

Agricultural Commodity Marketing: Futures, Options, Insurance

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Funding and Support Provided by:



On-Line Workshop Outline

- A series of 12 lectures with slides
- Accompanying Fact Sheets
- Streaming Video Clips
- Email
- Periodic Live web broadcast

Workshop Outline

- Introduction
 - Price Determination versus Price Discovery
 - Understanding and Managing Price Risk
- Introduction to Futures Markets
- Understanding and Using Basis
- Hedging with Futures
- Introduction to Options Markets
- Hedging with Options

Workshop Outline Cont.

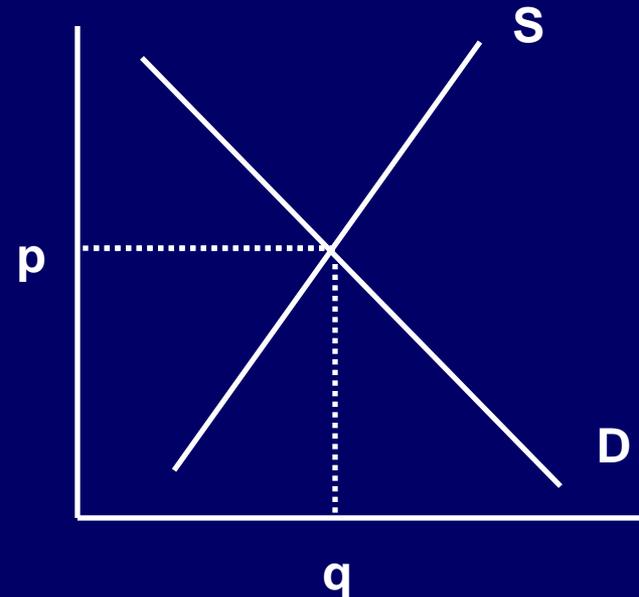
- Technical Analysis
- Fundamental Analysis
- Post-Harvest Marketing Strategies
- Advanced Future & Option Strategies
- Insurance
- Cow-Calf Risk Analysis Tool

Fact Sheet

- Price Determination versus Price Discovery

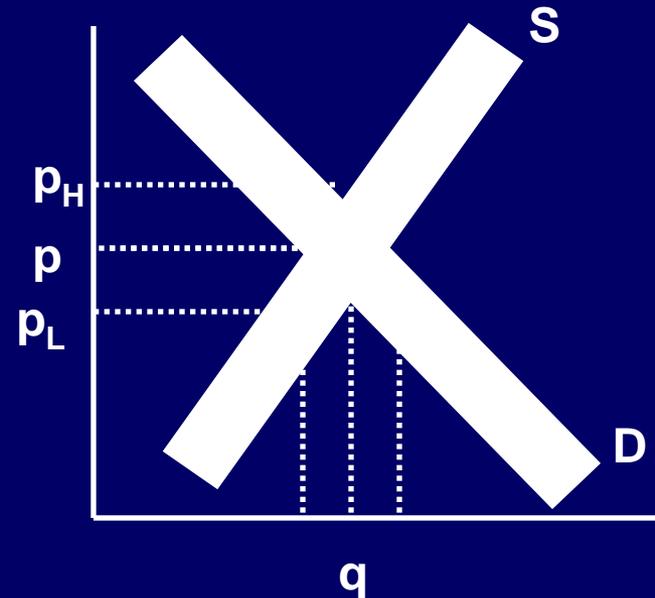
Price Determination

- 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



Price Discovery

- The process of buyers and sellers reaching a transaction price
- True Supply and Demand Uncertain when price negotiations occur
- Transaction prices also vary
 - Quality
 - Quantity
 - Location
 - Market Structure
 - # of buyers
 - # of sellers
 - information



Dodge City, Kansas Wheat Prices

Price Determination

Price Discovery

-
- July 2008 Average
 - \$**7.78** per bushel
 - July 2009 Average
 - \$**4.95** per bushel
 - Supply didn't change dramatically
 - **Demand did change**
 - Financial crisis
 - Value of US \$ Increased
 - Leads to a decrease in exports
 - Wheat prices impacted by exports
- July 2008 Weekly Prices
 - \$8.30
 - \$7.74
 - \$7.64
 - \$7.42
 - July 2009 Weekly Prices
 - \$4.99
 - \$4.87
 - \$4.95
 - \$4.97
 - July 13-17, 2009 Daily Prices
 - \$5.06
 - \$4.93
 - \$4.96
 - \$4.95
 - \$5.02

Understanding Risk In Agricultural Prices

- Dodge City, Kansas Wheat Prices
 - July 2007 \$5.55
 - Feb 2008 \$9.95
 - Storage cost about \$.25 per bushel
 - Return to Storage \$4.15 per bushel
 - July 2008 \$7.75
 - Feb 2009 \$4.95
 - Storage cost about \$.25 per bushel
 - Return to Storage -\$3.05 per bushel
 - July 2009 \$4.95
 - Feb 2010 ????
 - Should you store Wheat?

