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## Uncertainty in Ukraine Drives up Grain Prices

**A**s farmers in the Ukraine enter the planting season for corn and wheat, limited financing, a devalued currency and growing unrest have made buyers cautious about Ukrainian grains. In recent months, the expected prices of both corn and wheat have increased significantly reflecting risk in the market.

### Concerns over Next Year's Crop

Planting conditions for corn and wheat are favorable in the Ukraine, as heavy rains followed by dry conditions have led to good soil moisture. However, financing has become an issue for many Ukrainian farmers as rejections and high interest rates are making it difficult for them to purchase needed materials.

If farmers use fewer fertilizers, chemicals, lower quality seed or simply plant less on their land, there could be notable effects on yield. There is also speculation that many farmers will switch land that was originally intended for corn to barley, or leave the land fallow and wait for winter wheat planting. Both barley and winter wheat have considerably lower input costs.

"Those two possibilities, along with the reduction in inputs at the same levels we've seen in the past, [mean that] we're definitely going to see a reduced corn crop from the Ukraine this coming year," said Cary Sifferath, U.S. Grains Council regional director for the Middle East & Africa.

### Exports Thwarted by Poor Quality and a Devalued Currency



Source: Genya Savilov/AFP/Getty Images

Ukrainian exports have slowed in the last month, a result of quality issues and political turmoil. According to Sifferath, several buyers in the region who received shipments of Ukrainian grain early in the year were not happy with the quality.. The issue, he says, is lack of enough proper drying and storage facilities for grain, especially corn.

"While there's plenty of new storage being built in the Ukraine, there [are] still a lot of less-than-ideal storage and drying facilities," he said. "So, they tend to have more grain quality problems, especially as we get further along in the crop year."

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# As El Niño Predictions Roll In, Grains Markets Anticipate Stormy Prices

With warming surface temperatures and light winds in the Pacific Ocean, scientists are predicting a return of the weather system known as El Niño. Characterized by heavy rains in some parts of the world and drought in others, the extreme weather conditions El Niño typically delivers have a strong impact on grains market production and pricing.

## The Past Effects of El Niño

Historically, El Niño has led to dry conditions in Australia, India, Malaysia and Indonesia, while wet conditions tend to be seen in South America, Central America and parts of the United States. In extreme El Niño years, drought has ravaged Australian wheat and barley crops. Rainfall reached just 69 percent of the average in the 2006/2007 season, a severe El Niño year, leading to a wheat harvest that was 45 percent below the average.

In South America, however, heavy to moderate rainfall in the critical summer months has helped corn and soybean production in the past. SLC Agricola, a large Brazilian corn, soybean and cotton producer, emphasized that El Niño years typically relate to very good production in the southern parts of the country and produce little negative effects elsewhere.



Source: Reuters/Enrique Marcarian

El Niño has a minimal effect on grain production in the United States, as the weather tends to affect the southern and western parts of the country more than the central grain production areas.

“Past experiences have taught us that El Niño years tend to be favorable for the central U.S. corn and soybean growing areas,” said Jay O’Neil, Kansas State University senior agricultural economist. “We can take solace in the belief that El Niño should not have a substantial negative impact on our crop production.”

## A Cautious Market

Fear over the effects of El Niño is working its way into commodity price predictions. Currently, U.S. investment managers are expecting increased prices in all 16 major agricultural futures markets, according to U.S. Commodity Futures Trading Commission data.

“If the markets are concerned more about weather patterns across the country and across the globe, that’s going to find their way to prices,” Matt Forester, CFG Asset Management chief investment officer, told the Wall Street Journal.

Even so, most are cautious about predicting how high prices will go, as scientists are still debating the severity of the upcoming El Niño weather system. “Our perspective is that whenever there’s a weather factor, it is something to be aware of, but not overly zealous in pricing it in ahead of time,” said Stefan Kip Astheimer, Howe and Rusling, Inc. vice president of strategy to the Wall Street Journal.

