

Master Marketer Newsletter

<http://mastermarketer.tamu.edu>

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Master Marketer Highlights

Master Marketer Matters

A 2.5 year post evaluation of the participants in the 2010 Master Marketer Program, held January through March in Amarillo, was conducted over the summer of 2012. 24 surveys were completed out of 47 mailed, a return rate of 51%. Master Marketer Education had an average individual economic impact of \$42,075 or 4.2% of gross farm income for the Amarillo 2010 Class. Overall, participants rated the educational quality of the Master Marketer Program 6.04 on a scale from 1 to 7.

From the completed and returned surveys, the average age was 48 with half of the participants farming as a sole proprietorship as compared to a partnership, corporation, estate, or trust. Prior to attending the Master Marketer Program, 41% of the producers had a marketing plan and since completing the course, 91% of the class was using a marketing plan. 95% of the participants said they were currently using market fundamentals in developing their personal market outlook and before taking the Master Marketer Course, only 48% of the class was doing such. 89% of the program graduates claimed knowing when to use forward cash contracting, and before the class began, just 68% percent knew when to use this tool.

Hold On Tight...

Unlike most years, the 2013 Master Marketer program will be held during the fall. The next program will be kicking-off around this time next year in Wharton, Texas. Don't worry hunters, Session 4 is scheduled to be completed before deer season begins. If South Texas isn't in a day's travel for you, there are plans for the 2014 program to be held in the rolling plains in the early part of the year. Stay tuned for more program information in the coming quarterly newsletters.

Welch Wins Forecasting Award

Texas A&M AgriLife's, very own, Dr. Mark Welch has been awarded the Premier Forecaster Award from the Agricultural and Applied Economics Association - Extension Section for the general economics forecasts that were made in July 2011 as part of the AAEA Extension Outlook survey. In recognition of superior forecasting of General Economics for the period of 2011 to 2012, this award was presented at the annual meeting on August 14, 2012 in coordination with the University of Missouri. This is not the first time for Mark to be in the spotlight for such an award, he has received forecasting honors in 2009, 2010, and 2011 as well. Hats off to you Mark!

Survey Coming Soon

Confidence and trust in futures contracts as an effective tool of price risk management have downturned in some instances due to factors such as dramatic increases in volatility of commodity prices, lack of convergence at expiration exposing hedgers to major basis and price risks, and misappropriated customer funds of futures commission merchants. To assess the degree to which these circumstances in the futures markets have impacted the risk management strategies of agricultural producers, we are conducting a survey with the graduates of the Texas A&M AgriLife Master Marketer Program on market/trade influences and request your input. You should be receiving this survey in just a few weeks and your responses will assist in program development for Texas A&M AgriLife Extension in the coming years.

Choice Website

Dan Hanselka,

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USDA - Economic Research Service

<http://www.ers.usda.gov/>

The USDA Economic Research Service (ERS) mission is to inform and enhance public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

Publications, handbooks, decision tools, and data related to a variety of agricultural issues can be found throughout the site. Of particular interest are the Market Outlook publications, which are published monthly. ERS publishes the following outlook reports: Feed Outlook; Livestock, Dairy, and Poultry Outlook; Sugar and Sweeteners Outlook; Wheat Outlook; Cotton and Wool Outlook; Oil Crops Outlook; and Rice Outlook. They can be found by clicking "publications" in the menu bar at the top of the website.

The ERS website also contains many articles, press releases, reports, charts, and maps related to animal products, crops, farm economy, farm practice and management, and other agricultural related topics.

Emergence and Impact of USDA's WASDE Report

Amber Waves

The Economics of Food, Farming, Natural Resources, and Rural America

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United States Department of Agriculture - Economic Research Service

The collection, analysis, and reporting of commodity market information by USDA, in place for 150 years, serves an important function in the marketplace. Accurate data about the situation and outlook for agricultural commodities improve the efficiency of the production and marketing chain, helping farmers, ranchers, agribusinesses, and governments make informed decisions. The availability of data on crop conditions, supply forecasts, trade, and inventory levels the playing field for producers, merchandisers, and consumers of agricultural products by reducing informational disparities.

