

Texas A&M Master Marketer

March 3, 2021

Darrell Holaday
Advanced Market Concepts/Country Futures
dholiday@advancedmarketconcepts.com
800.292.4038
Wamego KS

AMC

COUNTRY FUTURES INC

Tying it All Together

The header consists of a solid blue rectangular area at the top. Below this rectangle, there are several overlapping, wavy, light blue shapes that create a sense of motion or layers, extending across the width of the slide.

What Have You Learned?

- * **Mechanics of Hedge**
 - * **“Tools of the Trade”**
 - * **Working with Options**
 - * **Puts and Calls**
 - * **Basis**
 - * **Fundamental Analysis**
 - * **Technical Analysis**
-
- * **KNOW WHAT TOOLS TO USE AND HOW TO USE THEM CORRECTLY IS VERY IMPORTANT!!**
 - * **UNDERSTANDING WHAT REALLY WORKS FOR YOU AND MAKES YOU MORE SUCCESSFUL.**

So What is the Problem

- * What is your attitude towards risk management?
- * Are you a producer looking to reduce price risk?
- * Are you a “trader”?
 - * A mix between risk manager and trader?
 - * What exactly does that mean?

What “Drives” Your Decision Making?

- * Logic?
 - * What does that mean?
- * Greed and Fear?
 - * What does that mean?
- * Cash Flow/Money?
 - * What does that mean?
- * Are you a “trader”?

Are you a Trader?

- * **What makes a good trader?**
- * *Cemeteries are filled with people that died “broke” and were right, but too early.*
- * **Liquidity**
 - * “The market will stay irrational much longer than you can stay liquid.”
 - * Trade the volumes that keep you liquid.
- * **Patience**
 - * “Buy Price Breaks and Sell Price Rallies”

What makes a good trader?

- * **Extracting as much emotion out of the decision making process as possible**
 - * **Panic Selling and Panic Buying**
- * **Understanding how all of the marketing tools work and how using different combinations can reduce trade risk (usually at the expense of reduced profit opportunity).**

Can you implement these ideas into price risk management plan for your operation?

- * **Absolutely!!**
- * In general, many of the aspects of “good trading” can be applied to making good risk management.

Can you implement these ideas into price risk management plan for your operation?

- * The difference being that “Price Risk Management” is much easier.
- * Why?
- * BECAUSE YOU HAVE THE PHYSICAL PRODUCT TO SELL OR BUY!!!!

Ask yourself a very serious question? Where are you in this process?

- * Categories of Agricultural Risk Managers
 - * Curious Scratcher
 - * Traders disguised as Risk Managers
 - * Disciplinarians
 - * Opportunist

Ask yourself a very serious question? Where are you in this process?

* Curious Scratcher

- * Really just interested in learning about how the markets work.
- * Will not seriously try to do much different.
- * Will likely help them in some market decisions because they will understand the markets a little better.
- * But will more likely lead to more “head scratching” and thoughts of “I should have done this or that”.

Ask yourself a very serious question? Where are you in this process?

- * Traders disguised as Risk Managers

- * This category evaluates your risk management by whether or not your futures account makes money on a year by year basis.
- * Example:
 - * You sold 20,000 bus of Dec corn at 4.00. You produce 200,000 and it was sold at the equivalent of 3.20 December corn. But you are very happy because your futures account shows a \$16,000 profit for the year.
- * This group cannot stand margin calls and in and out at many times during the year. Does not see rally as opportunities.
- * Just as likely to be long as short.
- * Very likely to buy rallies and sell price breaks.
- * Example: Sells 20,000 bus Dec corn at 3.60. Market rallies to 4.20 and they sell 200,000 bus corn at an equivalent of 4.20. And they are unhappy because they lost \$12,000 in the futures market.

Ask yourself a very serious question? Where are you in this process?

* Disciplinarian

- * Clearly understands how futures, options and forward contracts work.
- * Uses discipline in marketing decisions. driven by profit margin, cash flow and risk.
- * Many times uses price risk tools to reduce price risk even when they think prices will go higher than the current level.
- * Could care less whether or not there is a profit in futures account at the end of the year.
- * Does understand at times there are prices that they feel does not warrant having price protection.
- * Sees higher prices and margin calls as opportunities.

Ask yourself a very serious question? Where are you in this process?

- * Opportunist

- * Different from the disciplinarian in that not really making decisions off of margins, cash flow and risk, but rather on big moves in a market that are seen as opportunity.
- * Believes this because there is belief that markets eventually move to a “norm”. Because of economics.
- * So if they are believed to already be in a norm, then it is not view as an opportunity.

Ask yourself a very serious question? Where are you in this process?

