

Agricultural Commodity Marketing: Futures, Options, Insurance

Fundamental Analysis

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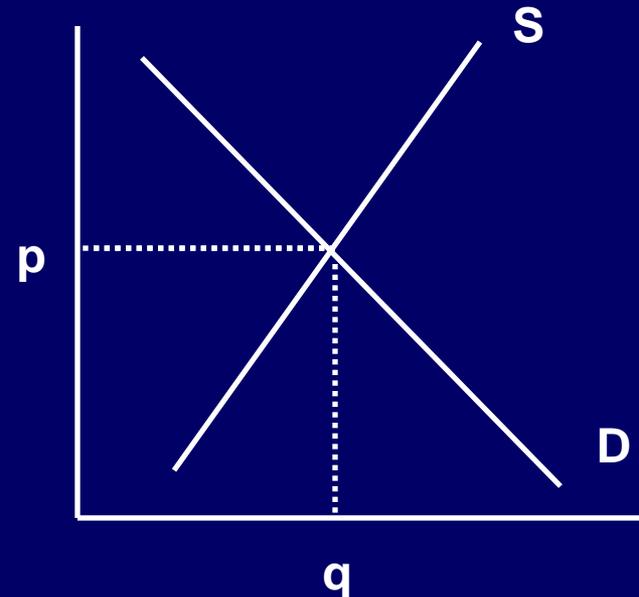


Fact Sheets

- Interpretation of the USDA Cattle on Feed Report
- CME Group Livestock Futures and Options: Introduction to Underlying Market Fundamentals
- Obtaining and Utilizing USDA Market and Production Reports

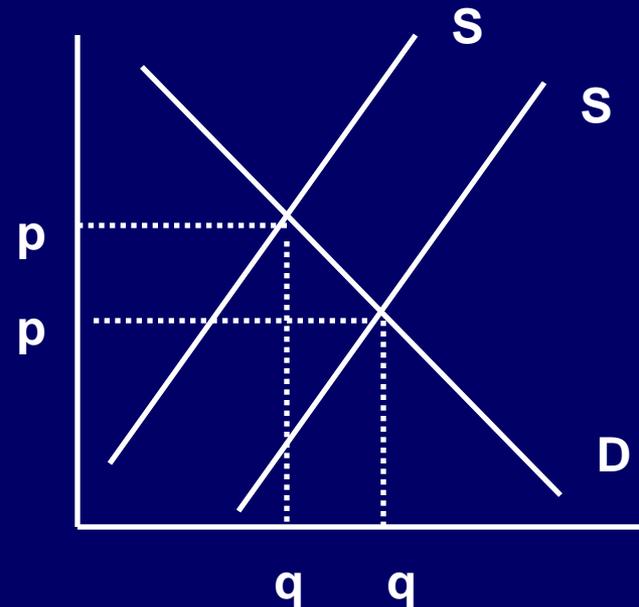
Fundamental Analysis

- The interaction of the major forces of Supply and Demand
 - Supply Factors
 - Cattle Inventory
 - Cattle on Feed
 - Acres of Corn Planted
 - Milk produced per cow
 - Demand Factors
 - Number of Consumers
 - Consumer Income
 - Export Markets
- Determine the market Price Level



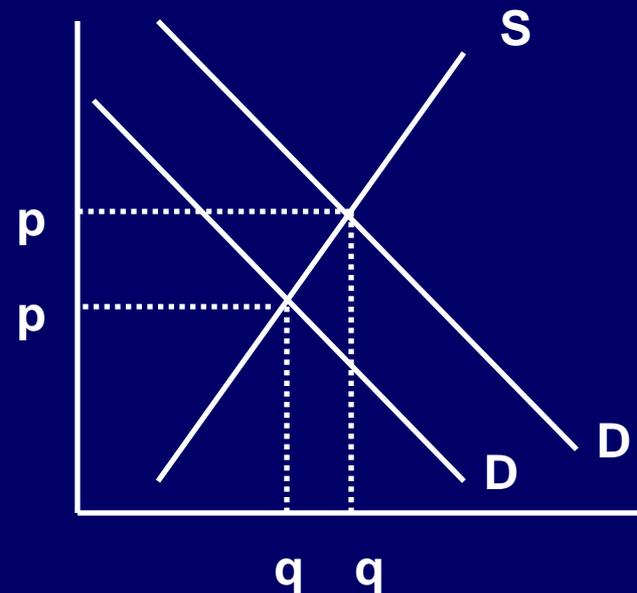
Fundamental Analysis

- An increase in Supply leads to lower prices
- A reduction in Supply leads to higher prices



Fundamental Analysis

- An increase in Demand leads to higher prices
- A reduction in Demand leads to lower prices



Source of Supply and Demand Information

- USDA-NASS Reports
- <http://www.nass.usda.gov/Publications/index.asp>
- USDA Reports at the Mann Library
- <http://usda.mannlib.cornell.edu/MannUsda/homepage.do>

