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World grain glut set to enter fourth year

Gregory Meyer in New York

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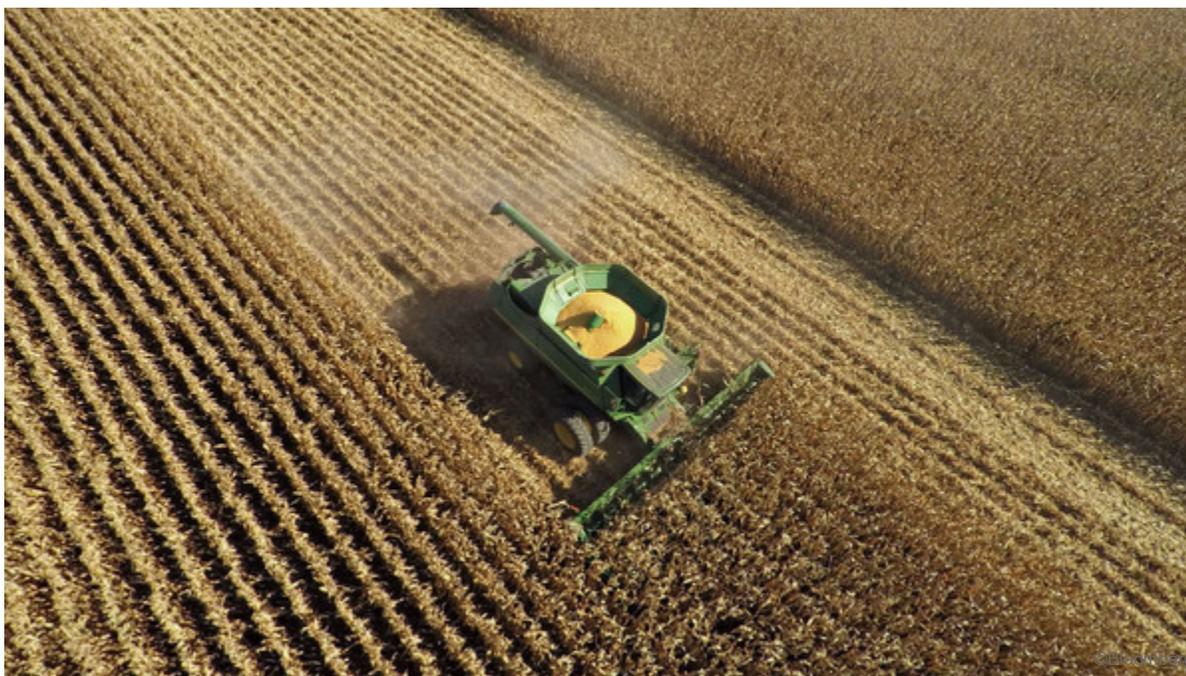
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Bumper harvest looms as stock levels remain high, adding to pressure on prices



DE Bondurant Grain Co's silos have for decades stored wheat, corn and milo grown by farmers in western Kansas. But the recent winter wheat harvest brought something different.

"I'm putting wheat on the ground now for the first time in my life," says Gary Gantz, president of the company his great-grandfather founded in 1888. "I was ready for a large crop, but I wasn't ready for one of this proportion."

His outdoor wheat pile, 20 feet tall, 80 feet wide and 200 feet long, is evidence that a world grain glut is poised to spill into a fourth straight year. Even though Mr Gantz has added almost a million bushels of capacity to his silos in recent years, all the wheat won't fit.

Overflowing stocks and large prospective harvests have given grain markets a hard shove in the past month. Both corn and wheat futures have fallen about 20 per cent from recent highs in June. Last week, contracts of both grains for December 2016 delivery were the lowest since they first traded.

The U-turn in agriculture has stalled a rally in commodity markets. The Bloomberg Commodity Index, up 19.6 per cent in the year to June 30, has dropped 2.8 per cent since then after grains tugged it lower. In June commodity investors withdrew \$1.5bn from agriculture, the biggest monthly outflow of 2016, according to Christopher Louney of RBC Capital Markets.

In the US, the biggest overall grain exporter and home of futures contracts tracked by investors, the winter wheat harvest is nearly complete. The government expects the average winter wheat field to yield 50.5 bushels per acre, the most on record, while production will rise 10 per cent year on year to 1.51bn bushels.

The winter wheat crop is getting trucked to grain silos such as Mr Gantz's that still contain corn left over from a hefty harvest last autumn. As of June 1 US corn stocks totalled 4.72bn bushels, the highest for the month since 1988, according to the US Department of Agriculture.

"Nobody here has ever seen these kinds of yields. It's really causing some headaches," Mr Gantz says.

Adding to the pressure, the outlook is improving for summer-grown crops such as corn and soybeans. Rains one to five inches above normal have drenched key states such as Illinois, Indiana, Iowa and Nebraska in the past month. The National Weather Service maintains an above-normal temperature outlook for much of the coming month, but good soil moisture will blunt the threat of heat as corn's sensitive pollination period arrives.

"The market has really shifted away from thinking about the risk of a drought to now how much above trend the yield might be," says Darrel Good, agricultural economist at the University of Illinois.

Anxiety rattled grain markets last spring as the world exited an extremely strong El Niño, the Pacific Ocean warming cycle. Research by Prof Good and his colleague Scott Irwin found

that a transition from El Niño to its La Niña opposite by summer, as sometimes occurs, risked reducing US corn and soyabean yields.

But Prof Good says that so far, conditions have reverted to neutral. “We really haven’t gotten into La Niña at this point, and if we do, that will come in later into the fall and probably not have much impact on the crops here,” he says.

The summer crops will be grown on a lot of land. The USDA last month showed US farmers seeded a record 83.7m acres (33.9m hectares) of soyabeans in the spring and also increased acres of corn by 7 per cent to 94.1m acres, fourth highest ever.

The grain outlook is also positive in other important regions such as Russia, Ukraine and the EU. The London-based International Grains Council sees total world grains production of 2.026bn tonnes in the coming year, outpacing consumption and bringing stocks to their highest level ever.

“We’re seeing weather co-operating for the main grain production regions everywhere,” says Daniel Pereira, global crop analyst for Geosys, which uses satellite images and weather data to assess farm conditions.

On Monday, yellow corn — used mainly in animal feed and ethanol fuel — was trading at \$3.5275 a bushel for September delivery, down 0.6 per cent. For the same month, hard winter wheat — used in bread and grown in western Kansas — was \$4.185 a bushel, down 0.7 per cent.

Wheat typically fetches a higher premium to corn but has become cheap because of the supply glut seen in Mr Gantz’s weather-exposed mound. To make room for the impending corn crop, some excess wheat may get dumped in feed troughs, analysts and traders say.

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