

Master Marketer Newsletter

<http://mastermarketer.tamu.edu>



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Texas Cooperative Extension, The Texas A&M University System

Master Marketer Highlights

Gainesville Master Marketer Program-January and February 2005

The next Master Marketer Program will be in Gainesville beginning the first week of January, 2005. This will be the first time for a Master Marketer program to be held in North Texas. Dr. Blake Bennett at the Texas A&M Research and Extension Center in Dallas will be coordinating the workshop. Please make sure to tell anyone you think would be interested in participating in Master Marketer about this opportunity. When you receive this newsletter, there should still be time to call Dr. Bennett at 972-231-5362 and enroll in the class, or visit our website or contact your district economist to obtain a brochure.

2004-2005 Advanced Topics Series Starts December 6, 2004

The schedule for the Advanced Topics Series (ATS) for 2004-2005 has been developed and announced. The ATS courses are offered as part of our effort to help our Master Marketer graduates rise to a higher level of marketing and risk management knowledge. The first class covers Advanced Futures and Options and is scheduled for El Campo on December 6-7, 2004. You can read and print out the brochure for the ATS courses on the Master Marketer web site at <http://mastermarketer.tamu.edu>. All recipients of this newsletter will also receive a copy of the ATS brochure either by mail or via email. If you would like additional brochures please contact your district economist or feel free to print them off the website. We work to obtain the best available speakers to teach these courses, and encourage producers attempting to become more skilled marketers to continue to take these courses to increase their understanding of the marketing tools available to them.

Master Marketer Web Site is Updated

The Master Marketer Web Site is currently undergoing a facelift and will continue to do so as we update the site. We would appreciate your comments and suggestions for improving it as well as any links you would like to see. Elizabeth Shaw is now in charge of maintaining and updating the site. She will also be maintaining the Master Marketer

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Marketing Club Corner

By Elizabeth Shaw Master Marketer Discussion Forum

As the Internet becomes more and more a part of our everyday lives, we continually find new sources of information on which to base our marketing decisions and broaden our knowledge base. Unfortunately, this is often more work than it seems, and the information is hardly reliable. Wouldn't it be nice to get up to date information from a source we already trust, discuss marketing practices with other producers, link to new websites without having to wade through thousands of search results, and pose a question to an Extension economist while he is out of town?

The Master Marketer Website contains a link to our "new and improved" Discussion Forum, a communication tool through which graduates and other interested producers can discuss marketing among themselves, with district economists, and with other members of the marketing community including marketing club leaders and ag lenders. This forum has existed for a little over a year, but has not been widely advertised on our site, and we are working to make it more accessible, user friendly, and effective as another facet of marketing education within the Master Marketer Educational System.

While the forum is small now, it has the potential to become a great resource for many Master Marketer graduates; a place to share and discuss marketing information and informational links, alert others to news and current events, and direct questions to district economists online. "Chats" may also be scheduled for specific times, such as during and after the monthly teleconferences in order to further the discussion online. An online "Marketing Club" can even be established for those who wish to participate in club discussions but can't find the time.

The Master Marketer team has agreed to monitor the site for all marketing inquiries and to post pertinent marketing information, including regular postings of noteworthy market behavior. We will also post announcements of upcoming educational programs and take suggestions for discussion topics and other site improvements. With your repeated participation, this forum can be something great-

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Use “Hedging” Strategies to Enhance Income

Producers have successfully used put and call pricing strategies to increase income substantially for the last two seasons. Put options on December '04 cotton futures, purchased to protect against lower prices, added \$50 to \$75 per bale income when prices dropped sharply between March and August. For the 2002/03 crop, call options were implemented to benefit from higher prices and lower program payments.

Because the U.S. cotton market has become largely dependent upon exporting two-thirds of the crop, the market shifts without warning. The export market is mostly an unpredictable mix of supply/demand market forces along with changing policies within the main foreign countries producing cotton. When prices are low, policymakers in these countries tend to “protect” their producers’ income and encourage sufficient acreage for exporting to other foreign countries.

December '04 futures prices rallied above 70 cents in October last year and dropped to 45 cents in July 2004. Consequently, producers who anticipated lower prices and implemented out-of-the-money option strategies were rewarded with 10 to 20 cents per pound profit from their marketing program. In other words, a producer who purchased twenty December '04 64-cent puts for \$500 to \$1,000 premium per contract on 2,000 bales could have easily netted \$5,000 per 50,000 pound futures contract for an extra \$100,000 income.