USDA's premier situation and outlook report, World Agricultural Supply and Demand Estimates (WASDE), draws together domestic and foreign supply, demand, and trade data for key U.S. commodities. WASDE is published before the opening of major domestic futures markets between the 8th and the 12th day of each month. Many market observers watch the report closely and consider it a benchmark due to its comprehensive nature, objectivity, and timeliness. For this reason, USDA is careful to prevent pre-release of the information in the report, confining those involved in its overnight creation to a "lockup" environment until formal publication of the report at 8:30 a.m. on the release date.

Still, private agricultural information services have improved over time, leading some in the industry and academia to question the value of USDA's information-reporting program. To determine its usefulness to the market, ERS researchers analyzed the reaction of commodity market prices to 350 WASDE reports published over the 30-year period 1981-2010. Specifically, ERS measured the impact of USDA's situation and outlook information on commodity prices for three commodities in three different markets: cotton on the IntercontinentalExchange (ICE), soybeans on the Chicago Mercantile Exchange (CME), and wheat on the Kansas City Board of Trade (KCBT).

Emergence of the WASDE Report - One year after USDA was established by President Abraham Lincoln, the Department published its first monthly statistical report on crop conditions during the Civil War in 1863. Soon after, the Department added livestock statistics. As communications technology improved over the late 19th century, USDA sought even faster ways of disseminating its commodity data and analysis to market participants, using a telegraph wire service to transmit information to the press and commodity exchanges. By the early 1900s, USDA had released its first planting intentions report and crop production forecasts.

Although the Department understood that commodity markets reacted to its crop and livestock information, the process for creating reports at that time was not well-guarded. In 1905, an insider trading scheme came to light: one of three USDA employees involved in creating the cotton acreage report had leaked advance knowledge of its contents to an outside accomplice by tampering with a window blind. The accomplice used that inside information to place profitable speculative trades but unwittingly exposed details about the plot after publicly complaining about an inaccurate premature signal sent by the USDA employee. The resulting scandal infuriated President Theodore Roosevelt, who asked Congress to criminalize insider disclosure of agricultural statistics reports. Since that time, USDA has quarantined the area where its most important agricultural reports are compiled--and sealed the window blinds--to prevent any leakage of the reports' contents before official publication.

The WASDE report can trace its beginnings to the "Great Grain Robbery" of 1972. In the years following the New Deal, the number of USDA agencies involved in collecting and analyzing agricultural statistics expanded to the point that, by the 1970s, USDA's economic intelligence system had fragmented. Even though many USDA officials were aware of some of the Soviet Union's grain purchasing activity, without sufficient cross-agency information sharing, the Department as a whole failed to notice that foreign buyers were securing large portions of that year's U.S. grain crop at subsidized prices. USDA addressed these problems, in part, by creating the Agricultural Supply and Demand Estimates report, as well as its later iteration, WASDE, which added data on foreign markets beginning in 1980.

Today, USDA's World Agricultural Outlook Board (WAOB) administers the interagency process that generates WASDE. For each commodity in the report, a WAOB commodity specialist chairs an Interagency Commodity Estimates Committee (ICEC) of experts. Each ICEC comprises representatives from four USDA agencies: the Agricultural Marketing Service provides information on existing prices for livestock and crop commodities; the Economic Research Service analyzes the impact of market conditions on commodity supply-and-demand fundamentals; the Farm Service Agency considers the effect of the policy environment on producer behavior; and the Foreign Agricultural Service provides information about commodity conditions in foreign countries.

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Farm Assistance Update

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Politics and the election season take center stage this fall. While it will not generate nearly as much press as other issues, a significant political issue for those of us in agriculture, is the end of the current 2008 Farm Bill and the questions surrounding "what comes next?" With each passing day this fall, it becomes less likely that we will have a new farm bill before we have a new congress in place next year. So how do you plan for next year or strategically plan for the next several years with those big questions looming?

