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MARKETS

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GLOBAL GRAIN MARKETS

Currency devaluations cause oversupply

Brazil, Russia and Ukraine are reaping profits because of a drop in currency, encouraging them to increase output

BY ED WHITE

The grain market outlook isn't any less grim this year than last year.

That's the unfortunate message analysts will be presenting at the Cereals North America conference in Winnipeg Nov. 2-4, according to Pedro Dejeka, the managing partner of AGR Brasil.

"It's the new old world. We're back to where we were pre-ethanol," said Dejeka, who will present a Brazil, Latin and South American outlook. "We have a period of depressed prices unless someone cuts production aggressively."

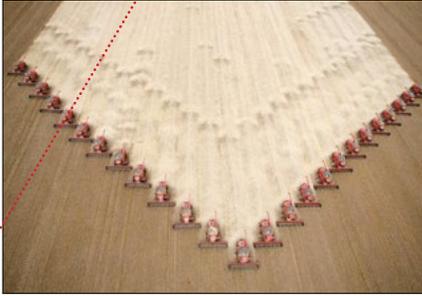
Dejeka said the world would need "two really bad, back-to-back crops, 2012-like in both hemispheres," to return to sustainable prices of more than US\$10 per bushel for soybeans and more than \$4 per bu. for corn.

That's not likely to occur, so some farmers somewhere will need to reduce acreage to make up for recent hefty production expansions around the globe.

Right now it looks most likely to happen in the United States, where crop profitability is weakest, Dejeka said.

Crop prices are low and profits have disappeared for U.S. farmers. There's not much incentive to boost production.

However, Dejeka said the opposite is true elsewhere. Brazilian, Russian and Ukrainian farmers have all been making money in



Brazil's farmers are seeding more soybeans, putting them on the path to another record large harvest. In South America and elsewhere, weak currencies are lifting local grain prices even as Chicago futures prices, denominated in U.S. dollars, are falling. | REUTERS PHOTO

recent months, even as Chicago futures have fallen, because their national currencies have slumped. Brazilian farmers are now making more than they did at the peak of the U.S. Midwest drought rally in 2012, at least in terms of their local currency, the real.

The same situation has applied to Black Sea exporters, who are making good profits even while their national economies are in trouble and most people are feeling poorer.

That's not the kind of situation that convinces farmers to stop boosting production. "We're in the midst of a supply war," said Dejeka, who will be one

of more than a dozen analysts at Cereals North America. "They're going to plant more."

For example, Dejeka is projecting a 4.5 to five percent increase in soybean acreage in Brazil this year with production likely increasing to 100.5 million tonnes. The country produced 96.2 million tonnes last year.

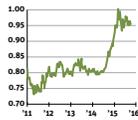
His range for Brazilian production is 94 to more than 103 million tonnes of soybeans, depending on weather, with South America likely producing 172 to 181 million tonnes. That follows last year's South American production of 171 mil-



DOLLAR INDEX RISES

The U.S. dollar rallied strongly against most currencies in late 2014 and early this year. The U.S. dollar index, a measure of the strength of the buck relative to a basket of major world currencies, remains strong as many in the trade expect the U.S. Federal Reserve will raise its interest rate by the end of the year. Weak currencies in South America make soybean production highly profitable, even as Chicago soybean futures have fallen.

U.S. dollar index



Source: Bankchart.com | WP GRAPHIC

Cereals North America is a major grains market outlook conference held every fall in Winnipeg. It is put together by the market analysts at G3 and the U.S. analytical firm AgResource.

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Visit www.producer.com for live updates from the Cereals in North America conference Nov. 2-4.



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