

Marketing

Prices sensitive to perceived threats



Market Outlook

By **ARLAN SUDERMAN**

SURPLUS corn stocks are at 18-year highs, but this summer's prices will be extremely sensitive to any perceived threat to the 2006 crop. Demand, fueled by a rapidly developing ethanol industry, strengthening exports and an expanding livestock industry, should reach 11.5 billion bushels in the marketing year that begins Sept. 1.

Stocks should decline in the year ahead, even if we produce a trend yield. In fact, a repeat of 2004's record yield of 160.4 bushels per acre would result in just modest gains in surplus stocks, versus the more than 1.1 billion bushels of growth seen two years ago.

On the other hand, a 5% decline from trend yield would leave stocks tight, requiring higher prices to ration demand and stimulate production in 2007.

Ethanol demand for corn should reach 2.15 billion bushels in the 2006-07 marketing year, up 34% from the current year. Just over 1 out of every 5 bushels produced in this country is expected to go into ethanol production during that year, with dozens more plants still in the planning stages. Sources in the industry suggest ethanol

Key Points

- Ethanol production will utilize 1 out of 5 bushels of corn next year.
- Surplus stocks should decline by nearly 1 billion bushels next year.
- Prices are expected to rally if adverse weather develops during the summer.

demand for corn should remain stable at current energy prices, as long as corn prices remain below \$5. Export and feed demand will be somewhat sensitive to price, but limited alternative sources are available this year.

Traders will spend the next 60 days carefully studying weather patterns. A very weak La Niña pattern makes long-range projections difficult, but the models do suggest

we could have a few bumps along the road. As such, the speculative community will want to maintain some degree of ownership in the corn market until more is known about the size of this year's crop.

Setting the tone

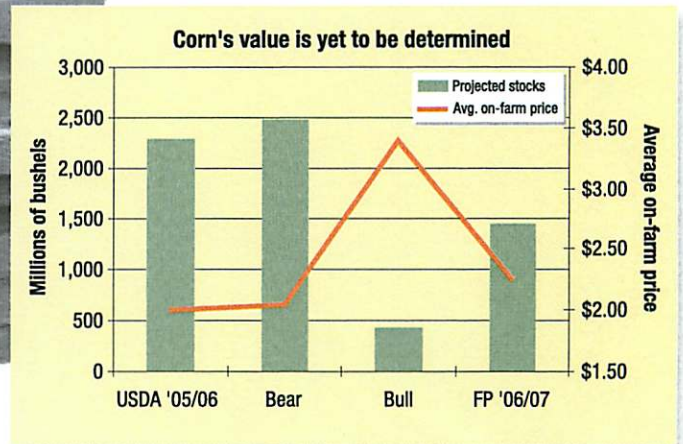
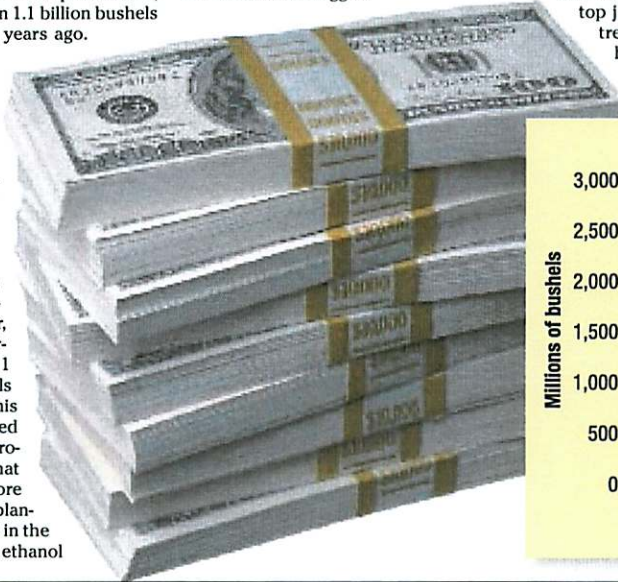
We won't run out of old-crop stocks ahead of harvest, so the new-crop futures contracts should set the tone this summer. Final acreage estimates won't be available until USDA counts them on June 30, but we should gain at least 1.5 million acres from its March 31 estimate if the weather cooperates. That would make December corn well-valued between \$2.60 and \$2.80, with a possible move to \$3 on a weather scare. A legitimate threat to the crop would open the door for a test of the early 2004 top just above \$3.40. However, a trend yield would argue for a harvest low in the December contract near \$2.20, while an ideal growing season

could test long-term support near \$1.88 by fall.

