

Hello Everyone,

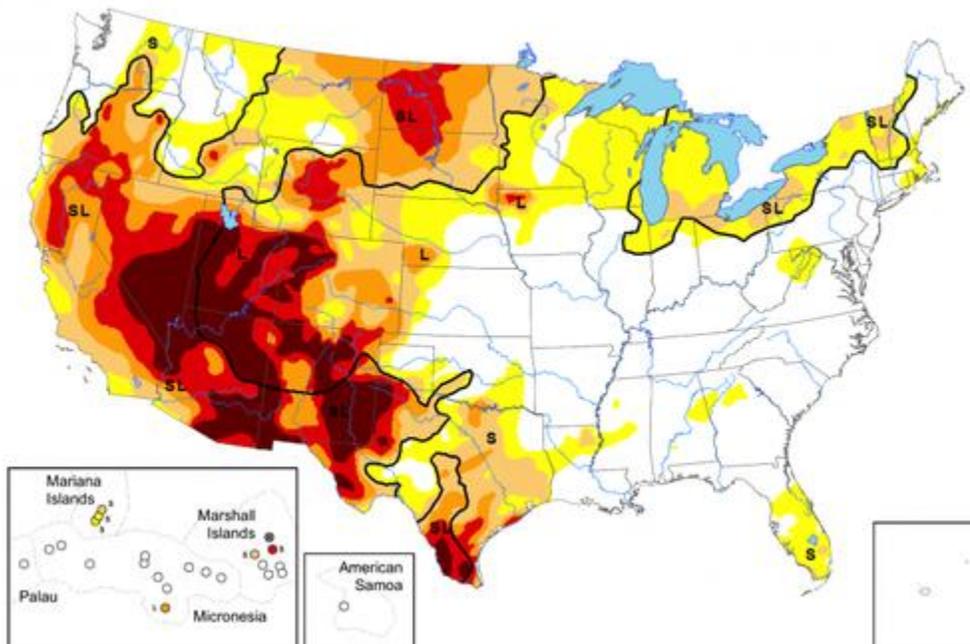
***“Somewhere there is a map of how it can be done.”*** Ben Stein

Oh, Mr. Stein, I hope you are right. Because the map below isn't very cheerful. It depicts drought the “hot spots” that now plague the western US.

Today's missive makes the connection between the weather and inflation. I know it is an odd connection. But as you shop at Costco, or Albertson's, or Smith's I hope you see how many disparate factors can lead to rising prices.

Signed, Your When-I-Was-In-College-“Take-The-Shot!”-Meant-Something-Much-Different-Than Today Financial Advisor,

Greg



## **KKOB 2021.04.12. Drought, Chile & Inflation**

**Bob:** So, Greg, I've got to admit I am starting to see the bigger picture on inflation. Here are my take-aways so far.

- Printing money can spark inflation, but that's not enough.
- Money must move through an economy. Otherwise, you just have a pile of stagnant cash.

- Next, inflation can also come from foreigners. If China has inflation----and we import their stuff---we pay more.
- And inflation can also come if foreigners slack-off on using the dollar. If foreign demand for our dollars falls---but we keep increasing the supply----our currency will weaken and prices will rise.

**Greg:** Wow. Impressive. So, let's add one more to your list. And that is the weather. Yes, the weather.

Bob, last week I made a swing down south to Roswell---and oil country. My focus was going to be oil. And you know I have voiced my concerns about our national and state oil policies.

What surprised me on this trip though was the concern about drought.

Bob, parts of New Mexico are bone dry. And even though we focus a lot on oil around here, the fact is New Mexico is a pretty big agriculture state as well.

Anyway, the term mega-drought is now being tossed around to describe what is happening in the western US. And 2021 isn't shaping up very well so far.

Bob, about 58% of the west is being classified as in **severe, extreme, or exceptional** drought. And guess which state is at the heart of this.

**Bob:** Don't tell me. New Mexico. Thanks Governor Grisham.

**Greg:** Very funny. But you are correct. In one of the articles I read, a chile farmer from Socorro County, Glen Duggins, warned about the dangers to our beloved chile crop. He said, "*It's gonna be a tough year because we are out of water.*" And he's not exaggerating.

Bob, it is only mid-April and our largest reservoirs along the Rio Grande stand at only 11% of capacity. That means the water allocations for the farmers in the southern part of the state will probably start late this year. And they won't get as much.

Oh, and up north, Lake Powell is headed to record lows.

**Bob:** And don't we also owe Texas water? I mean, I know we have to share with the people downstream. I mean.....we are obligated to send some water south. Even if we don't have much to send, right?

**Greg:** Right. And currently, we are in deficit with what we owe Texas. Which usually means lawsuits----where things get messy fast.

Oh, and we're not alone in this mess. The snow melt from the Cascades was 40% below normal. And the California department of water resources has already announced major cuts to the reservoirs and aqueducts that supply farms and cities. So, this is big.

But to drive the point home, I emailed over a drought map to you. If you really want to cheer up Candy Cruz and your listeners just describe what you see after I hang up.

But back to our inflation theme.

Bob, there is likely to be a diminished crop of chile this year. But we'll still want it on everything we eat. What do you think will happen to the price?

**Bob:** It will go up...inflation...and heaven forbid we might actually have shortages. But that also means less chile will be available for export. So, the farmers won't make as much money. Which means tax revenues to the state will fall even as prices are going up.

**Greg:** You are having a good day economics-wise. And, since this is affecting most of the west, you've got to think a lot of other crops will be hurt as well.

Anyway, as a consumer (and a citizen) I don't like giving a report like this. As an investor, however, you want to be investing in things where the prices are rising. And, yes, you can invest in food.

**Bob:** Interesting report. I love how you tie different subjects together. Oh, and I may go hoard some chile after the show. How do people reach you?

**Greg:** You have a big audience. I'd go fast. My number is 250-3754. Or go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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