- * Is it possible to “flip flop around” and/or evolve to another category?
 - * Absolutely.
 - * But knowing who you really are and what your are trying to accomplish is the most important step to being successful.
 - * Failure to do that usually results in failure or perceived failure.
 - * Understanding where you are will also help you decide which tools to use:
 - * Forward contracts
 - * Futures
 - * Options.

What is your Marketing Attitude?

- * Blaming someone else will not cut it!
 - * Have government programs made US grain producers less successful price risk managers?
 - * Yes
- * Does your marketing plan include dreams of “grand slam home runs”?
 - * Or are you happy with singles that turn into doubles?

What is your Marketing Attitude?

- * How much price protection do you need?
 - * What is your risk profile?
 - * Financially
 - * Mentally
- * When do you need price protection?
 - * Certain times may represent more price risk?
 - * For example to increase the size of your operation
 - * Feed more cattle?
 - * Take on more acres?

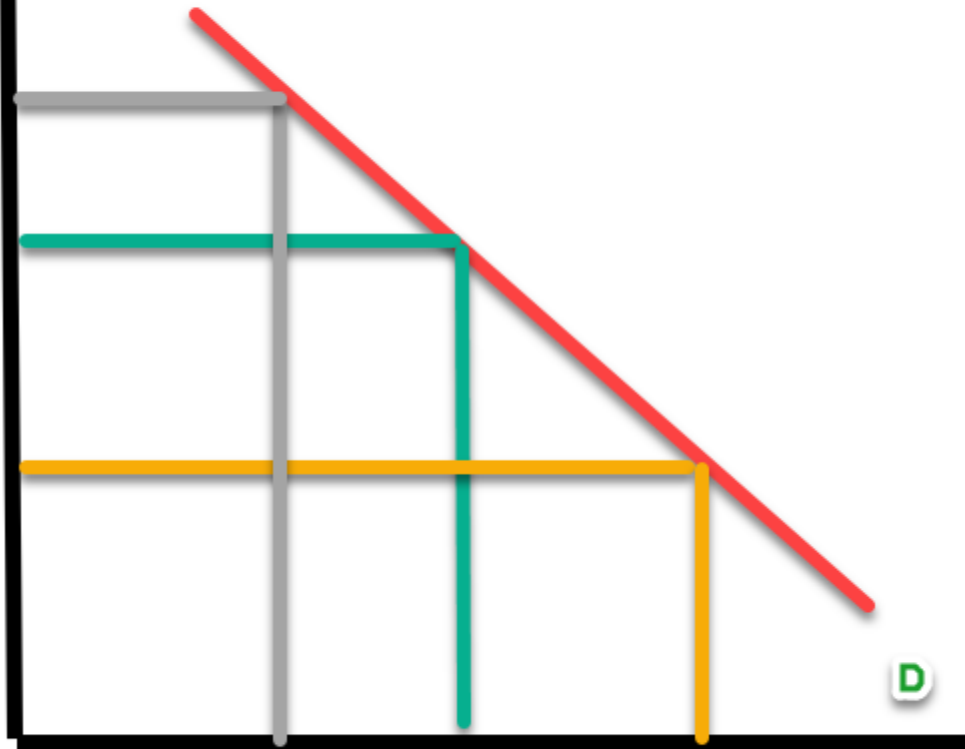
What is your Marketing Attitude?

- * At what price levels do you need price protection?
 - * Are there certain price levels that make you want to have price protection?
 - * Other price levels make you want to remove or not obtain price protection?
 - * How do you do that?
 - * Does that make sense?

Understanding Economics (101)