Corn demand is so solid because the market found low enough price levels during times of surplus to stimulate demand. The soybean market hasn't done that yet, with prices still buoyed up by speculative ownership of the commodity. The odds of a weather and/or Asian rust scare this summer are good, but any sustained rally would simply cause Brazilian farmers to rethink plans to reduce planted acreage this fall.

Without that reduction, U.S. yields need to fall 15% to 20% below trend to legitimately revive long-term bullish fires. Soybeans should find support from the corn and wheat pits, but the cash market will likely struggle as long as USDA projects record surplus stocks. Rallies above \$6 are meant to be sold until/unless a legitimate threat to the 2006 crop emerges.

For a free trial of Suderman's daily analysis newsletter, e-mail farmlfutures@farmprogress.com.



Transition to next generation requires planning



Family Business

By **LANCE WOODBURY**

WITH the coming retirement of the baby boomer generation, succession planning is a hot issue. The broad topic of succession planning and the specific day-to-day issues you face in considering a transition can seem miles apart, however. This column and next month's column will offer helpful steps you can use as a framework for planning a transition to the next generation.

The senior generation's duties

The "senior generation" must consider the time frame for a transition to something less than 100% of their full-time participation. Will you be at 75% of your current effort or activity in five years? Will you be fully retired in 10 years? Or do you want significant day-to-day responsibilities for the next 20 years? It is vitally important that you think through

your true wishes and then explain to — perhaps even negotiate with — the next generation.

Too many transitions have failed because the children have been frustrated with operating as an employee until their mid 40s or 50s. That's well past the time a management transition should have occurred. The son or daughter kept thinking (and possibly hearing) "five more years" from Mom and Dad, but before long, the children had reached age 55 and were still waiting to take over the business!

It's hard to let go

Second, ask yourself some hard questions about letting go. Will you be able to let the next generation make key decisions? Can you handle another entity changing your "tried and true" business practices?

Particular areas of concern about change often include marketing and financial strategies, the use of technology, and the desire to try new crops and farming practices. Furthermore, will you reinforce with your long-time employees and advisers that your son

or daughter is now in charge, or will you circumvent their new authority?

Finally, make sure you have something else to occupy your time, such as a hobby, travel or other business interests, to prevent you from looking over the next generation's shoulder. Seek help from your spouse, friends or advisers to keep you accountable to the next generation. Ask them to "nag" you when you appear to be meddling in the next generation's business.

Let next generation learn

Finally, assess the decision-making and employee-management capabilities of the next generation before you go too far in talking about the transition. Give them opportunities to make decisions and manage people so you can see firsthand their ability to manage the risk and resources of the business. Your retirement may depend heavily on how well they manage what you have built.

If you are having trouble seeing their strengths and weaknesses, ask your advisers (banker, accountant, etc.) for help. Consultants and aptitude tests are available for use within the agriculture

industry that can quickly help assess the capabilities of key people in the business.

Remember, succession planning is not a one-time event, but rather an ongoing activity that involves thinking and talking through strategies and alternatives. The end goal is to keep both the family and the business successful.

Next month: family and ownership issues to consider in a succession plan.

Woodbury works at the Garden City office of Kennedy and Coe LLC.

POSTMASTER

Kansas Farmer (USPS0022 8583) is published monthly for \$23.95 per year in state. A Rural Press USA Publication. Periodical postage paid at Carol Stream, IL and additional mailing offices.

Known office of publication and Postmaster:

Send address changes to *Kansas Farmer*, 191 S. Gary Ave., Carol Stream, IL 60188.