Understanding Risk In Agricultural Prices

- Utah 550 Steer Calf Price Salina Auction
 - October 2006 \$115.58 per cwt
 - November 2006 \$100.50 per cwt
 - A difference of over \$80 per calf sold
 - The prior 5 years the average difference was less than \$1 per cwt between Oct and Nov
 - Reason for drop in 2006, Grain Prices were increasing dramatically during that time frame

Understanding Risk In Agricultural Prices

- Fed Steer Price

- August 2003 \$80 per cwt
- November 2003 \$100 per cwt
- January 2004 \$79 per cwt
- November fed cattle worth \$250 more per head than August or January

- Reason for run-up, Border closed with Canada due to BSE
- Reason for decline, BSE in US results in loss of our export markets

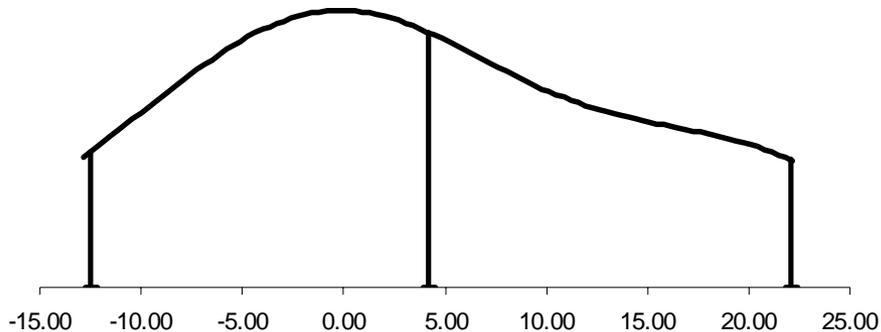
Understanding Risk In Agricultural Prices

- The futures market is a predictor of prices in the future
 - For example, in the spring cattle producers look at fall feeder cattle futures contract to get an idea of what calf and feeder cattle prices might be in the fall
 - How much do these futures contracts prices change from spring to fall
 - Specifically Nov Feeder Cattle Futures

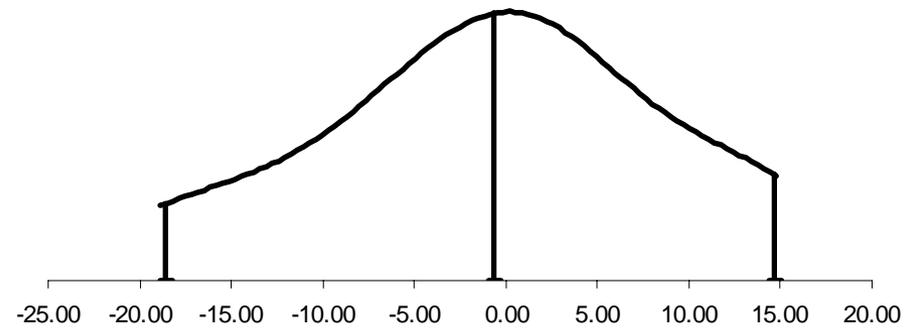


Changes in Nov Feeder Cattle Futures from Spring to Fall, 1999-2008

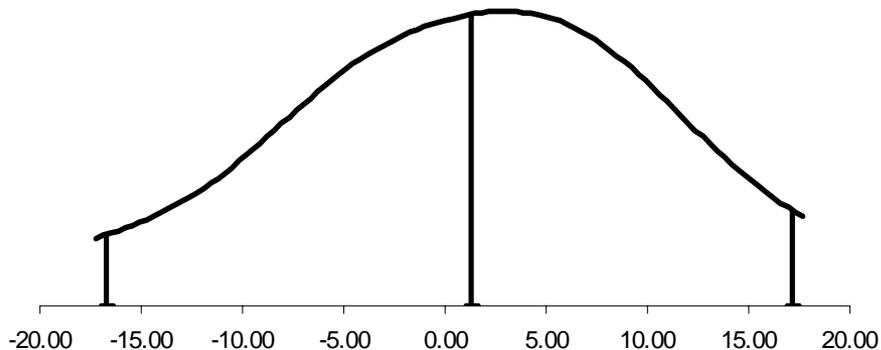
PDF Approximation (Mar to Nov)



PDF Approximation (Jul to Nov)



PDF Approximation (May to Nov)



**Range of Market Changes
On Average Prices were about what
were expected
\$19/cwt lower in fall than expected
\$22/cwt higher in the fall than expected
Standard Deviation = \$9.50/cwt**