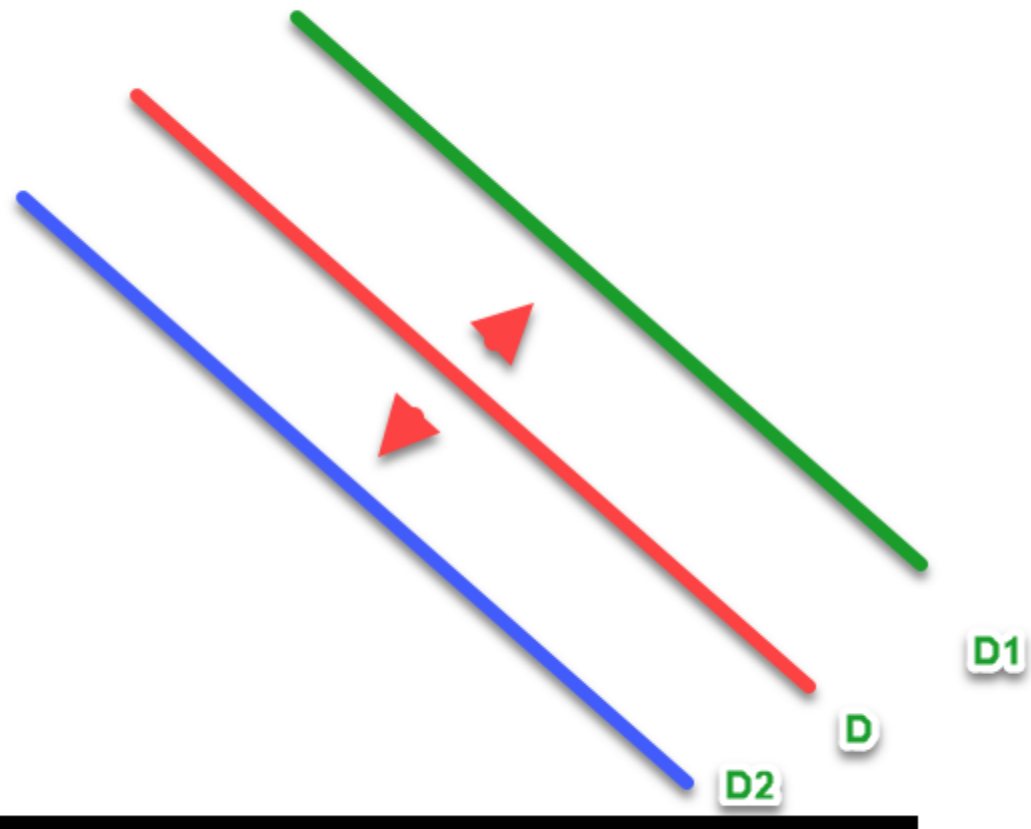
- * How do markets really work?
- * Why does a market move up and down?
 - * Money Flow!!
- * What is supply and demand?
 - * We use these terms too loosely and with the wrong definition.