Over 2,500 reports

Major Crop Reports

- World Ag. Supply & Demand Estimates Monthly
- Crop Production Monthly
- Winter Wheat Seeding January
- Planting Intentions March
- Acreage June
- Grain Stocks Jan, Jun, Sep
- US Export Sales Monthly
- Crop Progress Weekly (Apr-Dec)

Example WASDE

WASDE-472-11

July 2009

U.S. Wheat Supply and Use 1/

Item	2007/08		2009/10 Projections	
	2007/08	2008/09 Est.	June	July
===== Area : Million acres				
Planted	60.5	63.1	58.6 *	59.8
Harvested	51.0	55.7	48.9 *	50.4
Yield per harvested acre : Bushels				
	40.2	44.9	41.2 *	41.9
: Million bushels				
Beginning stocks	456	306	669	667
Production	2,051	2,500	2,016	2,112
Imports	113	125	115	115
Supply, total	2,620	2,930	2,800	2,894
Food	947	922	955	955
Seed	88	79	78	78
Feed and residual	15	247	220	230
Domestic, total	1,050	1,248	1,253	1,263
Exports	1,264	1,015	900	925
Use, total	2,314	2,263	2,153	2,188
Ending stocks	306	667	647	706
CCC inventory	0	0		
Free stocks	306	667		
Outstanding loans	1	27		
Avg. farm price (\$/bu) 2/	6.48	6.78	4.90- 5.90	4.80- 5.80

Example Crop Progress

**Corn: Percent Silking,
Selected States ¹**

State	Week Ending			2004- 2008 Avg.
	Jul 12, 2009	Jul 5, 2009	Jul 12, 2008	
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
CO	10	5	15	10
IL	11	5	12	57
IN	11	2	7	38
IA	6	0	1	18
KS	50	27	43	57
KY	37	24	40	68
MI	1	0	2	11
MN	1	0	2	15
MO	48	30	33	68
NE	25	6	11	31
NC	92	88	86	89
ND	1	0	2	8
OH	11	2	4	19
PA	22	1	17	20
SD	0	0	0	3
TN	80	66	75	86
TX	79	63	69	75
WI	2	0	1	6
18 Sts	16	8	12	32

¹ These 18 States planted 92% of last year's corn acreage.

**Corn: Crop Condition by Percent,
Selected States,
Week Ending Jul 12, 2009**

State	VP	P	F	G	EX
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
CO	1	5	19	50	25
IL	3	9	28	48	12
IN	2	8	28	50	12
IA	1	4	16	52	27
KS	2	5	25	50	18
KY	1	3	19	58	19
MI	2	8	27	49	14
MN	1	3	14	59	23
MO	1	8	35	43	13
NE	1	3	12	58	26
NC	5	16	33	35	11
ND	1	2	18	63	16
OH	1	4	22	52	21
PA	1	3	21	49	26
SD	1	4	22	57	16
TN	7	12	26	43	12
TX	24	18	27	27	4
WI	1	7	21	55	16
18 Sts	2	6	21	52	19
Prev Wk	2	6	21	53	18
Prev Yr	3	7	26	49	15

Major Livestock Reports

- Cattle Inventory Jan & Jul
- Sheep Inventory Jan & Jul
- Cattle on Feed Monthly
- Livestock Slaughter Monthly
- Cold Storage Monthly
- Hog Inventory Mar, Jun, Sep, Dec
- Milk Production Monthly

Cattle Inventory

Jan 1 Cattle Inventory	USDA Actual	Average Guess	Guess Range
All Cattle		98.5%	98.0-99.0%
Total Cows		98.5%	98.0-99.0%
Beef Cows		98.5%	98.0-99.5%
Milk Cows		98.0%	97.5-98.5%
Total Heifers Over 500#		98.5%	98.0-98.5%
Beef Replacements		98.5%	97.5-100.5%
Milk Replacements		97.5%	96.0-99.0%
Other heifers		99.0%	98.5-99.5%
Steers 500# Plus		98.5%	98.00-99.0%
Bulls 500# Plus		99.0%	98.0-99.5%
Calves Under 500#		98.5%	98.0-99.0%
2009 Calf Crop		98.5%	98.0-99.0%

Pre-Report

Supplied by industry experts.
The range represents their guesses.

