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END OF YEAR REFLECTIONS

The end of the year is good time to reflect on from where we have come and where we are going. This is especially appropriate this year. Because of my retirement this will be my last outlook letter to you. Dan O'Brien will be assuming the grain marketing responsibilities and will continue the newsletter. Dan has many years of experience in Great Plains and Corn Belt agriculture. He trained to analyze grain markets under Bob Wisner at Iowa State University and at K-State has researched grain price movements, transportation issues, and the economics of cellulosic ethanol production.

It is difficult to get clear signals from the market at this time of year. Speculative traders minimize market exposure so they can spend the holidays with their families without too much worry. Domestic commercial users dial operations down for the holidays. Overseas buyers adopt a wait-and-see attitude. Between ballgames and family dinners, farmers sell newly harvested crops as the weather allows.

Supply and demand fundamentals don't mean much right now, not that they have meant much all year long. Corn price is trading in a sideways range, even though approximately 600,000 bushels of this year's crop remain in snowy fields. Taking that into account, a major market advisory firm lowered their estimate of acreage harvested by more than 400,000 acres, but raised estimated average yield per harvested acre to 164.5 bpa versus the last USDA estimate of 162.5 bpa. Soybean price has broken to the downside out of its three-month upward trend even though continued Chinese buying makes a relatively tight U.S. supply even tighter. Widespread rain and good growing conditions in South America have market participants anticipating record Southern Hemisphere yields; however those beans are still a long way from being in the bins. Wheat price is higher than many expected considering the large global supply overhang from two years of good wheat crops. When wheat price does move, it seems to move opposite to expectations. Perhaps market participants are already looking ahead to next year's global harvest which will be smaller because of reduced planting, even if yields hold up around the world. And then there is the value of the dollar.

After a multiple-year downward slide, interrupted by brief upward spikes because of flights to safety by nervous global investors, the dollar value has strengthened during the month of December. Over the past several years, United States commodity exports have been boosted by the declining value of the dollar, which has made our commodity prices lower to overseas buyers. It appears the dollar has strengthened because of global geopolitics and the effect may be temporary. But if the uptrend is sustained for very long, it will have a negative effect on U.S. exports in the New Year.

Outside influence on agricultural commodity prices gets more complicated. As the dollar value rose, the prices of gold and oil dropped by about 10 percent; oil was down nearly 15 percent at one time in early December. A likely explanation is when the dollar was dropping in value, traders and investors borrowed at near zero nominal interest rates, to invest in risky assets including agricultural commodities. The real rate of interest on the borrowed money, because of the falling dollar, was actually negative. The rising dollar has caused traders and investors to pull back.

The question is what will happen next? Dollar index open interest remains very high. Presumably these are open short positions, which gained value as the dollar dropped. If the dollar remains strong, or gets stronger, traders will buy back dollars to close these positions. The resulting soaring dollar value will cause commodity prices and exports to fall.

Interest rates and the dollar value tend to move in the same direction. As the dollar value rises, investors will want a higher rate of return. Even without the influence of the dollar, interest rates are likely to rise. Although Federal Reserve spokesmen have repeatedly announced that there are no immediate plans to raise interest rates, practically everyone believes that sooner or later, interest rates will rise. The U.S. Treasury Department will have to pay higher interest rates to entice global investors to purchase an ever-growing amount of U.S. government debt obligations. The FED will have to raise interest rates at some point to dampen the inflationary influences of the stimulus. The implications of rising dollar value and interest rates go far beyond the grain markets.

While the short-range outlook is cloudy, longer term the outlook for grain producers is bright indeed. Barring unexpected shocks to economic systems, U.S. and global economies will eventually recover. Economic growth in countries with young and rapidly growing populations will cause world-wide demand for food to grow. In the future, at times, the global situation will resemble that which existed in 2007 and early 2008 when global demand put such pressure on global supplies that grain and oilseed prices rose to unprecedented levels. Producers who are careful about costs and make intelligent marketing decision will do well.

Seasons blessings on you and your family.

Mike Woolverton