

Master Marketer Newsletter

<http://mastermarketer.tamu.edu>

Volume 10•Issue 2•June 2010

In this Issue

Marketing Club Corner	1
Master Marketer Highlights	1
Guest Column	2
Farm Assistance Update	3
Choice Website	3

Marketing Club Corner

Dr. J. Mark Welch,

Assistant Professor and Extension Economist,
Grain Marketing,
Department of Agricultural Economics,
Texas AgriLife Extension Service,

What has happened to the basis? Location and related transportation costs are usually considered to be the primary explanation for the basis level in a given market area. But other factors also have an influence on the basis. These include storage capacity, government programs, weather at harvest, and general market conditions. Changes in the basis can often tell us about changes that are occurring in the overall level of demand in the market place.

Cash bids for wheat relative to the futures market are the lowest in memory. The basis is as low as -\$1.70 per bushel in many locations and the wheat basis at the port of Houston is negative for only the second time since we have been tracking basis levels at the Master Marketer Basis Project.

Supply and demand fundamentals for wheat point to weak basis levels, particularly in Texas. Harvested acres are up over a million acres from last year and the state average yield is expected to be 35 bushels per acre. This is just below the all time record yield of 37 bushels seen in 2007 (the last time the basis was this weak). Protein levels from hard red winter wheat are expected to be lower than normal this year removing a price advantage Texas wheat might have on the basis of quality.

Nationally and internationally wheat supplies are ample. U.S. wheat production has exceeded consumption the last two years and ending stocks are at their highest levels since the 1980s. World wheat supplies have recovered quickly from record tight stocks two years ago and are back to long term averages. U.S. wheat exports in the 2009/2010 marketing year hit a 25-year low and projections for 2010/2011 are basically unchanged. This puts back to back wheat exports at their lowest levels since the early 1970s.

An additional factor pushing this year's basis levels to record lows may be the economic situation in Europe. Concerns over the abilities of several governments in the European Union to meet their debt obligations have weakened the financial situation, dampened expectations for economic recovery from the recent recession, and pushed the Euro to its lowest levels in over four years.

Many studies have confirmed the relationship between currency exchange rates and grain exports, particularly wheat. The recent fall of the Euro versus the currencies of countries that import wheat has increased the price competitiveness of European wheat in world markets and made wheat from the U.S. less competitive. (Continued at end of next column on page one.)

Master Marketer Highlights

2011 Waco Master Marketer Program

Dr. Jason L. Johnson, Extension Economist at the Texas A&M Research and Extension Center in Stephenville, will be coordinating the next Master Marketer program. It is scheduled to run January through February of 2011 in Waco, Texas. The specific dates for the program sessions are: Leveling Workshop, January 11; Session I, January 12-13; Session II, January 26-27; Session III, February 9-10; and Session IV, February 23-24.

2010 Ranch Estate Planning Seminar

The Ranch Estate Planning Seminar will be held August 4-5 in College Station, Texas, and will provide information on tax and estate planning matters for participants potentially making estate planning decisions. Dr. Wayne Hayenga will provide an analysis of income and estate tax rules that affect families and agricultural businesses. The seminar is designed for a married couple and that it discusses estate administration and tax reporting requirements for the surviving spouse. The seminar will benefit executors, trustees, and all who want to lesson the estate settlement burdensome for their loved ones.

Dr. Wayne A. Hayenga is a Professor Emeritus, AgriLife Extension Specialist, Agricultural Economist, and Attorney. A brochure can be found online at <http://agecon2.tamu.edu/people/faculty/hayenga-wayne/BrochureREP.pdf> For more information and registration, contact Connie Smotek at 979-845-2226 or csmotek@tamu.edu