A significant benefit to our FARM Assistance analysis service is the ability to analyze multiple "what if" scenarios. A likely example we should all consider is: What if direct payments are completely eliminated in the next farm bill? Have you thought about it? Have you seriously looked at your profit potential without direct payments? Many of our clients over the past year have already studied that scenario. Although answers to these questions are often difficult and elusive, keeping an eye on your financial future is the best way to prepare and make the most informed decisions.

Contact FARM Assistance toll free at 1-877-TAMRISK or online at: farmassistance.tamu.edu

Emergence and Impact of USDA's WASDE Report, Continued From Page 2

Weather analysis is presented by the Joint Agricultural Weather Facility, cooperatively managed by USDA and the U.S. Department of Commerce's National Oceanic and Atmospheric Administration. Each ICEC synthesizes these data in a forecasting cycle based on the local marketing year for its commodity. Several times per year, USDA's National Agricultural Statistics Service (NASS) forecasts the annual domestic harvest in its Crop Production report. The ICEC incorporates these NASS forecasts into WASDE, which is released at the same time as the Crop Production report. Through this process, USDA creates a balance sheet of consensus estimates for each commodity, including the elements of supply and demand, as well as the season-average farm prices. WASDE reports domestic and international balance sheets for coarse grains, corn, cotton, rice, the soybean complex, and wheat. For sugar, Mexican supply and use is provided along with U.S. data. WASDE provides only domestic information for barley, eggs, meat, milk, oats, poultry, and sorghum.

Informational Value of the WASDE Report - According to economic theory, the price of a commodity changes when traders learn new information about its supply-and-demand fundamentals. Consequently, the value of new information to the market can be calculated by the difference in commodity price before and after the report is released. Based on that principle, ERS researchers tested cotton, soybean, and hard winter wheat futures prices for significant changes immediately following WASDE publication over the 30-year period 1981-2010. The research was complicated by the many factors that can affect commodity futures prices, including unexpected shocks, such as weather events, seasonality effects, and inventory levels. In addition, futures prices tend to grow more volatile as a futures contract nears expiry. In 2002, for example, commodity futures prices clearly spiked in certain WASDE publication periods but also experienced significant volatility throughout the year. The researchers were able to account for the influence of observable factors on price movements and isolate economically meaningful market reactions to WASDE. This method also enabled them to pinpoint the reports that market participants deem most valuable and calculate their impact.

The price of a futures contract represents the market's expected value for a standardized amount of a commodity (e.g., 5,000 bushels of wheat) at a future date. On a given day, multiple contracts are traded for the same commodity, differing only by their expiration date (e.g., March, May, July, September, and December for wheat). To trade these contracts, an individual must maintain a collateral account with a commodity broker, so trading returns are best judged against the collateral necessary to earn them (i.e., the return on collateral). ERS estimates that, following WASDE's publication, the average report causes an immediate price change of about \$190 per contract for cotton and soybeans and almost \$140 per contract for hard red winter wheat at recent prices. These price changes, which correspond to a 1-day return on collateral of around +5 percent to a cotton and wheat trader and +8 percent to a soybean trader, signify that WASDE updates market expectations and is therefore informative. The effect is even stronger in those months when NASS issues its Crop Production reports (e.g., August through January, but not December, for soybeans). ERS estimates that following the most useful reports, at recent prices, WASDE generates about a \$600 change per contract, equating to a return on collateral of +15 percent for cotton traders and over +20 percent for soybean and wheat traders. These figures become even more significant given the total size of the market. In 2009, cotton and wheat traders held on average 100,000 contracts on report days; soybean traders held four times as many.

Overall, findings reveal that markets value the situation and outlook information published in WASDE and rapidly incorporate that information into futures prices. Reports that included NASS crop survey data are very informative but so are most reports that do not contain production information for row crops. Lastly, WASDE affects multiple simultaneously traded contracts for the same commodity about equally, and the report's impact increases during low-inventory periods.

TEXAS A&M AGRI LIFE EXTENSION

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If you would like to receive this newsletter by mail,
or have any other questions about the Master Marketer System,
please contact Emmy Williams at emmywilliams@tamu.edu or (979) 847-6143.

An archive of newsletters can be found online by visiting
<http://agecoext.tamu.edu/programs/marketing/master-marketer-program/newsletter-archives.html>

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