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Choice Website

Elizabeth S. Spillmann
Extension Associate-Risk Management
Texas A&M University

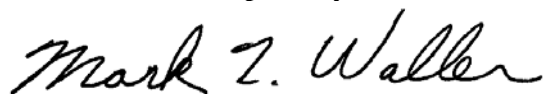
This month's Choice Website is Agri-Links, also known as Tim's Links for the World Wide Web. This is a no-frills website, and contains a wealth of information relating to a wide range of agricultural topics. Visitors to this website will find it very easy to navigate through different categories of information they are seeking, and choose between many different vendors to find what they need.

Sites linked from Agri-Links range from various Internet message boards on which visitors can post and search for information, equipment and parts supplier sites, and other resources including guest speakers for your marketing club meetings! Other sites offer ag commentary, auction sites, weather analysis, pricing, marketing, and job networking.

This website would be a great one to save in your "Bookmarks" folder for future reference. You never know when you will be looking for a certain type of website for your own marketing education, for the marketing club, for equipment, or even some Christmas shopping!

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Prepared by:



Mark Waller
Professor and Extension
Economist-Grain Marketing and Policy
Department of Agricultural Economics
Texas Cooperative Extension
Texas A&M University College Station, Texas 77843-2124

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Master Marketer Highlights

Amarillo Master Marketer in January

If you are in the northern half of the state, don't miss this opportunity to sharpen your marketing skills. The first regular session in Amarillo will be January 11-12, 2006. For anyone needing to update their basic knowledge of the futures market, there will be a one-day leveling workshop on January 10th to better prepare you to take full advantage of the marketing strategies to be discussed in the Master Marketer workshop. The brochure/registration form is now available on the Master Marketer web site. Every time the class has been offered in Amarillo, it has been full, so if you plan to attend this class, it is recommended you send in your registration very soon or call Dr. Steve Amosson in Amarillo at 806-677-5600 or visit the Master Marketer website at <http://mastermarketer.tamu.edu>.

Tomorrow's Top Agricultural Producers (TTAP)

The second TTAP program kicked off recently in Amarillo with 12 operations represented. The instructors are very excited about the potential of the participants and are expecting this to be at least as successful as the first program. This intensive educational program will also include sessions in College Station and Dallas before concluding in Kerrville in January of 2007.

Advanced Topics Series (ATS)

The next ATS class will be taught by Dr. Art Barnaby in Amarillo on January 24, 2006—Incorporating Crop Insurance into the Marketing Plan. You will get a thorough overview of federal crop insurance programs, including hail, MPCI, CRC, CRC+ and other coverages. Regional availability and state-specific provisions will be discussed. Producers will leave the shortcourse with the skills necessary to evaluate insurance alternatives for their individual operations. Call Dr. Steve Amosson in Amarillo for information or to get enrolled. You can also access information on the Master Marketer web site at <http://mastermarketer.tamu.edu>. The first Developing this Year's Marketing Plan workshop will be for feedgrains and will be taught in Dimmitt. The cotton marketing plan workshops will be taught at 3 locations in February. Please refer to the web site or the brochure you should have received in the mail.

Marketing Club Corner



Mark L. Waller
Professor and Extension Economist-Grain
Marketing and Policy
Texas A&M University

Winter Meeting Topics

Often times, many of us spend a major chunk of the time in our marketing club meetings talking about market prices and the future outlook. Given the input prices situation that many of you are facing this winter (and will likely still be facing next spring), you may also want to give some time/consideration to production plans for the coming year. The comments that I am hearing from producers, lenders, and my co-workers is that the big increases in the prices of diesel fuel, natural gas, fertilizer, and other inputs are causing producers to think long and hard about how they are going to make their farming operation profitable in the coming year. If your marketing club has not already addressed this issue for the coming year, you may want to get it on your schedule. Several County Extension Agriculture Agents and District Economists are already scheduling/conducting budgeting/planning workshops this winter. Working through some of the possible crops and changes in production practices as a group may help stimulate better ideas than anyone might come up with on their own.