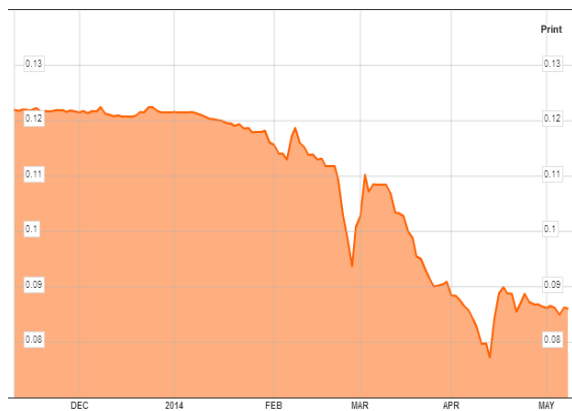
The forecast for El Niño can cause concerns over production and prices in grains, but the weather system does not always mean higher prices and lower supply. In less severe years, El Niño can have little to no impact on grain yields. For example, Australia has seen shortages in only four of the last seven instances of El Niño, with the others having average

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will tell what the impact will be. ♦

or above average yields. So, while El Niño is expected to have an effect on grains markets this season, only time

Ukrainian Hryvnia vs U.S. Dollar



Source: Bloomberg

With the conflicts and subsequent shutdown of Crimea, many worried about potential bottlenecks in corn exporting from the country. However, Crimean ports don't ship much corn, Sifferath said, meaning most corn ports remain open and operational. Even so, concerns about war have increased risk premiums for traders and ship owners, leading to higher freight and shipping costs.

The possibility of war has also caused the Ukrainian hryvnia, the local currency, to depreciate significantly, making farmers sit on their valuable grains while waiting for the right price.

"Because of the on-going conflict, the currency has devalued maybe 30 [to] 35 percent versus the dollar," Sifferath noted. "If I'm a farmer and I have corn or wheat in my storage bin on my farm, that grain is just as valuable as U.S. dollars to the world market. So, I may be better off holding the grain than selling it in local currency."

### Price Futures Spike as Buyers Remain Reluctant

All of these turbulent conditions in the Ukraine have caused spikes in corn and wheat futures. In May, the Chicago Board of Trade corn futures hit a peak, the highest since September and up 11 percent compared to last year. Similarly, wheat futures increased nearly five percent in May, the largest jump in price since September 2012.

As many buyers wait out the uncertainty in the Ukraine, prices continue to rise as farmers hold on to their grain, causing next year's yield forecasts to take a hit. Conditions remain turbulent as violence escalates in Eastern Ukraine and major cities like Odessa, which could further hurt crop yields as farmers who are in the Army Reserve are mobilized. ♦

## Illinois Planting Progress: A Late Start, but Catching Up Quickly

A cold, wet spring delayed planting through much of the central U.S. corn production areas. However, the arrival of better weather and access to state-of-the-art planting equipment has made it possible for farmers to play "catch-up" from the late start.

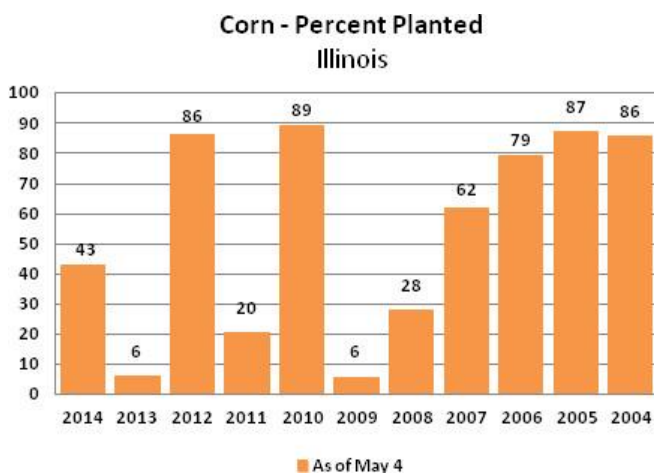
It is no different for Lou Lamoreux, a farmer in northwestern Illinois who has 1,800 acres of farmland. His land, which will be planted in 1,000 acres of corn, 350 acres of soybean and 450 acres split between wheat, alfalfa and open pasture this year, continued to receive rain and chilly weather until the first week of May.

