, they absolutely had no access to running water. They banded together at night and would go to the river to go to the bathroom once a day. And it was very difficult situations there, you definitely never saw soap.

Leah Wald 00:34:20:

So from a sanitation situation and ability to even stave off the virus, I can't even comprehend how on a basic level of even being able to get through the virus itself right now would be possible. But two, you're talking about other issues that the Coronavirus pandemic right now would exacerbate simply put for women in good "economic times" to make less than 20 cents a day to have an average mortality rate of 35 cents by selling in an informal fruit market on the streets. What are they going to do? And then add all the other aspects that we're talking about right now where food's not getting to them. India has banned all exports of rice currently. Every other aspect as well, who can help these women?

Leah Wald 00:35:24:

And if the government as well is now completely scared and is worried for themselves, as they should be with what is happening worldwide economically, then really taking it down, who are going to help these women? And I think that you guys are absolutely correct and that it won't be the virus for the most part that kills a lot of people, it will be all the different things that happen that decimate economies that then trickle down to other health issues, other diseases, you're correct and just an inability to help. If there's one thing that quarantine does is it isolates. And I think that on a very real level, we're isolated from getting help a lot of times.

Peter McCormack 00:36:16:

Okay, so we're painting what is quite a scary and ugly picture globally and

that's fine, it is what it is, we should be aware. I grew up in the 80s and I remember seeing famines in Africa, I remember Live Aid, I remember seeing the footage and it feels like in some countries we could be heading back towards quite a desperate situation there. But we could also at a time, this could be happening at a time where we also have economies in recession, potentially depression in the Western world, economies which would usually be able to openly support countries in the developing world who were struggling. So this global problem, it seems to be creating a spiral of problems. I'm trying to not throw in another word into that, a spiral of problems.

Peter McCormack 00:37:03:

Steve, when you've looked at this outside of not having the lockdown, which is obviously an option, but if we accept the lockdowns are going to happen because they have, do you have a different opinion on what different governments could be doing, what different central banks could be doing? Because I'd be interested to hear if you've got any ideas around that because we've seen them all of the money that's been going into kind of prop-up companies which are about to fail, and I do wonder as the economy starts to get kick started, these companies won't be returning to the same level of production and operations as they were before anyway, so they're ultimately going to have to lay off staff again or require more support. Do you have any different opinions on what should have been done?

Steven McClurg 00:37:48:

Well, it's always easy to play Monday Morning Quarterback. I even have a hard time saying that I don't know if the lockdowns are right or wrong. Here in the States, for instance, each state operates very differently and has different economies, different population densities. New York and California are two places where, for instance, I think something like two thirds of all the deaths in the US have happened in and around New York and it's because of mainly New York City, people are living on top of each other, it's a little bit more of a polluted city, same thing with San Francisco and it seems like we're looking at the data from those two most popular cities and wanting the rest of the country to act accordingly. Whereas places like Wyoming, North Dakota where it's sparsely populated, they don't need the same type of measures.

Steven McClurg 00:38:55:

And I think the United States is getting to that point to where President Trump is allowing the state governors to make the decisions on their own, which I think is actually a really good move. So I think that's a step in the right direction first of all. Second of all, from an economic standpoint and in a central bank standpoint, in the United States, we're printing a lot of money to support these

businesses that are failing and one of the ones that I'm looking at the most is the airlines. People aren't going to just get back on planes.

Steven McClurg 00:39:29:

So we've bailed out the airlines, so to speak. Airlines like United and American Airlines were days away from default. They've run out of money, they have no revenue coming in and very, very high expenses. And that bail off has essentially kept the airlines alive through September. I don't believe that people are going to be getting back on planes in September in the way that they did before just like you said. Psychologically, people don't want to be in a small tube in the air and it can't get off and exposed to everybody else. And again, a lot of that is media fear-driven, a lot of it is fact-driven.

Steven McClurg 00:40:20:

By the way, we don't even know what all the facts are. It doesn't matter what anybody thinks. It doesn't matter what I think, I'm probably wrong. It's either worse than I think or better than I think. I have no idea and probably nobody's going to know either. There's a lot of political manipulation, there's a lot of media manipulation but I'm probably wrong one way or the other. That being said, it doesn't matter how bad coronavirus is, what matters is human behavior and people's psychological attachment to fear. So getting on planes isn't going to happen anytime soon, going on vacation isn't going to happen anytime soon. So yeah, we can bail out these companies, it may or may not work.