The price movements of December '04 futures are a textbook example of high prices one year, resulting in low prices a year later. December '03 was another example of low prices in 2002, leading to high prices about a year later. Producers had the opportunity from October 2002 for several months to purchase 58-cent December '03 calls and realize 10 or more cents per pound gain to protect their maximum counter cyclical payment (CCP) rate of 13.73 cents for the 2003/04 crop.

“Hedging” 2005/06 Crop Not Clear

The opportunity for “hedging” the 2005/06 crop, however, is not good because of the sluggish market. With

increased acreage and yields, the world cotton supply is rising substantially this season. Also, with cotton production technology improving (especially in China, India, Brazil and the U.S.), cotton supplies are expected to be even greater by the fall of 2005. Therefore, December '05 futures will likely weaken to the 30 to 40 cent per pound range by the 2005 harvest. But, adverse weather in China and the U.S. could threaten crop size and increase price next planting season to around 50 cents. This would be an opportunity to purchase December '05 puts.

A possible method to start your 2005 marketing plan is to purchase one or more option contracts when there may be potential for a 5 to 10 cent price move in your favor. When market changes and direction is unclear, consider spreading out option purchases during price rallies or declines based on anticipated price moves.

If the market rallies next spring sufficiently for December '05 to reach around 48 to 52 cents or above, consider purchasing puts slightly out-of-the-money. You may also want to consider selling out-of-the-money calls on July, October and/or December as a spread to lower December put option costs.

Keep in mind there are several upcoming policy decisions associated with the World Trade Organization (WTO) allegations against the U.S. farm program that could impact on next year’s cotton price movements.

Summary

Expect greater price volatility from unforeseeable policy changes at home and abroad. Most likely these government-supported programs will encourage foreign production and weaken the U.S. market’s export potential by next fall. Price levels are expected to remain depressed for another season.

Choice Website

By Elizabeth Shaw

www.marketmaxx.net

This quarter's Choice Website is MarketMaxx.net. This website is the home of an online trading simulation contest that begins on January 3, 2005, the first trading day of 2005. This site has been widely advertised and is a way to get involved with simulated training without a financial commitment (no purchase necessary, see "Contest Rules" on site). The MarketMaxx Grain Marketing Online Contest is sponsored by The Corn and Soybean Digest; the corn winner receives a year's use of a Massey Ferguson MF 9000 Self-Propelled Combine (valued at \$12,000), and the soybean winner will receive a year's use of their choice of any Massey Ferguson tractor in the MF 7400 or MF 8400 series, also valued at \$12,000.

Right now this website has little information aside from the front page but do not be alarmed—as of January 3, 2005, the simulated trading contest should begin. This is a way not only to get a chance to win a prize but also to brush up on your marketing skills and "pull the trigger."

Register now if you're interested—registration is open until May 31, 2005, but trading begins on January 3, 2005 so read the contest rules and sign up if you wish.

This contest is not connected to the Texas A&M University System, Texas Cooperative Extension, or the Master Marketer Educational System.

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link to marketing information, hints, and advice from experts, as well as a community forum for likeminded marketers.

In time, and with your help, the forum will take on a life of its own, with the Master Marketer community supporting it and each other in turn. I encourage you to sign up by following the links below and become a member of this community. Please email me at ershaw@ag.tamu.edu (or post on the forum!) with any suggestions for revamping the forum, "guest speakers," or other ideas to get more Master Marketer Alumni involved in the forum. The Master Marketer Forum can be accessed at:

<http://mastermarketer.tamu.edu/phpBB2/index.php> or from the Master Marketer webpage <http://mastermarketer.tamu.edu> by clicking on "Discussion Forum." All you have to do is sign up by choosing a username (you may remain anonymous if you like) and start posting in our online community!

Looking forward to seeing you there!

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web site discussion forum, a great tool for the exchange of information with fellow graduates, marketing club members, and marketing economists. Elizabeth will be devoting part of her time to making sure any and all questions posted on the site are answered promptly by the Master Marketer team, and that timely information is posted for readers. Be sure to visit and register on the Master Marketer forum when you visit our site!

Master Marketer Email List

The Master Marketer Educational System is creating an email list to save on postage and make receiving your Newsletter more convenient. With your last newsletter you should have received a slip to mail in if you would like to receive your Master Marketer newsletter by email instead of "snail mail." If you lost or misplaced this letter and would like to receive your newsletter by email, or if you have an address change to report, please email Elizabeth at ershaw@ag.tamu.edu to have your name added to the list.



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THE TEXAS A&M UNIVERSITY SYSTEM
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