



## Issue Brief

# Will Low Prices Cure Low Prices? Not this Time.

## Foreign Currencies Sending the Wrong Signal to Farmers

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U.S. grain and oilseed prices have been hovering at multi-year lows for months. The result has been tight or negative farm margins and the entire supply chain under economic pressure. This is not the first down cycle experienced by U.S. corn, soybean, and wheat producers, and it certainly won't be the last. But this time is indeed different.

Sixteen years ago, the global grain markets looked very different than they do today. In 2000, the U.S. produced 29 percent of the world's big three grain and oilseed crops (corn, soybeans, and wheat). (See *Exhibit 1.*) The U.S. also supplied nearly half of the world's exports for these commodities. Then crop prices doubled, incentivizing major expansions in the Black Sea region and South America. Since 2000, production of corn and soybeans has more than doubled in Brazil/Argentina and increased more than six-fold in the Black Sea region. (See *Exhibit 2.*) Total exports from these two regions have increased by 2.5 times over the same period. (See *Exhibit 3.*) Ukraine and Russia also significantly expanded their share of world wheat exports, largely at the expense of the U.S. (See *Exhibit 4.*) A few years of high and volatile prices resulted in a massive rebuild of global supplies, and a more competitive global marketplace.

In past cycles, the global grain markets conformed to relatively predictable patterns. Those patterns helped to establish the common adage that high prices are the cure for high prices, and low prices are the cure for low prices.

The difference this time around, however, is that most of the world's growers are getting the wrong price signal. Global supplies today are overabundant, and grain prices should be signaling to farmers that a pullback in plantings is in order. Outside of the U.S., however, the opposite is happening. Due to economic weakness in Russia, Ukraine, Brazil and Argentina, the currencies of these countries have plummeted in relation to the U.S. dollar. As a result, crop prices in local currencies are actually at or near record highs. (See *Exhibit 5.*) This, in turn, is likely to lead to increased plantings and even larger global supplies.

The strength of the U.S. dollar has dented U.S. agricultural exports in 2015/16 and therefore weakened U.S. prices. But the extent to which our competitors' currencies have fallen poses the next greatest challenge to a recovery in grain and oilseed prices.

A significant weather event in the coming growing season could certainly reverse the direction of prices and boost the farm sector. But absent that type of disruption, the currencies of major foreign growers will hamper any attempt to limit world supplies. As long as currency weakness reigns in the regions of Brazil/Argentina and Ukraine/Russia, the global glut of corn, wheat, and soybeans is likely to remain. ■