Marketing Club Corner, Continued from Previous Column

The basis problem this year may not be limited to wheat. Mac Young, Extension Program Specialist-Risk Management in Corpus Christi, expects a bumper grain crop across the southern region in 2010. A bumper grain crop will likely pressure existing area grain storage and handling facilities during and after harvest, as was the situation in 2007 and 2008. Producers of these grains will be evaluating their options, including grain bags for temporary storage. Mac offers as a resource in evaluating storage options FARM Assistance Focus 2009-5, "Economics of Grain Storage in the Coastal Bend and Upper Gulf Coast of Texas". Focus 2009-5 is a simple economic illustration of estimated costs for temporary grain storage comparing commercial elevators, on-farm bins, and grain bags. The results showed that grain bagging (\$.224/bu.) has a cost advantage over on-farm (\$.331/bu.) and commercial (\$.726/bu.) storage. Focus 2009-5 is available at <http://coastalbend.tamu.edu/Extension/Risk%20Management/Grainstoragebags.pdf>



Guest Column

Dr. David P. Anderson,
Professor and Extension Economist,
Livestock and Food Products Marketing,
Department of Agricultural Economics,
Texas AgriLife Extension Service

The huge rally in cattle, beef, and calf prices that started in February finally ran out of steam over the last few weeks. While cattle and calf prices have backed off, there are some reasons for optimism over the long term.

Spring Rally

The fed cattle market kicked off February by starting a price rally that ran from \$85.68 per cwt to \$99.81 by the second week of April. Some fed cattle sold over \$100, with average prices over \$99 through mid-May. As the rally heated up, the wholesale beef market, as measured by the cutout, and calf prices followed.

Texas combined auction prices for 5-600 steers averaged \$125.81 for the week of April 16, 2010. That was the highest average calf price for that week since 2005 when 5-600 pound steers averaged \$126.41. Since that week, prices have backed off to average \$109.86 by the last week of May. That is \$6 per cwt higher than in 2009 and the highest price for the end of May since 2008.

The cattle market normally experiences a Spring rally. This year's was stronger and longer lasting than normal. Part of the rally was due to tighter supplies as weights were sharply lower than normal due to winter weather. Some of the rally was also due to an increase in prices for "middle meats." These are the steaks and other high value cuts whose prices had performed badly during the recession.

While domestic beef demand appears to be struggling during the recession, beef export demand has been a bright spot. Beef exports have boomed during the first half of the year, up an estimated 20 percent from a year ago. On top of stronger exports, first quarter beef imports were the smallest since 1997. The combination of flat beef production, reduced beef imports, and increased beef exports has reduced domestic beef supplies by almost 4 percent in the first half of the year.

What Next?

Tighter supplies of beef and cattle is part of the transition that began in late 2006 in response to higher feed prices. Higher feed, fuel, fertilizer, and other production costs have contributed further to reduced cattle numbers. Then the recession further added to the transition (a serious drought in Texas didn't help cattle numbers either). Through May, 2010, beef cow slaughter has totaled 55,000 head more than in 2009. Combined with fewer replacement heifers retained indicates that, at this point, the reduction in cow numbers is continuing.

Calf price over the next couple of years should reflect the recent rising trend, based on tighter supplies of calves. Fall (fourth quarter) 2010 5-600 pound steers may average around \$109 per cwt. By the Fall of 2011 those calves may be averaging \$115. Second quarter 7-800 pound steers may average around \$106, reflecting tighter supplies of feeder cattle.

Beef production in 2010 may total close to 25.5 billion pounds. That would be about 1.5 percent less than 2009 and the smallest since 2005. Commercial beef production should decline again in 2011 to around 25.1 billion pounds, another 1.5 percent lower, as fewer cattle are produced.

Continued economic recovery is necessary for even better prices over the next couple of years. A growing economy would help domestic beef demand, especially middle meats, as incomes rise. Growing export markets will also be important for higher calf, cattle, and beef prices. Keeping those markets growing in the face of higher domestic prices and a stronger dollar may be a challenge.

Farm Assistance Update

Jonathan Baros,

Extension Program Specialist,
Department of Agricultural Economics,
Texas A&M University



In the past, FARM Assistance has emphasized to farmers and ranchers the importance in looking at the long-term financial implications of their current management decisions. In this edition of

the Master Marketer Newsletter, we'd like to remind you that in addition to helping individual producers evaluate strategic plans and alternatives for their operations, the FARM Assistance team also conducts research and analyses on various agricultural topics across the state. The results are then published in short papers entitled "Focus Series".

