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U.S. report shocks market

"If this continues, and it probably will, we can either adopt other crops or learn to do something else."

The problem, say analysts and farmer representatives, is that western Canadian cereal crops just can't compete with U.S. Midwest corn yields.

In the days following the report, corn dropped from about \$4.15 US per bushel on the Chicago March futures contract to just above \$3.70.

Kansas winter wheat futures fell about 54 cents by the end of the week. U.S. winter wheat acres actually fell more than expected, but the corn production and stock numbers overwhelmed the bullish factor of that news.

The Minneapolis hard red spring wheat futures March contract fell about 60 cents to \$5.20 by the end of last week.

The report stunned analysts. After early snow and frost in some areas, which followed a cool summer that delayed crops, many analysts predicted that production would shrink by about two percent from the December report.

But the USDA found American farmers had produced more than what most had guessed.

The huge U.S. crop demonstrated how much corn has improved. Analysts attributed the gains to variety development brought on by genetic modification and investments.

Average yield rose to 165.2 bu. per cent from 153.9 bu. last year.

"I blame Monsanto," said noted agricultural commodities expert Dennis Gartman in an interview with Bloomberg radio.

For American farmers, the yield gains from the new varieties help

offset the lower market price, analysts say. But the extra corn bushels drive down cereal grain prices overall, and that makes it tough for western Canadian wheat, barley and oat growers.

Lackluster yield gains for these staple crops mean western Canadian farmers feel the price plunge more acutely.

"We are seeing the early stages of (farmers turning to other crops) in Canada with higher yielding, more profitable crops like GM canola and special crops such as pulses," said **Alberta Barley Commission** chief executive officer Mike Leslie.

Rob Brunel, a farmer from Ste. Rose du Lac, Man., who chairs the Keystone Agricultural Producers' grains and oilseeds committee, said the price plunge caused by the big U.S. corn crop highlights the need for governments and companies to invest in wheat and barley breeding.

"We need more research in wheat, period. What form that it takes is another question," said Brunel.

Leslie said farmer funding and money from agencies such as the **Alberta Barley Commission** have made improvements, such as 10 to 20

percent yield gains and improved characteristics for buyers.

"Canadian barley gains in the past 10 years using traditional breeding are not insignificant," said Leslie.

But many plant breeders have shunned wheat and barley to focus on more lucrative opportunities with easier-to-breed, large acreage crops like corn and soybeans. Because wheat and barley are more difficult to genetically modify, and because most research is for other crops, the prairies' big cereals will have trouble keeping up, let alone catching up,

Martin said.

"The trend in both (corn and soybean yields) is up and the trend in wheat is flat at best. We just keep getting farther and farther behind."

Southern Alberta feed grain broker Doug Chambers of Quality Grain said the USDA finding of extra corn hasn't badly depressed the prairie barley market, because it was already down.

But it will stop barley prices from recovering, since cattle feeders can easily bring in trainloads of cheap corn if western barley becomes comparatively expensive.

"Corn always has a capping effect and the cap just came down a bit," said Chambers.

While the USDA report had a major negative short-term effect, Bruce Burnett of the Canadian Wheat Board said it does not change underlying supply and demand fundamentals. U.S. farmers will have to grow another large crop next year to meet demand, regardless of a bigger-than-expected crop and bigger stockpiles than expected.

"They are going to need to plant that crop," said Burnett.

If this continues, and it probably will, we can either adopt other crops or learn to do something else.

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