Lamoreux began planting May 5 and has completed approximately 15 percent of his corn planting for the year. Even so, he's still optimistic.

"This is the latest start to planting that I can remember since returning to the farm in 1974," Lamoreux commented. "I'm not complaining, as we were in dire need of the moisture."

### Planting Throughout Illinois

The entire state of Illinois is on pace with its five-year average for planting, thanks to a few weeks of warm weather. However, planting progress changes dramatically depending on where a farmer is located within the state. In central Illinois near Springfield, a dry weather spell the last week of April allowed farmers to nearly complete their planting, reaching 90 to 95 percent of their target.



Source: FarmWeekNow.com

The northern and southern parts of the state faced harsher conditions, which delayed their planting progress. South of Springfield, only 4 percent of planting was finished before April 20, well below the five-year average of 22 percent. Once the weather improved, farmers were able to rebound and have completed 30 percent of planting. The quick progress is due largely to modern machinery that makes it possible to quickly cover acres in just a few days of good weather.

As equipment gets larger, it becomes easier for farmers to get out into the fields and plant more acres in less time. This has been the key to recovering from a late start brought on by a long, frigid winter and wet spring. Now, U.S. corn growers are back on track for an excellent growing season. ♦

## Cleaning Up a Nationwide PED Virus

A recent loss of piglets infected with Porcine Epidemic Diarrhea virus (PEDv) has impacted U.S. hog farmers in 25 states. Globally, pork supplies are under pressure with limited production and increased prices as PEDv spreads in Mexico, Japan and South Korea. As the world's largest producer of pork, China will not face these pressures due to sow surplus and subsequent liquidation, helping drive prices down.

PEDv is easily transported in manure and only a tiny amount can cause an outbreak. The virus survives in any environment for up to 28 days, causing a greater risk for piglet infection as they move about the farm. Farmers whose swine have been exposed to PEDv are urged to begin practices that will prevent or reduce contamination.

### Avoiding Virus Transport

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PEDv will attach to any exposed object, so it is important to be conscious of transporting manure containing the bacteria. Monitoring exposure of farm vehicles, tools and supplies can decrease the risk of transporting the virus onto a farm. These simple actions can help reduce PEDv exposure:

- Limit the number of people visiting the farm
- Isolate newly-arriving animals
- Change into clean boots after a farm visit



Source: John Lamb, Courtesy of the University of Missouri Extension

"Establishing biosecurity protocols for a hog farm is critical to decrease the chance of PED virus exposure," said Bob Thaler, South Dakota State University swine extension specialist. "Even a small chunk of manure on the floor mat means disaster."

Upon leaving a farm or vicinity where PEDv is present, wash all equipment and spray the exposed objects with a disinfectant to help prevent virus transportation. For example, when cleaning an animal trailer at a truck wash, be aware that other trucks may have been exposed to PED virus and may have contaminated the surrounding water runoff. Applying a disinfectant to the truck and drying it under heat for 10 minutes will kill the virus. It is recommended to contact a local veterinarian to discuss proper disinfection techniques upon outbreak.

### Treating PEDv

Unfortunately, there are no vaccines against the PED virus. To limit the spread of PEDv in farm yards, it is recommended that farmers use controlled exposure methods, such as feeding infected piglet remains to sows or by nursing piglets with the sow's milk.

"The administration of the virus to the sow will create an immune response, therefore stimulating lymphocyte production in the mammary gland," Thaler said. "The increase in lymphocyte production will help increase the number of IgA antibodies in the milk, which will increase piglet survivability after being ingested. This feedback process has proven to be an important component in increasing pig immunity in herds already infected with PEDv, and should be administered with guidance by the herd veterinarian."

All newborn piglets exposed to PEDv need immunoglobulin-rich colostrum, which is the sow's first milk. Immunoglobulin A (IgA) is high in antibodies and aids in piglet development. If a newborn piglet does not suckle within 24 hours after birth, it will become unable to absorb immunoglobulins, which are essential for a healthy immune system.

For more information on how to treat piglets with PEDv, contact a local university extension swine specialist or veterinarian. ♦