Jan 1 Cattle Inventory	USDA Actual	Average Guess	Guess Range
All Cattle	99.0	98.5%	98.0-99.0%
Total Cows	99.0	98.5%	98.0-99.0%
Beef Cows	99.0	98.5%	98.0-99.5%
Milk Cows	97.0	98.0%	97.5-98.5%
Total Heifers Over 500#	100.0	98.5%	98.0-98.5%
Beef Replacements	98.0	98.5%	97.5-100.5%
Milk Replacements	102.0	97.5%	96.0-99.0%
Other heifers	101.0	99.0%	98.5-99.5%
Steers 500# Plus	98.0	98.5%	98.00-99.0%
Bulls 500# Plus	100.0	99.0%	98.0-99.5%
Calves Under 500#	100.0	98.5%	98.0-99.0%
2009 Calf Crop	99.0	98.5%	98.0-99.0%

Actual Report

Carefully evaluate values
outside of Guess Range

Example Cattle on Feed

**Cattle on Feed: Number on Feed, Placements, Marketings, and
Other Disappearance, 1,000+ Capacity Feedlots,
United States, January 1, 2009-2010**

Item	Number		Percent of Previous Year
	2009	2010	
	<i>1,000 Head</i>	<i>1,000 Head</i>	<i>Percent</i>
On Feed Dec 1	11,346	*11,277	99
Placed on Feed During Dec	1,647	1,546	94
Fed Cattle Marketed During Dec	1,683	1,742	104
Other Disappearance During Dec	76	72	95
On Feed Jan 1	11,234	11,009	98

* Revised.

Example Monthly Milk Production

Estimated Milk Cows and Production: By Month, United States, 2008-2009 ¹

Month	Milk Cows ²		Milk Per Cow ³		Milk Production ³		
	2008	2009	2008	2009	2008	2009	Change From 2008
	<i>1,000 Head</i>	<i>1,000 Head</i>	<i>Pounds</i>	<i>Pounds</i>	<i>Million Pounds</i>	<i>Million Pounds</i>	<i>Percent</i>
Jan	9,276	9,312	1,722	1,733	15,976	16,138	1.0
Feb	9,287	9,289	1,634	1,589	15,176	14,756	-2.8
Mar	9,295	9,283	1,771	1,774	16,458	16,469	0.1
Apr	9,307	9,282	1,733	1,738	16,125	16,135	0.1
May	9,318	9,270	1,793	1,811	16,707	16,785	0.5
Jun	9,321	9,228	1,710	1,729	15,942	15,954	0.1
Jul	9,335	9,191	1,713	1,740	15,995	15,991	
Aug	9,331	9,162	1,689	1,719	15,757	15,746	-0.1
Sep	9,323	9,123	1,623	1,649	15,129	15,045	-0.6
Oct	9,324	9,094	1,675	1,695	15,615	15,414	-1.3
Nov	9,333	9,085	1,630	1,659	15,212	15,070	-0.9
Dec	9,334	9,082	1,703	1,735	15,900	15,756	-0.9
Annual	9,315	9,200	20,396	20,572	189,992	189,259	-0.4

¹ 2009 revised.

² Includes dry cows, excludes heifers not yet fresh.

³ Excludes milk sucked by calves.

Example Hog & Pig Report

**Hogs and Pigs: Inventory Number by Class, Weight Group,
and Quarter, United States, 2008-2009**

Item	2008	2009	2009 as a % 2008
	<i>1,000 Head</i>	<i>1,000 Head</i>	<i>Percent</i>
March 1 Inventory ¹			
All Hogs and Pigs	67,218	65,819	98
Kept for Breeding	6,200	5,992	97
Market	61,018	59,828	98
Market Hogs and Pigs by Weight Groups			
Under 50 Pounds	20,277	19,809	98
50-119 Pounds	16,350	16,426	100
120-179 Pounds	13,193	12,732	97
180 Pounds and Over	11,199	10,862	97

Some Fallacies of Fundamental Analysis

Taken from: A Complete Guide to the
Futures Markets

By: Jack D. Schwager

John Wiley and Sons, 1984

Viewing Old Information as New

- News services often report old and new news the same way
- If the trade already knew that production was up 10%, than a report stating this is not new

One Year Comparisons

- Year to year variations can make year to year comparisons risky
- For example, production up 10% from last year may not imply a low price level if production last year was very small

Using Fundamentals for Timing

- Fundamentals give us general direction of prices over the next year, quarter, and maybe month
- They do not provide instantaneous price signals

Lack of Perspective

- Late winter storm in Utah kills 10,000 calves
- This story may make headlines, and might impact calf prices slightly in Utah
- But considering there are 27 million calves born, it is less than 0.01%

Ignoring Relevant Time Considerations

- Some fundamentals will only impact prices in long run
- Don't use that information for short run trading decisions

Prices and Cost of Production

- Production agriculture operates in a competitive market environment, where long run profits will be near zero, However
- Prices can and do fall below cost of production and stay there for some time
- Price can and do exceed cost of production and stay there for some time

Improper Inferences

- An increase in Acreage does not always lead to increased production
 - Weather
 - Other inputs
- Cattle on Feed and Cattle Slaughter is quite variable
 - Feeding conditions
 - Market conditions

Ignoring Expectations

- Market often responds more to expectations than to current fundamental
- Old adage
 - Buy the rumor, Sell the fact

Ignoring Seasonal Considerations

- Ignoring seasonal factors can often lead to misinterpretation of fundamental data
- Be careful with monthly or quarterly comparisons