Price

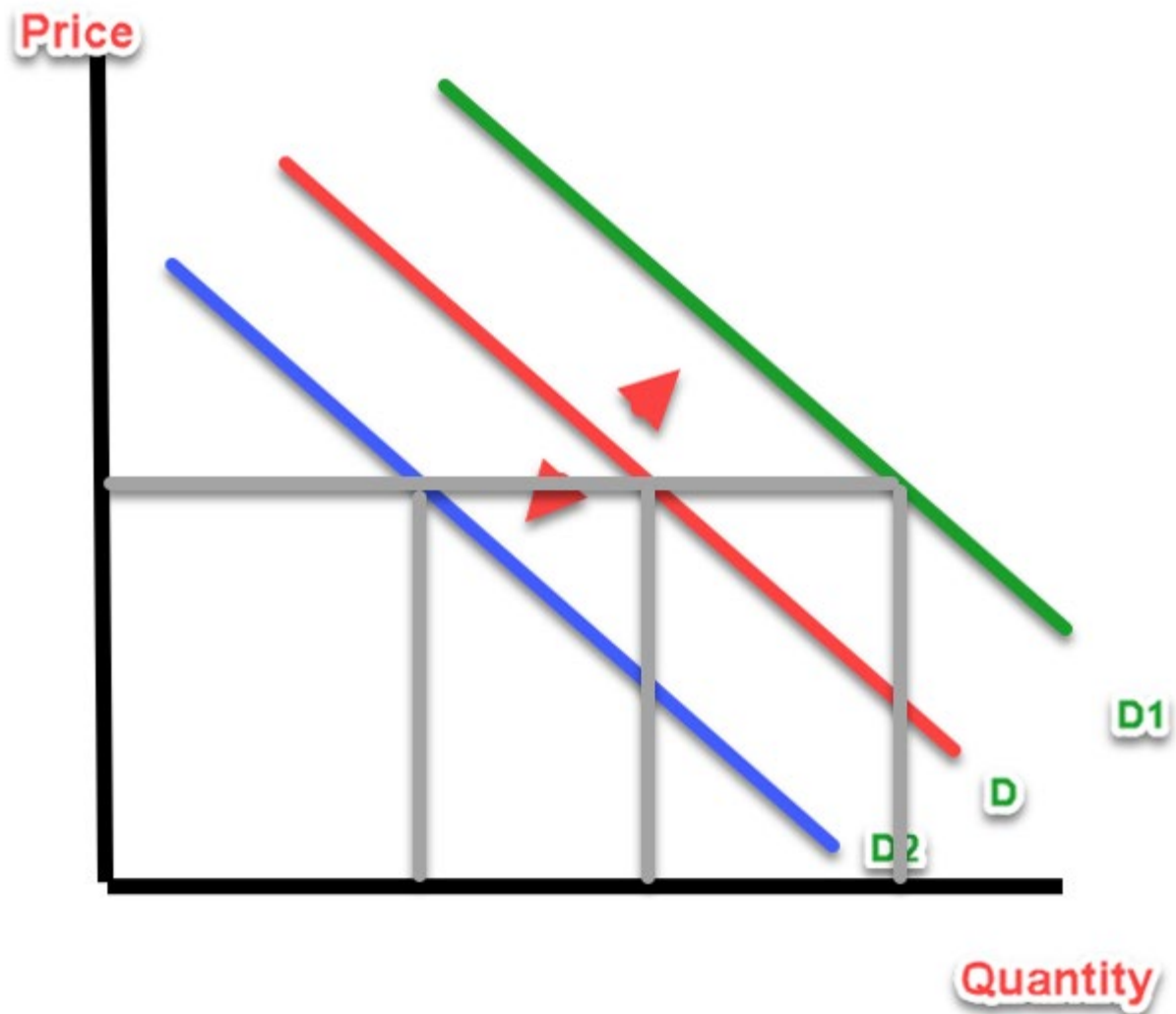


Quantity

Price



Quantity



Do Market Dynamics Change?

- * These are not your Dad's Markets!!
 - * Global Participation facilitated by Technology and the fact that production has expanded globally.
 - * Much more transparency in regard to what is happening throughout the world.
 - * Much less transparency as to “who is doing what, buy and selling”.
 - * Why is that true?

Do Market Dynamics Change?

- * More vertical integration in some markets
- * Less vertical integration in other markets
- * What about the impact of Commodity Funds?
 - * The ag producers best friend?
 - * Fade them!

* If You are using the position why does margin and/or margin calls bother you???

- Emotion
- Cash Flow : You have got to be kidding?
- Net Price: No way.

What does a margin call really cost you in \$\$?

- * Example:

- * Producer places the following hedges on corn

* Feb 1	4 contracts	3.95
* Mar 1	4 contracts	4.10
* April 1	4 contracts	4.25
* May 1	4 contracts	4.40
* June 1	4 contracts	4.90
* July 1	4 contracts	5.20
* Aug 1	4 contracts	5.50

- * October 1, all contracts offset at 5.25

What does a margin call really cost you in \$\$?

- * What is the net price of the corn?
- * Most important let's walk through the margin calls.
 - * Total amount of capital?
 - * What is interest on the money at 5% interest?
- * Let's calculate it.

What has not changed?

- * Lack of understanding of basic grain merchandising principals by grain producers.
 - * Can be very beneficial to understand and use
 - * Makes on farm storage one of the best return on investments “on the farm”.
 - * But if you don’t understand the principals, then it will quite likely be a poor return on investment.

What has not changed?

- * Emotions of Making Marketing Decisions
 - * Not life and death decisions
 - * Those should be emotional
- * The problem is that we just avoid making marketing decisions
 - * Put them off until we are forced to market
 - * Absolutely the number one issue for producers
- * It many cases simply market by default
 - * “When I need the money”

Marketing vs Production

- * Marketing never replaces production
- * Good marketers understand that efficient production is critical to the long-term success of an operation.
 - * I can't get my cost of production any lower?? NO, NO, NO.
- * Good marketers understand that good marketing management enhances profitability because it can provide tremendous opportunities to expand and at the same time reduce the risk of failure.

Fundamentals

- * The two most important fundamentals
 - * 1) We don't know nothing about the future.
 - * And don't pretend that you do
 - * 2) The market does not give a damn what your cost of production is!

Fundamentals

- * Ultimately they are the only thing that matters in determining price, BUT
 - * They are constantly changing every second
 - * We really have tough time understanding the dynamics of what we know and what is changing
 - * Measuring demand is extremely difficult

Technical Analysis


- * The challenge of fundamentals is why many resort to technical analysis.
- * There are very few “pure technicians” and they are more successful selling subscriptions than making profitable trades.
- * “Charts don’t make it rain in the Corn Belt”

What tools should I use?

- * All of them if you can.
- * “Will buying put options solve all of my marketing problems”?
 - * NO, NO, NO
 - * Actually a very poor marketing strategy in a lot of situations
 - * Bankers “love” put options
 - * Why?
 - * Fortunately this is changing.

How Does Margin Work?

Why does it drive us crazy??

- 
- * If You are using the position why does margin and/or margin calls bother you???
 - Emotion
 - Cash Flow : You have got to be kidding?
 - Net Price: No way.

Take a Deep Breath!! Sometimes it is Difficult

Master Marketer

3.3.21

Darrell Holaday

Advanced Market Concepts/Country Futures

dholiday@advancedmarketconcepts.com

785 565 1664

Wamego KS

AMC

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Is it the most dramatic shift in events in World History (Economically and Politically)

WHAT THE HELL JUST HAPPENED?



Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Oct 2019

- * US Still involved in US/China trade War
 - * US coming off very wet year but USDA raising production numbers
 - * China has liquidated half their hog herd due to ASF
 - * Therefore reducing their needs for corn and soy. Pulling out of reserve.

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * December 2019

- * US and China sign Phase 1 Trade Deal
 - * **China has begun to rebuild their Hog Herd Aggressively**
 - * China needs to replenish their grain reserves.
 - * **In late December, some doctors in China reported problems with a new virus in people near Wuhan.**

To Some Extent the Market Fell Asleep on the US/China Trade Deal

This slide was part of presentations in Jan/Feb of 2020
This is why I was not real bearish grains etc.

JCI estimate of China's annual purchase volume of U.S. farm products under Phase 1 of the U.S.-China trade deal

Products	Projected import volume (Tonnes)	Projected import value (USD)	Record high import volume (Tonnes)	Year of record import volume	Projected volume change vs record
Soybean	45,000,000	18,675,000,000	33,660,000	2016	34%
Corn	8,000,000	1,760,000,000	5,110,000	2012	57%
Wheat	5,000,000	1,425,000,000	3,820,000	2013	31%
Sorghum	8,000,000	1,832,000,000	8,970,000	2015	-11%
DDGS	8,000,000	1,840,000,000	6,820,000	2015	17%
Frozen pork & offals	1,000,000	2,073,000,000	300,000	2011	233%
Poultry meat	450,000	1,203,000,000	350,000	2013	29%
Cotton	800,000	1,567,000,000	530,000	2018	51%
Chicken feet	500,000	1,071,000,000	140,000	2017	257%
Nuts	-	2,500,000,000			
Aquatic products	460,000	1,478,000,000			
Others		5,900,000,000			
Total		41,324,000,000			

Notes:

1. The estimate JCI made regarding the purchase volume in the table is under the ideal situation that the weather, the quality and the prices are all favorable for China's purchase.
2. The volume here does not include the purchase volume that may be recruited for Chinese state reserves
3. The volume here does not include transit trade from Hong Kong to mainland China and the volume smuggled to China.
4. The volume here does not include the import volume of agricultural machinery and forestry products.

Source: JCI

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Jan –Feb 2020

- * The focus was on the spread of virus on daily basis.
 - * China was in lockdown and there interest in buying US commodities was low as a result.
 - * Much of the world restricting air travel and Europe locking down.

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Mar 2020

- * US went into complete lockdown because of COVID at mid-month.
 - * **China was actually improving slightly.**
 - * But China still buying limited amounts of US commodities.
 - * Primarily pork
 - * **All markets under extreme pressure because of the concern about lack of buying interest on the behalf of consumers.**
 - * **Vegetable oil and meat would be in big trouble because of the complete shut down of food service?**
 - * But the store shelves became empty across the US.

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Apr-May 2020

- * US remained in lockdown except for “essential workers”.
 - * Whatever that means?
 - * US Meat processing industry hit hard by COVID spreading among workers and it resulted in plant shutdowns and backed up supplies of cattle and hogs at the farm gate. In addition, the grocery shelves were empty.
 - * US corn and soybean crop planting at a record pace.
 - * China was in full recovery mode from the virus.
 - * Showing signs of buying interest
 - * Also several signs of the “politicizing” of the virus and the overall response.
 - * USDA’s May Supply/Demand projections for all grain sectors very bearish.

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * June-Sep 2020

- * US Covid Stimulus became reality.
 - * CFAP included
 - * **The politicizing of the virus became viral.**
 - * **Health care workers learned how to handle virus much better.**
 - * **Meat processing in the US moved back to resemblance of normal.**
 - * **But live supplies backlogged and processing costs higher due to Covid adjustments.**
 - * **US corn and soybean crop ratings very high.**
 - * **But acres numbers lower than expected and small yield concerns developing in pockets.**
 - * **China buying interest picking up in the grain sector late in the summer.**
 - * **Overall price psychology negative but oilseed demand showing a lot of life.**

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Oct-Dec

- * Large purchases of US corn and soybeans by China.
 - * Very evident they were clearly trying to build back reserves that had been depleted.
 - * Also their overall demand increasing.
 - * In addition, the Chinese corn crop was hurt by flooding.
 - * This buying spurs additional “me too” buying by other countries.
 - * USDA continues to lower US corn and soybean yields.
 - * Sep 1 and Dec 1 stocks (inventories lower than expected).

Most Dramatic Turn of Events in the Commodity Sector in 15 month Period of Time in History?