For example, our August, September, and October publications belong to a mini series entitled "Economic Impact of Beef Cattle Best Management Practices in South Texas". Within this series, we hit on several topics ranging from cow pregnancy testing, BSE testing, and shortened calving season to artificial insemination and embryo transfer. If cattle isn't your specialty, have no fear, we have publications to fit your needs as well. No matter your operation, we have information to help you. Our publications are quite diverse, not only in terms of subject matter, but also in terms of crop and region. The intent of these publications is to make Texas agricultural producers aware of new opportunities, provide information about alternative methods for both production and management, and generally improve your bottom line. A complete list of Focus Series publications are available online at <http://farmassistance.tamu.edu/publications/focus/index.php>

Additionally, we are always looking for new subject matter and would welcome your suggestions for future publications. Call us toll free at 1-877-TAMRISK (826-7475) or find us online at <http://farmassistance.tamu.edu>



Improving Lives. Improving Texas.

Choice Website

Daniel Hanselka,

Extension Associate,
Department of Agricultural Economics,
Texas A&M University

<http://www.cmegroup.com/>
<https://www.theice.com/homepage.jhtml>
<http://www.kcbot.com/>

This quarter's featured websites are those of the commodity exchanges. There have been organized commodity exchanges in the United States since the Chicago Board of Trade (CBOT) was established in 1848. Today the main agricultural commodity exchanges include: 1) the Chicago Mercantile Exchange group (CME), 2) the Intercontinental Exchange (ICE), and 3) the Kansas City Board of Trade (KCBT). The purpose of the exchanges is to provide farmers and ranchers with futures and options tools to manage price risk for the commodities they produce. The sites provide a wide range of useful information from keeping up with current events to gathering fundamental and technical information and data needed to develop a marketing plan and making risk management decisions. Of particular interest to farmers, ranchers, and marketers, is the delayed quotes link which contains 20-minute delayed futures and options prices and the commodities and/or products link which contains quotes (price, time and sales, volume, and settlements), contract specifications, and other information for traded commodity groups. More key information and data provided by the sites are real-time quotes and charts, historical data services, daily bulletins, reports, and other publications.

Due in part to economic factors, several key changes have occurred within the commodity exchanges websites in recent years. The first important change is the introduction of electronic trading. Until recently, open outcry pit trading (or floor trading) was the method for trading futures and options. Faster computers and electronic technology have enabled electronic trading to grow in volume. In some cases, like cotton, electronic futures trading has completely replaced open outcry on the floor. In others, like cattle, both methods of trading continue for now. As a result of the electronic trading, many of the contract specifications have changed for the individual commodities (i.e., ticker symbol, trading hours, etc.). Another change is the addition of new futures and options contracts for certain commodities such as dried distillers grains (DDG), international skimmed milk powder, and cheese.

For more information, details, explanations, and updated contract specifications, see the commodity exchange website addresses located at the beginning of this article or contact your local broker.



2124 TAMU, College Station TX 77843

Prepared by:

**J. Mark Welch, Assistant Professor and Extension Economist-Grain Marketing,
and Emmy L. Williams, Extension Program Specialist**

**Department of Agricultural Economics,
Texas AgriLife Extension Service,
Texas A&M System
College Station, Texas 77843-2124**

If you would like to receive this newsletter by mail,
or have any other questions about the Master Marketer system,
please write Emmy Williams at elwilliams@ag.tamu.edu or call 979-845-8011.

Educational Programs of Texas AgriLife Extension Service are open to all citizens
without regard to race, color, sex, disability, religion, age, or national origin.

Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics,
Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the
United States Department of Agriculture and Texas AgriLife Extension Service, Texas A&M System.

Partial funding support for the Master Marketer program has been provided by
the Texas Wheat Producers Board, Texas Corn Producers Board,
Texas Farm Bureau, and Cotton Inc.-Texas State Support Committee.