Steven McClurg 00:41:04:

Second of all, the US can print seemingly unlimited amounts of money with very little consequences. The US dollar is essentially the world of the global reserve currency since Bretton Woods and since Bretton Woods II, it hasn't really been tied to gold. And larger economies like United Kingdom, the ECB, even Japan and China to a certain extent can print money to keep up. But what about the central banks for all the other countries in the world that don't have a reserve currency that people use as a medium for exchange. When they print money, all they do is create inflation.

Steven McClurg 00:41:54:

So maybe we're going on a tangent here, Peter, but what I'm afraid of is people use Zimbabwe as an example. I use the Weimar Republic an example of how things could get really bad. We print so much money that people are bringing in wheelbarrows full of pesos to buy a bag of rice and we're shutting down our borders because we're afraid that people from other countries are spreading the coronavirus. It creates not only hyperinflation for many, many countries, but it also creates a sense of xenophobia, and history shows us where that can lead.

Peter McCormack 00:42:45:

Okay, are there any-

Steven McClurg 00:42:47:

Did we just go there?

Peter McCormack 00:42:49:

Well, okay, listen, look, okay, it's obviously a bad situation and I'm always conscious that however bad it feels, it's probably a little bit worse down the line. A month away it's going to be a lot worse, or two months away it's going to be a lot worse or three months away still. What are the positives? Can you see any positives for this at all? Because there must be something they obviously can do, there must be some kind of stimulus. Where's the optimism?

Steven McClurg 00:43:20:

Yeah, look, that's actually a really good question. Not only are things really bad, but also at this time when people are in lockdown, for instance, family units in some cases are coming closer together. Things have become a lot simpler. Families who were previously a little bit more disparate are coming together, having meals together. People are doing Zoom calls with their family and friends they can't see in person. So it's almost like this desire for community is causing people to come closer together in a lot of ways.

Steven McClurg 00:44:02:

And I also, here in the States, I see people helping each other, not only in the States but in other countries as well. So I was just in the Philippines with really good family friends of mine few months ago. And those family friends, as a family unit, are out going to hospitals and other essential services and feeding people.

Steven McClurg 00:44:29:

People are giving of what they have to make sure that other people are sustained. And that's something that we haven't seen a lot in recent years. Actually, we haven't seen a lot of that since the Great Depression. And think about the Great Depression in the United States and the rest of the world. How we came out of it, surely, I mean fine, there was a war that followed but after all of that, we saw one of the greatest economic expansions of all time. We put people on the moon. We became a society that valued science and valued exploration and came together as a world and as a global community much more. So I think these are all positives that can come out of this. Even from an economic perspective if we do things right then we could come out much more better.

Peter McCormack 00:45:25:

All right, and so I watched a very interesting podcast the other day, well, not podcast, like a live stream, the Alex Gladstein of the Human Rights Foundation. They did a series on called Covid-Com, which is all about authoritarian states or reactions to the coronavirus. And one of the things that was very interesting that stuck with me more than anything else was when Naval talked about there is essentially a decoupling from China, which might come out of this. Have you looked at that? Have you looked at how supply chains might change in the future? And that we may even go back to more or we may even demand the products that are manufactured and sourced more locally and that that could be a potential positive outcome from this?

Steven McClurg 00:46:12:

Yeah, absolutely. So I think we're already starting to see that, I know I bring this up a lot, but here in the US. The other thing that is happening too, is a supply chain that is more efficient in some ways. So before we had this really interesting, I would call it a decentralised supply chain, where you have, let's call it, a thousand different producers sending to a thousand other suppliers so that consumers can go to a place to buy things. And we're moving to a more centralised supply chain where a thousand producers are sending everything to one place or two or three places and then from there they're dispersing it directly to people's doors.

Steven McClurg 00:46:56:

It could be way more efficient that way. Now, the downfall of that, of course, it puts everything in the hands of people like Amazon, it becomes central to your entire world, which is never a good thing. But at the same time, local production, centralised distribution, it's a lot more efficient in a lot different levels, I think Leah had something as well there.

Leah Wald 00:47:24:

Yeah, I think you nailed it. It's interesting, obviously, that you bring up China when we're talking about worldwide supply chain. The one thing that's really been going through my mind during this conversation is more close to home, my mom and her family are corn farmers in Iowa. And especially, prescient to this conversation of tying it all back in of supply chain of how coronavirus is affecting farms of local, international and oil, corn farmers are especially being completely decimated right now to the effect that they lobbied quite hard in Washington and just got a bailout package, I believe it's \$19 billion that was announced last week to help them out.