- * Quick Timeline

- * Jan –Feb 2021

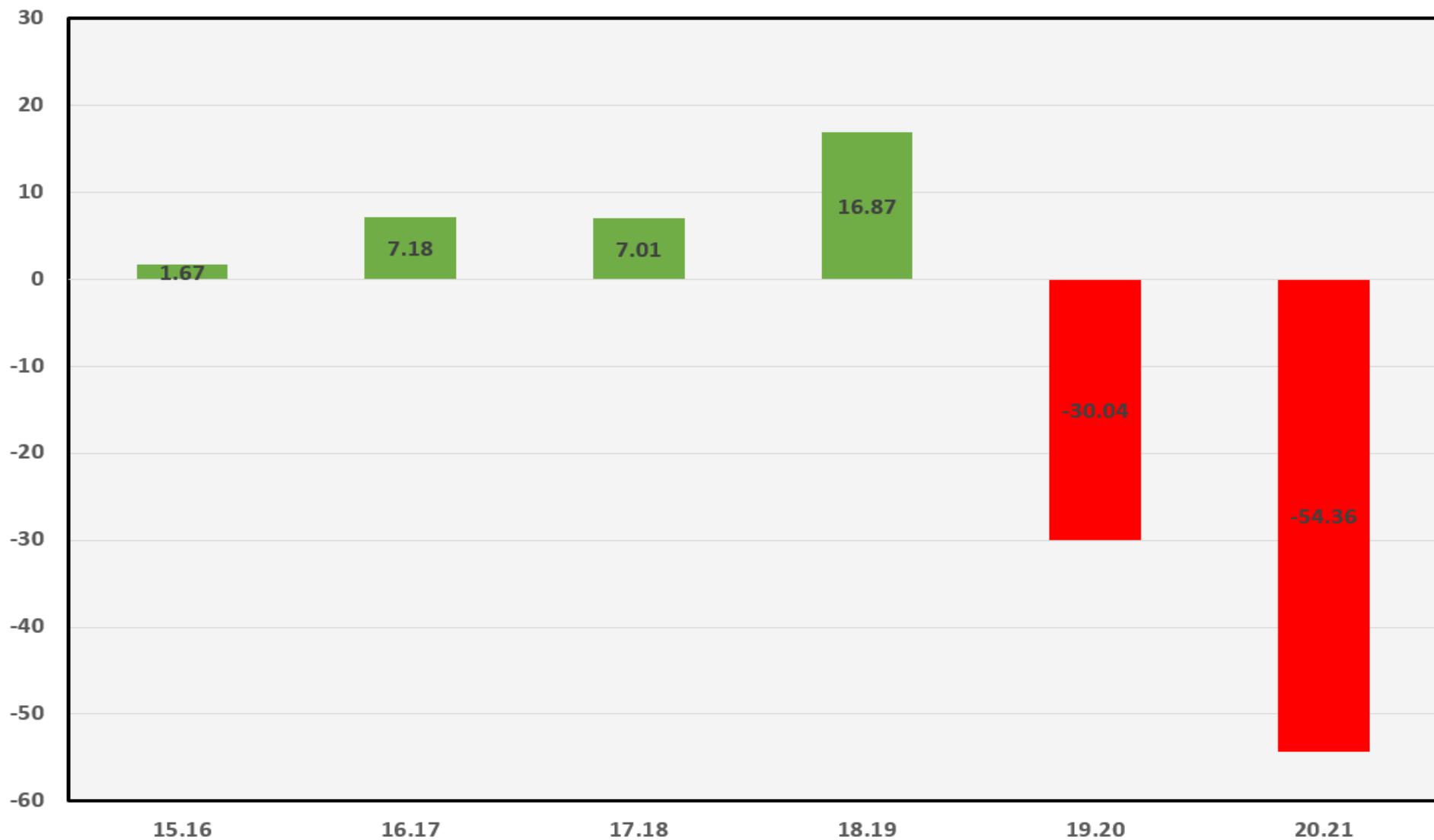
- * **THE CHANGING DEMAND PICTURE ALONG WITH SOME SUPPLY ISSUES RESULTED IN THE MOST DRAMATIC SHIFT IN THE SUPPLY/DEMAND OUTLOOK FROM MAY 2020 TO FEB 2021 IN HISTORY.**

- * Beef processing margins remain record large.

- * The strong demand for oilseeds, protein and feed grain (along with supply reductions) has pushed ending stock levels in the US and World down to levels that require price to elevate enough to ration the use.

- * **THIS IS A DEMAND LED MARKET!!!**

Chg from May to Feb US CG & Soy Ending Stocks



7 Total Commitment to Date(2+6)

5 Year Average 1/

2016/2017

2017/2018

2018/2019

2019/2020

2020/2021

Change from Previous Year

Wheat

Corn

Soybeans

Soyoil

Soymeal

Cotton

Rice

19,994

30,355

39,407

7,005

540

10,193

2,067

23,123

40,218

50,388

6,678

663

9,740

2,142

20,557

32,252

43,518

7,300

421

11,697

1,797

17,999

32,287

30,369

6,910

406

10,879

1,907

21,399

22,791

32,242

7,281

602

12,847

2,390

22,595

56,107

58,658

7,199

584

12,766

2,213

6 %

146 %

82 %

-1 %

-3 %

-1 %

-7 %

Did We Learn Anything New from this Mess?

