

## Five, Ten, Fifteen – Dollars Per Bushel, That Is



**DR. DARYLL E. RAY**  
Agricultural Economist  
University of Tennessee

**W**atching children and grandchildren learn how to count is a delightful exercise. Hesitatingly they begin, one, two, three as they hold up the appropriate number of fingers. When asked their age they hold up three fingers so proudly. As time goes on they learn to count by twos – two, four, six, eight for even numbers and one, three, five, seven for odd numbers. The ultimate triumph is to be able to

count by fives – five, ten, fifteen....

Five, ten, fifteen. It looks like that is where commodity prices are heading as markets furiously “bid for acres.” Five dollar corn, ten dollar wheat and fifteen dollar soybeans. In news story after story we read about the boom in prices – a boom that will last a long time.

We found the following in a January 2, 2007 Bloomberg News release: [http://www.bloomberg.com/apps/news?pid=email\\_en&refer=home&sid=aOX8TLOt.SqM](http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aOX8TLOt.SqM). “We are in the early stages of a rally that could last 20 years” in agriculture, said Christopher Wyke, product manager at London-based Schroders Plc, which manages \$3.5 billion in commodities and is buying more corn and soybean contracts while reducing energy holdings. “Prices are historically cheap.”

In a similar vein, the article reports, “Goldman [Sachs in New York] predicts soybeans will reach \$14.50 a bushel. Investors who buy \$10 million of November contracts on the Chicago Board of Trade would earn \$2.9 million should the forecast prove accurate. A hedge fund that borrowed money to increase the bet using margin could turn that \$10 million into about \$59 million.”

Talk like that reminds us of the mortgage mar-

ket. People thought the market would never end as they made ever increasing amounts of money on “flipping properties” for repeated short-term gains. The expectation was that prices would continue to trend rapidly upward. People became casual about ARMs (Adjustable Rate Mortgages) because the rates continued to drop and stay low. We all know what has happened in recent months in that market.

Twenty years in agricultural markets seems like an eternity, especially given the history of corn, wheat, and bean prices. In corn, price peaks tend to last 8 to 12 months and then fall off quickly and the higher it rises the faster it falls. Historically, soybean peaks have been shorter than those in corn and again the fall-off is usually precipitous. The story with wheat is no different. The push for energy independence, partly via a ramped-up use of ethanol, may well lengthen the run of high prices.

One thing we can be certain about: when massive demand-driven price increases have occurred in the past, the market is eventually broadsided by an avalanche of increased supply. Now will be no different. The only questions are: How long it will take and how “large” will the avalanche be?

Farmers in the US and elsewhere will respond to the current high prices approaching five, ten, and fifteen dollars. With soybeans, the Brazilians can bring a large number of acres into play in a two to ten-year period and over the long-term, given the right set of circumstances, they can bring in as many as 350 million acres. The more Brazilians plant soybeans, the more it will free US farmers up to plant corn. Ten dollar wheat will certainly trigger a supply response in the Ukraine.

And on top of all the potential acreage changes, we have the prospect of massive yield advances as well.

We are not sure how will all of this work out over the next 8 to 18 months and beyond. But we are certain of one thing. It will not be child's play. Five. Ten. Fifteen.... △