Leah Wald 00:48:13:

Now, large industries like corn with Monsanto and other players, for the most part it's been manipulated the industry for a very long time and you've seen

the backlash of people who have talked about non-GMO, et cetera. I think that one upside, just go back quickly to what you had said is that pollution is down and environmental effects actually we're polluting less, it's actually better on the environment right now. But to the question of supply chains, I agree with you Steven, that I think that localism will take off a little bit more and be stronger and I think-

Peter McCormack 00:49:05:

Which I hope.

Leah Wald 00:49:07:

Yeah, I do hope-

Peter McCormack 00:49:09:

Do you know what I hope? I hope it leads to more locally sourced products, a calm down in the kind of accelerated consumerism that we have to have. One of the things I really hate was this a fast fashion, I watched a documentary about fast fashion and the impact on developing countries, the abuse of workers and the pollution on the environment, it was terrible. So I kind of hoped that this localism would lead to a different change, to a change in consumer habits but also with that you might see a change in politics, you might see more local politics, which I kind of hope for.

Leah Wald 00:49:44:

I think that that also is touching an interesting point of self-sufficiency on the other side of the farmers themselves. A lot of people I know are enjoying at least some time out on the countryside or farming, I should say, what is it called, Victory Farm, where you've plant sustainable vegetables in your backyard. A lot of people are getting into planting fruits and veggies in their backyard. But a big push that we're learning is that we're pretty self-sufficient that we can do it, we can handle this.

Leah Wald 00:50:25:

And I think that there is more of an appreciation, I hope so, for those local farmers if we're talking about localism or elderly healthcare workers, teachers. But especially for sustainability and for those local farms, again, I think that there is potentially a ship that will stay that understands that your community stuck with you and how fragile everything is. And potentially that those that went out may be those local farms potentially, in that if they're a farmers' collective, if they're able to be more nimble but I don't know, Steven, what are your thoughts?

Steven McClurg 00:51:14:

Well, you actually made me think about a story that I read in United Arab

Emirates where if you've ever been there, I was just there a year ago and they really don't produce any of their own food. Everything is brought from somewhere else minus a few date trees and some husbandry but that really sustains the better ones. I mean, it's not for mass consumption but they've been investing a lot of money, and this has been really for the last 20 years, in diversifying our economy away from oil.

Steven McClurg 00:51:55:

But one of the things that they have really been focused on in the last 10 years is becoming self-sustainable farmers as well. You think, "Well, how can you farm there?" But what they're doing is building underground bunkers and using hydroponics to produce all of their own food using desalinated water from the ocean and then they've created ways to recycle the water within these hydroponic underground bunkers as well. So they're now speeding that up and believe that they can be at least sustainable for their own population in the next two years.

Peter McCormack 00:52:37:

Well, listen, look, we are where we are, we are going through this. I think a lot of people might listen to this and start to be a little bit more concerned or worried than they were before because they are having to juggle a couple of things here. They're having to juggle the potential impact on their economy and the impact on their life and what this is going to be for the next year, 10 years but also the potential they're having to juggle what's going to happen globally and no doubt, see some very desperate situations that happen in other countries.

Peter McCormack 00:53:13:

I guess one of the things I would ask you, Steve, is that you've got your finger on the pulse here, you can't change the government, you can't change what they're going to do, you personally have to react but I asked the question to Raoul Pal as well, I said, "Look, how would you prepare for this? What are the things that you can do yourself?" And I'll tell you what he said afterward but I'd be interested to see what you think.

Steven McClurg 00:53:33:

Are you talking about as a reaction to politics or a reaction to the food supply issues?

Peter McCormack 00:53:39:

But it's more than just food supply, there's going to be a breakdown of all aspects of society. We're going to potentially see inflation but also somebody said to me, "Look, we'll see inflation and deflation at the same time because the different assets will be affected differently." But at the same time, we all

have to prepare ourselves, we all have to consider ourselves and our family. How are you preparing? What are the things that you're thinking about with regard to your money, your investments, with work and how you prepare for what may come?

Steven McClurg 00:54:11:

Yeah, well, it's important to note, I mean, Leah and I are both investors. We invest other people's money as well as our own. And the way that we're preparing portfolios is we've actually gone into cash months ago, even before this whole thing broke out because the economy looked really hot, a little too hot, a little too bubbly, price to earnings ratios were extremely high even before the coronavirus. And we were even seeing, I keep talking about the airlines, American Airlines was already in a downward turn even before this.

