

Master Marketer Newsletter

Volume 3 • Issue 1 • March, 2003

<http://mastermarketer.tamu.edu/>

Master Marketer Highlights

Advanced Topics Series (ATS)

The Advanced Topics Series was kicked off in January with several successful workshops. The remaining ATS workshops will include Advanced Technical Analysis workshops in College Station (March 17-18) and Vernon (March 20-21) as well as a Developing This Year's Cotton Marketing Plan workshop scheduled for Lubbock (April 10-11). Alan Brugler with DTN will teach the Advanced Technical Analysis workshops and Carl Anderson and Jackie Smith will teach the Lubbock Cotton Marketing Plan workshop. The registration fee for the 2-day workshops is \$150 and includes all materials and noon meals. Call Steve Amosson or Fran Bretz at 806-677-5611 if you have questions or need a registration form. All courses run 9-4:00 each day.

Lubbock Master Marketer 2003 in Progress

By the time you receive this newsletter, participants of the Lubbock Master Marketer program will have graduated (March 6). This group has been fun to work with and we are really looking forward to continue working with them as they start or revitalize marketing clubs in their home area.

Tomorrow's Top Ag Producers Program (TTAP) at Midpoint

On January 16, 2003, the first TTAP class completed the second of four sessions. The next session will be held in Dallas in November 2003. The session just completed concentrated on financial planning and analysis. During the period from now until the November 2003 session, participants will be working with a risk management specialist to complete their FARM Assistance analysis.

Ag Lender's Master Marketer Workshop in Lubbock in June

Beginning the second week of June, the third annual Master Marketer for Ag Lenders workshop will begin in Lubbock. This is an in-depth, risk management program designed specifically for lenders who work with agricultural producers and agribusinesses. It will focus on understanding price risk and the tools that can be used to manage it. The four-day workshop will be presented in two regular sessions (June 11-12 and 25-26) with an optional Introduction to Futures and Options workshop on June 10. The workshop has been taught in Amarillo (June 2001) and San Antonio (June 2002) before coming to Lubbock this June. Please call Jackie Smith at 806-746-6101 if you have questions.

Marketing Club Corner

By Rob Borchardt

By now, you should have received a marketing club survey either in the mail or at a marketing club meeting. For those of you who have already returned them, thank you very much. For those of you who have not returned them, you will continue to receive friendly letters of encouragement to do so. Let me remind you, **this survey is extremely important to the future of the Master Marketer program**, particularly with regard to our ability to support marketing clubs. As you know, our sponsors contribute to the Master Marketer Program in part because they believe in the power of the “multiplier effect” of marketing club education.

I have one more reminder. By now you should have also received a letter from me requesting nominations for an award entitled “County Extension Agent of the Year Award for Marketing Club Support.” The purpose of this award (\$500 in cash) is to recognize county agent’s who have developed and/or supported innovative educational programs through their involvement with county-based marketing clubs. We really need your help in identifying those agents who are making a difference through marketing club education. The deadline for applications is April 30, 2003. Please help us recognize those agents who support marketing clubs.

This quarter, I’d like to highlight the marketing club in Clay County (Henrietta). This group began meeting monthly back in the summer of 2001 and went through a good portion of the suggested lesson plans for the next year. They generally have about ten people at each meeting and about four of those are Master Marketer graduates. They are mostly concerned with the wheat and cattle markets and have been very diligent in learning the ropes of trading options. Since last summer, they have been trying to identify opportunities to enter the market. Their success rate has been much like that of most new clubs, win some lose some. However, they recently pulled off an astute trade that I’ll try to describe for you. At their monthly meeting in January, they were trying to find a place to put on a bear put spread in Live Cattle (LC). They picked their strike prices, calculated their potential loss and set a target price of where to get out if the market moved in their favor. However, before ending the meeting, one of the members noticed an at-the-money Feeder Cattle (FC) put option (\$82) on the January contract that traded for \$.20 the day before. That seemed like an inexpensive opportunity to be short cattle, so the next day the order was placed for both trades. The following day cattle traded down, no fill. The next day, was an outside day with a trading range of almost \$2, and the FC put order was filled at \$.15. The market traded down hard for the next several days and the bear put spread in LC was never filled. But, the \$82 FC put option went from \$.15 to \$1.25 in a matter of days, and the option was sold. The club made a quick \$500 (\$625-75-50 commission) on a \$125 investment. As planned and expected, the club members are learning a lot about how the options markets work and the importance of timing when entering and exiting the market. At their next meeting, a broker from the Panhandle is scheduled to share his philosophy on hedging. I am very proud that this club has made it through that critical one-year period and is still going strong.

As always, if you have any questions or would like help with your club, please don’t hesitate to call me.

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Guest Column

Managing Price Risk in Grain Markets for 2003

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As we enter the 2003 crop production and marketing season, there are even more reasons than normal to be concerned about identifying all of the risk you could face in the coming year. Thus it is all the more important to have contingency plans in place for how you are going to deal with them. The list of factors that could impact grain prices this year include:

- war
- drought in the Great Plains and Midwest
- low carryover stocks/inventory
- potential for increased planted acres
- weak exports and more foreign competition
- farm program complexities

When we put them all together, this is a year when almost anything could happen from a price perspective. It is important to structure your marketing strategies such that you have some downside protection in case crops are good and prices begin to decline back to the levels of the 1999-2001 time period, while at the same time not giving up all of the upside potential in case prices explode to the up side. Yes that is right, I did say explode to the upside. Those of you who know me know that I do not tend to get overly optimistic about upside price potential most of the time. However, given the situation that exists this year, prices could have a very wide trading range from high to low depending on what happens as the year progresses.