- * Consumers will eat at home an overall consumption does not drop off in all sectors as some anticipated
 - * Examples: Vegoil, Meat, and Beer
 - * Certainly a different type of distribution
 - * Actually consumer more volume.
- * Agriculture now understands how important the processing companies are to its success and the leverage that workers have to that industry
 - * This is already having long-term impact.
 - * Including investment in more technology.
 - * The hypocrisy of “essential workers”.
- * They Federal Reserve is clearly a policy maker and will accommodate all fiscal spending.
 - * The show no signs of what they were ever 15 years ago.
 - * They are desperate for the development of inflation. Oh that can be dangerous.

Political Mess not Positive for Agricultural

- * “Green New Deal” Not a long term positive for Bio fuels
 - * May feel good near-term, but not long term
- * Environmental regulation will ramp back up.
 - * This could impact yields negatively (supportive for price), but not for the overall ag economy.
 - * Agriculture will find itself on the defensive.
 - * But US Government may legislate themselves right into much higher prices.
- * The attack on USDA spending on agricultural spending for subsidies is already beginning.
 - * Means testing for sure and much lower thresholds?
 - * Reduced crop insurance subsidies?

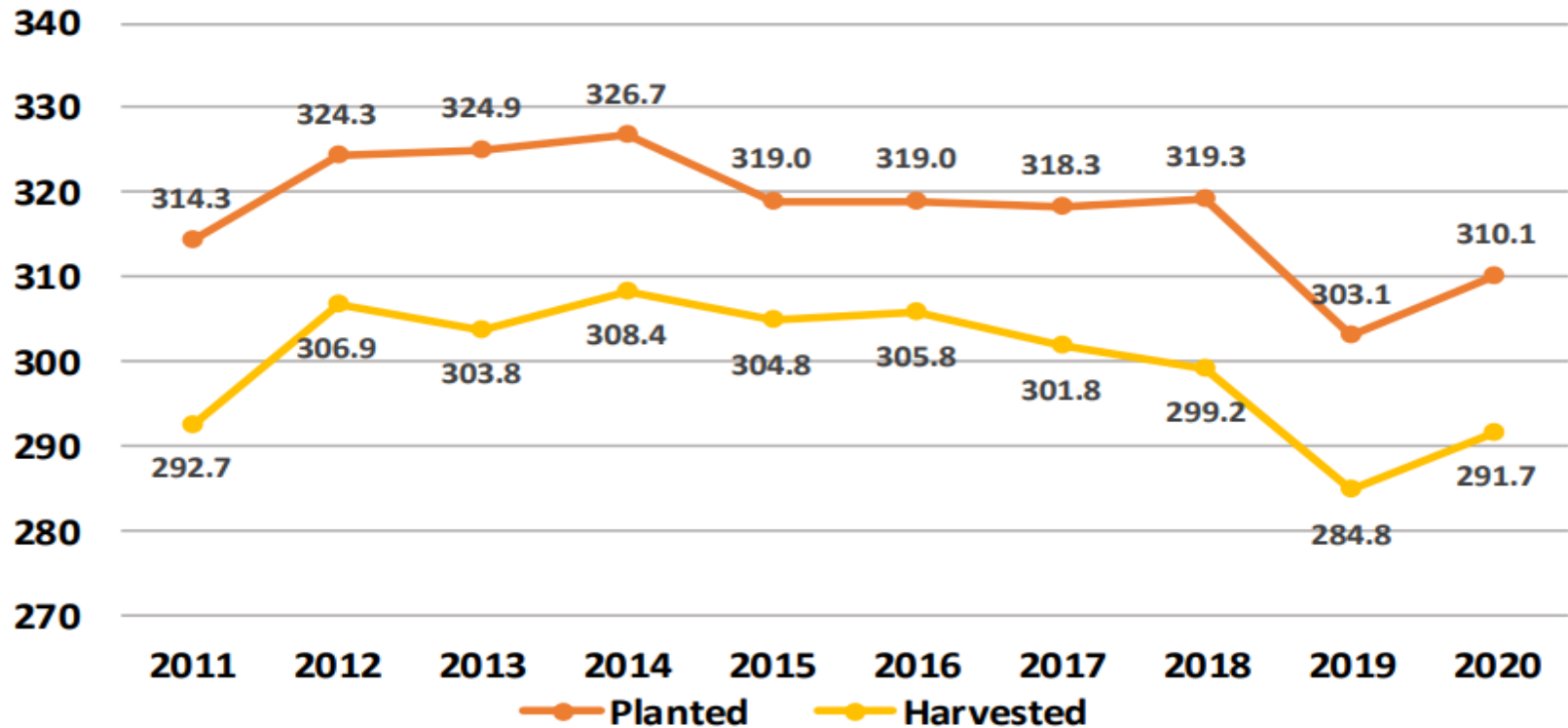
WE ARE RETURNING TO THE TRADITIONAL US “BATTLE FOR ACRES”.

