

## **GRAIN OUTLOOK**

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### **MOSTLY ABOUT ARGENTINA**

South America has been dry. But it has been really dry in Argentina...and hot; the worst summer crop growing conditions in at least fifty years. Weather forecasters don't see much relief for Argentina during the next two months. The Argentinean government has declared an Agricultural Emergency saying crop production may be down 50 percent from normal and announced that as many as 800,000 cattle have been lost due to arid conditions in the Pampas. Lack of rain and temperatures of over 100° F. hurt wheat during the reproductive period and corn at pollination time. The government halted wheat exports to safeguard domestic supply, leaving neighbor Brazil without its usual supplier of wheat.

Crop damage has not been confined to Argentina. The government of Paraguay, the world's fourth largest producer and exporter of soybeans, announced that country will produce 43 percent less soybeans than last year. Crops in the southern-most states of Brazil have also been hit by drought. In some of those states the soybean yield loss may be ten percent. The Brazilian government is estimating a country-wide reduction in soybean production of 3.8 percent, although private estimates put the loss at seven percent. Brazil's early corn crop yields may be down by 20 to 30 percent. The second corn crop is doing better as rains, although spotty, have returned.

To complicate this is the imminent farmers' strike in Argentina. To generate additional government revenues, the Argentine government imposed a 48 percent export tax on soybeans. Farmers protested and blockaded roads and export terminals in 2008 which

precipitated a political crisis. The export tax remains in effect, even though soybean prices have fallen from last year's highs. The major farm organizations in Argentina have agreed to strike again, perhaps in early February. When declaring the agricultural emergency, the government announced tax exemptions for farmers. It was not clear how or if farmers could claim relief from the export tax. The farm organizations said the government gesture was too little, too late and apparently are moving ahead with the strike.

The question is 'How will developments in Argentina – South America - affect the grain and oilseed markets?' The USDA January World Agricultural Supply and Demand Estimates report came too early to take the drought damage into consideration. Undoubtedly, the crop production estimates will change in the February report. However, the full extent of the damage will not be known until the crops have been harvested in the South American Fall; March and April.

There is some evidence that market participants are carefully watching developments in the Southern Hemisphere. Non-commercial traders (speculators) have off-set short positions and are cautiously building long positions. Few other investments, speculative or otherwise, offer the potential returns that seem to exist for agricultural commodities at this time. Farmers with stored grain and oilseeds may be major beneficiaries of the South American drought.

Corn, soybean, and wheat prices are all up-trending. However, for corn this may be due as much to a reduction in the availability of the low quality, low priced Black Sea wheat that has been replacing corn in livestock rations around the world. Although Brazil will have to import wheat from an alternative origin this year; probably the United States, U.S. hard wheat price increases are likely more due to a relative global shortage of good quality milling wheat, a greater than expected reduction in fall planted acres, and persistent dryness in two of the major wheat growing areas in the world: the U.S. Great Plains and the North China Plain.

It is for soybeans that the greatest impact will be felt. Even with the global economic downturn, U.S. soybean exports have remained robust, largely on the strength of Chinese purchases. The U.S. soybean carryover, projected by the USDA at 8 percent of usage; on the low side of comfortable, provides no cushion for a short crop. After the Chinese New Year, celebrated this year at the end of January, Chinese and other global soybean buyers normally switch from the U.S. to new crop South American soybeans. This year with a smaller South American soybean harvest and the political uncertainty in Argentina, the U.S. soybean export window may stay open longer and reduce carryover to a critically low level. Global soybean production may not be adequate to meet demand this year. If that is the case, price will have to ration available supply.

Higher soybean price will mean higher corn price when it comes time to bid acres into production in the United States this spring and wheat price will be pulled along. The soybean to corn price ratio, using harvest-time prices, is about 2.3, very close to the long term average. Corn and soybeans are running neck to neck. Minneapolis spring wheat is also in the running for spring planted acres. The price differential for hard spring wheat is about a 50 cent premium over Kansas City hard red and 80 cents over the Chicago soft red contract.

Soft demand due to the global economic recession will prevent a wild run-up in agricultural commodity prices such as we saw last year. But conditions in Argentina and the rest of South America have set the stage for higher prices ahead.