I think it is important that we keep the very tight U.S. carryover stocks in wheat, feed grains, and soybeans in mind as we think about what we are going to look for in the way of possible prices this year. The market is currently focused on sluggish export activity for wheat and feed grains. The weak economic climate and potential for war don't have many people very enthusiastic about what could happen price-wise this year. On top of that, we already have USDA reporting an increase in winter wheat plantings and many industry participants are expecting feed grain acres to increase as well. While U.S. soybean acreage could decline in 2003 the oncoming record South American soybean crop should help satisfy the growing world oil seed demand.

If the war and terrorism tensions were to be resolved in a nonviolent manner, and normal rains were to return to the Great Plains and Midwest over the next 30-60 days, grain prices would likely struggle during the spring and early summer and then decline as the summer/fall harvest progress found more than ample supplies coming to market. The latter would likely cause stocks

to increase for the coming marketing year. If this scenario plays out, it would be important to have done some early season pricing, even if the loan rate (LDPs) and CCP payments provide some support.

On the other hand, given the tightness of U.S. carryover stocks from the 2002/03 marketing year for wheat, feed grains, and soybeans, any kind of production problems during the growing season this year, such as a continuation or worsening of the drought currently gripping the upper Plains states and stretching across Iowa, Illinois and Indiana, could cause prices to move substantially higher before harvest. In fact, world stocks are tight enough that major production problems in more than one of any of the major production regions could push U.S. and world prices much higher than we are currently experiencing. Foreign competition could offset some of our sales in export markets and result in imports into the United States, but that would not likely be enough to stem a full blown drought rally this summer.

The potential for war or terrorism acts and what could evolve from an extended conflict in the Middle East, especially if the devastation is brought within our borders, must be considered.

With all of these possibilities lying in front of us, I think that using options or flexible contracts that allow locking in a price floor, while still providing upside potential, is important this year. While the marketplace has already incorporated some of the potential for greater price variability by bidding up option premiums, there are still some things that you can do as a producer. Some analysts are suggesting using a window (fence), or forward contract with bull call spread-type strategies where the overall premium cost is reduced by selling higher priced call options. While this will give some limited upside potential, and a greater likelihood of profit in the short-run, I would suggest that you need to be more concerned about the potential for a big up-move, not the next \$0.10-\$0.20 up. If you don't want to pay the full cost of at-the-money options, you may want to buy out-of-the money call options. While they will end up worthless unless the market really moves up a long way, that is the protection that I think I would be most concerned about this year. Get your marketing plans together, and have contingency plans in place for how you may need to adjust as the year progresses.

Choice Website

Extension Ag. Economics Grain Basis Project

<http://mastermarketer.tamu.edu>

This issue's choice web site is the Basis Project web site by Extension Ag. Economics. This new site has been created to generate charts and graphs of basis data that Texas Cooperative Extension has collected for several years in conjunction with the Texas Wheat Producers Board and Texas Corn Producers Board. Cash and futures price information is collected from the Agricultural Marketing Service (AMS) and participating grain elevators across the state in order to gather as much regional basis information as possible. This website is designed for grain producers, grain merchandisers, and Extension economists by providing basis, cash price and futures price information in an organized, easy-to-use format. The information is usually current up to the previous week and, in some cases, dates back to 1976.

The basis website may be accessed from the Master Marketer website at: <http://mastermarketer.tamu.edu>. To access the Basis Project database, click on “Basis Information” in the left hand column under “Marketing Information.” Clicking on the “Go To Interactive Basis Reports” link located at the bottom of the page will take you to the commodity selection page. On this page, choose a commodity (either wheat or corn) from the drop down menu and click submit. The next screen lists different market locations. Currently there are 3 markets listed. Choose one and click submit which takes you to the final screen that lists several different types of price and basis output in both tabular and graphical form. Click on any graph or table (the underlined link) to view an example of what it will look like. To view a graph or table of real data, click the bullet beside any of the graphs or tables, and then click submit. You will then be asked to select a year, or a range of years, then click submit. Once the graph appears on screen, clicking on “Get data in CSV format” or “Get data in XML format” below the graphs allows you to view, print, and save the numerical data being used to generate the graph. The same data may be viewed in any of the tables as well. All graphs and tables can be printed using the print menu in your browser. Keep in mind the site is continuously under construction; any “dead links” or empty spaces may just mean that some aesthetic aspect of the site may be being updated, but the data should always be available.

The Basis Project also collects price and futures information for more commodities than are currently being displayed. Data for these additional commodities will be added to the web site in the future. If you have any comments or suggestions about the Basis project web site, please contact Elizabeth Shaw, Extension Associate in College Station, at (979) 845-8011, or via e-mail at ershaw@ag.tamu.edu.

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Jackie Smith and Elizabeth Shaw also contributed to this issue.