Changes in Nov Feeder Cattle Futures from Spring to Fall, 1999-2008

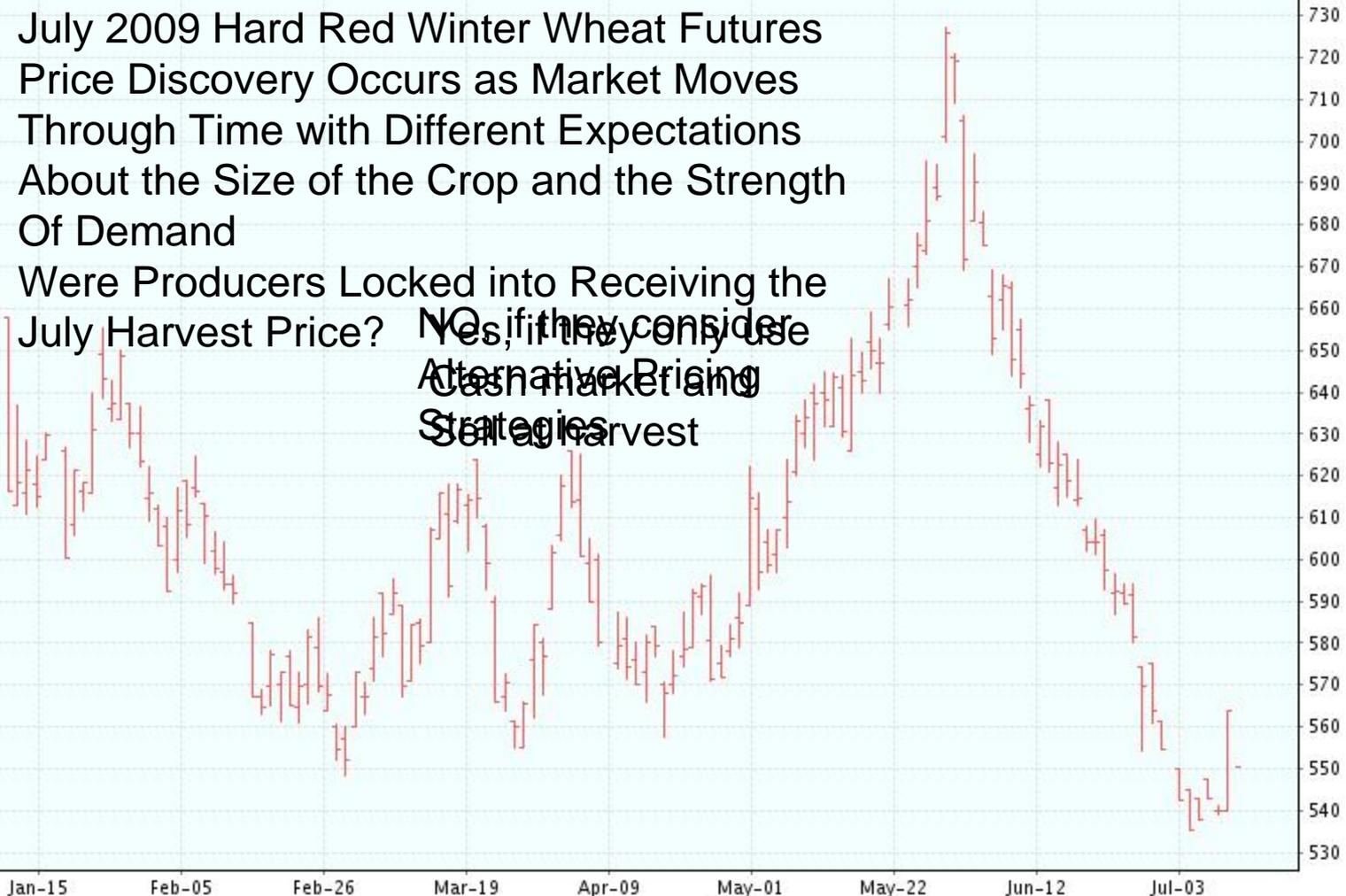
- A Standard Deviation of 9.50
- This means that in 1 out of 3 years prices are likely to be more than \$9.50 per cwt higher or lower in November than what was expected in the spring
- That means \$50 more or \$50 less than you expected for a 550 lb calf
- You probably are not concerned about the \$50 more, can you financially withstand the \$50 less?

The Futures Market is a Process of Price Discovery

July 2009 Hard Red Winter Wheat Futures
Price Discovery Occurs as Market Moves
Through Time with Different Expectations
About the Size of the Crop and the Strength
Of Demand

Were Producers Locked into Receiving the
July Harvest Price? **NO, if they consider**

**Alternative Marketing
Strategies**



Objective of This Commodity Marketing Workshop

- Understand the tools available to producers that help manage this price risk
 - Futures Markets
 - Options Markets
 - Price Insurance
- Understand how to interpret technical and fundamental data to help minimize the amount of Price Uncertainty
 - Technical Bar Charts
 - USDA Crop and Livestock Reports