Along with the cost reduction part of your planning process, you also need to be thinking about how you are going to profitably market the coming year's production. As producers across the US adjust their production mix and cropping practices for the coming year, we could be provided some opportunities. I think there is a possibility that acreage could shift enough to cause some grain prices to increase substantially, while other crop prices could be much lower by next fall. As mentioned elsewhere in this newsletter, Extension is offering a Master Marketer program in Amarillo, and Advanced Topics Series (ATS) workshops at various locations around the state this winter. If you are near one of these locations, you may want to consider getting all, or a portion of the club to attend as a group.

The coming production/marketing year is going to provide some real challenges. Hopefully your diligent planning and risk management practices will help you find the best opportunities available.



Daniel Bluntzer
 Director of Research for Frontier Risk Management,
 Robstown, Texas.
 (361) 387-2600
DanielB@Frontier-Risk.com

So, What is *Risk Management* Anyway?

Marketing...hedging...price protection...risk management. These are all terms we have heard for years. However, using them interchangeably can be risky in your day to day business. When talking to clients, I attempt to differentiate between these terms to better define their application.

For commodity producers, marketing is the act of selling your commodity, which can involve timing of sales, price determination, and delivery points. Hedging is simply the act of “transferring” risk, which is precisely what the seller does when they market their crop. Price protection generally refers to establishing a minimum price for your commodity, and is a derivative of hedging. So, in terms of commodity pricing, what is *risk management*?

Let’s start by defining what it isn’t. Risk management is not trying to catch the top of the market. It’s not speculating in the futures and/or options markets to increase returns. Nor is it a one-size-fits-all approach that can be addressed only once a year. Rather, it is best to think of risk management as a continuous process, or methodology, that involves identifying risks, determining the profit and loss associated with various outcomes, reviewing alternatives for offsetting risk, and finally, outlining and implementing a course that best suites your business’s financial risk profile. In short, it asks: “What are my risks? How much could I gain or lose from accepting these risks? What risks could I offset and how? And, given the financial health of my business, which risks should I take and which should I offset?” You have undoubtedly walked though these steps before, though perhaps not as a formal approach. Let’s use the current corn market as an example for pricing decisions into 2006.

First, an overview of the marketplace. Today’s depressed corn market is a function of supply—record yields in 2003 followed by 2004 that exceeded the previous year’s record by an amazing 18 bushels per acre, and this year’s yields at least 5 bushels over trend. USDA’s projected 2006 ending stocks figure of just over 2.30 billion bushels (on next page), if realized, would be the largest carryover since the government storage days of the mid ‘80’s. In short, unless our export pace accelerates, it is very unlikely that corn prices will be able to sustain any type of significant rally into early 2006.

Demand, on the other hand, is excellent. USDA is projecting record usage of 10.84 billion bushels during the ‘05/06 marketing year, a number that is sure to grow in the coming years with the rapid expansion of the ethanol industry. Interestingly, corn usage will outpace production in 2006 and for the foreseeable future assuming the current growth in ethanol and trendline corn yields. This will steadily reduce carryout levels and firm prices over the long run. Most importantly, this does not take into account the possibility of a widespread 1983 or 1988-type drought in the Midwest, or even below trend yield potential as witnessed in 1995 and 2002. Either of these events could quickly reduce ending stocks and send futures prices toward \$3.00 per bushel.

(Guest Column continued from previous page)

So, how does understanding the above dynamics help us develop our risk management plan into 2006? To begin, they paint a picture of small, limited rallies (if any) into the spring or early summer—at least until uncertainty concerning 2006 acres or production begins to grow. Thus, storing grain should be based on basis appreciation rather than flat price appreciation. Secondly, though new crop corn futures (Dec ‘06) hold ample premiums to the old crop, forward sales for next year’s crop are not recommended given our demand scenario. In fact, considering the US has had back to back to back record crops, it would not be unrealistic to look at purchasing calls against Dec ‘06 should prices fall toward the \$2.30 area. Aggressive? Yes, but still a calculated move within the fundamentals that have unfolded.

Always keep in mind that *Risk Management* is a fluid and unfolding “process” based on the situation at hand. Its structure will not tell us where the top of the market will be or whether or not we will make money on options positions. Rather, its structured approach will allow for informed and “calculated” decisions that will keep our businesses profitable over the long run.

