The Value of the U.S. Dollar

Riding the waves of the December corn market during the past 14 months worked well. Each rally witnessed a significant setback, but new highs were reached, followed by another setback and then a rally to new highs again. The September rally (the final one) was different, as prices negatively reacted to a positive USDA report. Demand reduction began to surface and yield problems in the U.S. could no longer outweigh increases in global production. Even the early frost didn't help prices. A global attitude adjustment regarding risk aversion developed.

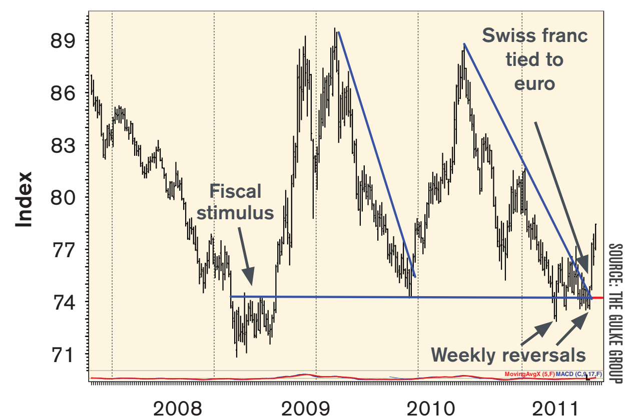
The value of the U.S. dollar topped out in 2001 at the beginning of the Bush administration. The dollar precipitously fell for the next eight years until the Obama administration chased our economy with even more stimulus than the previous White House occupant. There have been periods of hope (rising dollar) and fear (falling dollar), taking the value back to the early 2008 level as if retesting whether or not the dollar had been battered enough. The U.S. economy appeared to be in bad shape, but the rest of the world was getting "badder" at the same time.

Uncertainty Reigns. A technical key reversal higher in the last week of 2010 and a hook reversal in May 2011 helped solidify previous 2008 support. The difficulties in the European Union and an attempt to fix the budgetary problems of Portugal, Italy, Greece and Spain are ongoing. Even the Brazilian currency, the real—once the darling of the free world—began to lose favor with analysts this past month.

Currency valuations are now less influenced by prevailing interest rates and more by safety. Gold is touted as the alternative currency. When times get tough, where do you want your assets and money—hanging around your neck, in a strongbox, or in a country that has a stable government, significant national resources and a military that can handle adversity?

The euro's questionable stability coupled with China's yet-to-be-determined ability to handle a recession provide additional uncertainty. The U.S., whose enviable assets are on sale

Weekly U.S. Dollar Index



(because of a cheap dollar), will be the standard bearer in my lifetime for sure.

Importance to U.S. Agriculture. The cost of stuff bought by a lot of countries is predicated on currency relationships. Soybean prices, in particular, are affected because they have had a direct correlation with the value of the dollar versus the Brazilian real. The Brazilian farmer sells his soybeans in dollars, then converts back to the real. The higher the U.S. dollar, the more reals are available to spend back home. The real collapsed with the rise of the dollar, losing a year's worth of gain and 19% of its value.

The trend in the U.S. dollar is not good for agriculture. The high in 2001 was more than 120 versus 73 this past May. A European systemic event—such as a failure of confidence in the banking system, similar to our 2008 debacle—could prompt a 50% correction of the dollar versus the euro. Let's hope not!

Based on what has been evolving in the free world and China, I had no desire to hold $14 soybeans and $7 corn, and felt it necessary to hedge 2012 production while I was at it. I grow a renewable resource (food) every year, and the current attitude adjustment might take longer than it takes me to grow two crops. ■

Jerry Gulke farms in Illinois and North Dakota and is president of Gulke Group Inc., a market advisory firm with offices at the Chicago Board of Trade. Gulke Group recently published *"Technical Analysis: Fundamentally Easy."* For information, send an e-mail to *info@gulkegroup.com* or call (815) 520-4227.