Steven McClurg 00:54:59:

So all this did was exasperate the problem, the problem was already there, this just made it known. So, the first part of preparation was moving a lot to cash. I think now is a good time to start looking for opportunities. It's probably not prudent to start investing just yet but looking for opportunities, holding onto cash or other assets that you believe will hold its value during this period of time.

Steven McClurg 00:55:32:

And then when there's capitulation, you'll know, it's not there yet, we all thought it was there a few weeks ago when the markets dropped and Bitcoin dropped the S&P dropped, everything dropped, all risk assets went down. And a lot of people thought, "Oh yeah, this is the bottom." It's not the bottom yet, all that was a response to a lockdown and a ceasing of supply chains.

Steven McClurg 00:56:02:

The next shoe is about to drop and that is the result of all of this. That's when high employment rates are going to be announced right now, people think we're at 14% unemployment. Yeah, that's high, it's the highest unemployment rate we've had since 1934 but we will probably go even higher. And that's just in the US, think about the rest of the world, we've already talked about all that. So it's good to have cash right now. It's good to have US dollars or other mediums of exchange and wait for risk assets to go much lower and then start making investments.

Steven McClurg 00:56:42:

What I wouldn't do is short the markets right now like we talked about much earlier two weeks ago, a lot of people were buying oil thinking, well, in the US it costs about \$23 a barrel to produce oil and oil was around 25, "I'm like, okay,

well, this is the bottom." Well, no, no, it's not the bottom, we already discussed the why.

Steven McClurg 00:57:02:

And by the way, we're still not at the bottom even in with some places where it's a negative. West Texas Intermediary is \$14 a barrel, it can go lower, the S&P can go lower, all these assets can go lower, we just have to be patient and wait. And that's really how I would be prepared, have dry powder, the markets are up right now, take some off the table, have some dry powder for when the next shoe drops because it will, and it'll probably be in the next month and a half or so.

Peter McCormack 00:57:35:

All right, let me tell you what Raul said. He agreed with holding cash and he said physical cash as well, hold physical cash. He said, "Hold scarce assets." So he had in there gold and Bitcoin he said, "Cut spend." Even though that sounds wrong at this time because we need the economy turning, you should be aware of yourself and cut your unnecessary spend and there's the last one was be prepared to hustle.

Steven McClurg 00:58:01:

I like all of his points.

Peter McCormack 00:58:04:

Yeah, they're all great. Well, listen, look, I know there's some tough things going on here. And I'm not going to lie, there's certain things that do worry me. I have with my show, been taking a look at what's been happening in Africa and parts of the developed world. I have been following that on the news and there's a lot of scary shit going on right now. And I'm always nervous that the real impact of this is not even just going to be a month down the line but six months, a year, 10 years down the line.

Peter McCormack 00:58:35:

But I do hold some optimism, and my personal optimism comes from some of the changes I've made in my life. I cook every meal I make now, I'm spending more time with my family, I'm driving less, there has been some good outcomes and perhaps if the world can reset in a better way perhaps there will be some good things that come out of this but I am also conscious that there are some quite scary implications for people out there, so I do appreciate you coming on and talking about this so candidly. Now listen, look, if people want to follow you and find out more about your work, where do they follow you, Steve? Leah you after.

Steven McClurg 00:59:08:

Yeah, so very easy for me, it's probably on Twitter @stevenmcclurg.

Leah Wald 00:59:14:

Me super easy as well @LeahWald and for all the developments, Steven and I are building with the asset management firm, Exponential Investment Management.

Peter McCormack 00:59:25:

Awesome, all right guys. Well, listen, I appreciate you coming on, sorry, we had to put it back a few days and stay safe out there, stay healthy. Leah, keep me updated on what's happening in Singapore because I would want to know.

Leah Wald 00:59:35:

For sure, thanks Peter.

Steven McClurg 00:59:39:

Yeah, Peter, thank you so much for having us, hopefully the next time we see each other, it will be poolside drinking mojitos and all this will be behind us.

Leah Wald 00:59:46:

For, sure.

Peter McCormack 00:59:46:

I hope so. All right guys, take care, love you both, hope to see you soon.

Steven McClurg 00:59:51:

Bye, Peter.

Leah Wald 00:59:51:

Bye.