- * ALL ROW CROPS (EXCEPT WHEAT) ARE
“DEMANDING MORE US ACREAGE”.**
 - * Cotton price up sharply
 - * Sorghum prices well above corn values (China purchases)
 - * Corn and soybean values have rallied 60% and 47% respectively in the last 4 months.
- * THIS WILL MAKE FOR AN INTERESTING SPRING**



Principal Crop Acres United States

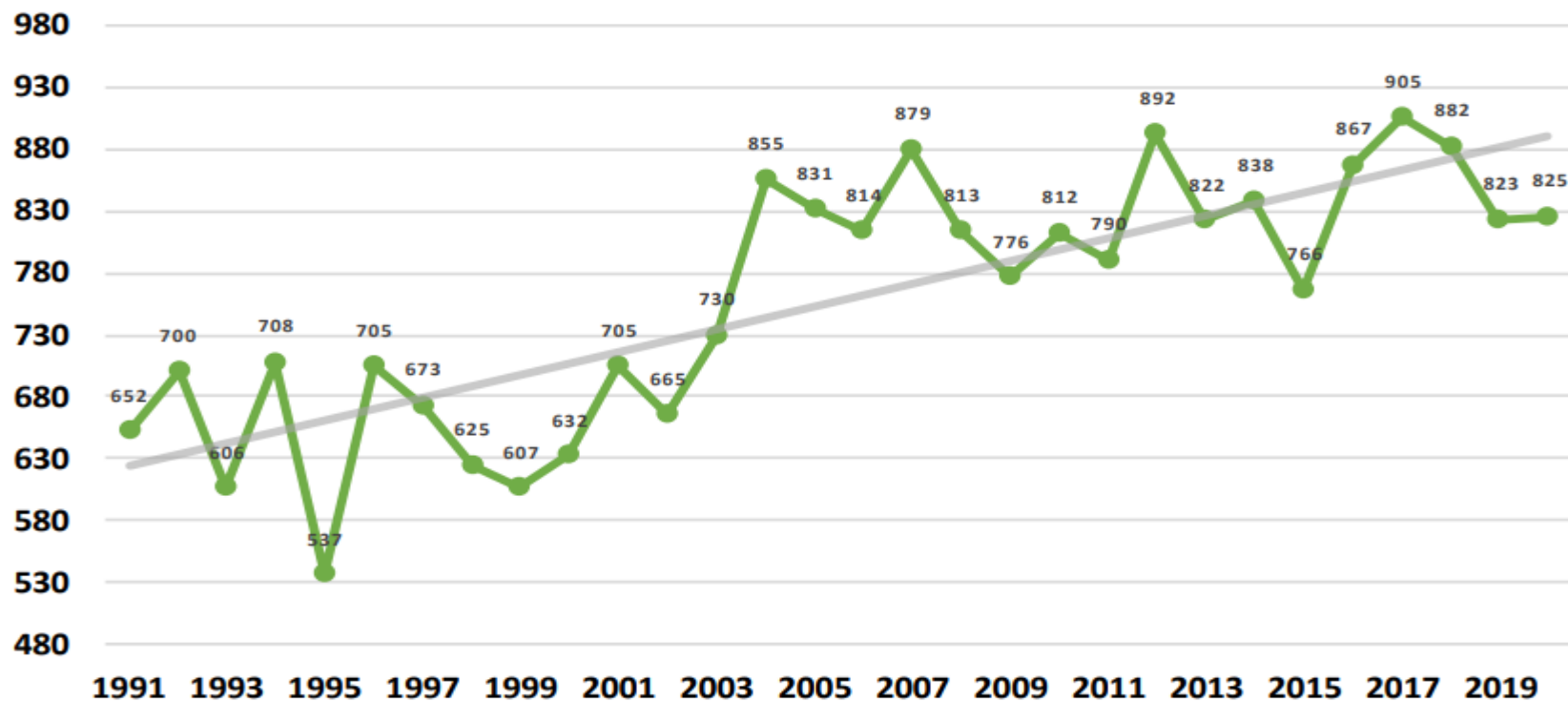
Million Acres



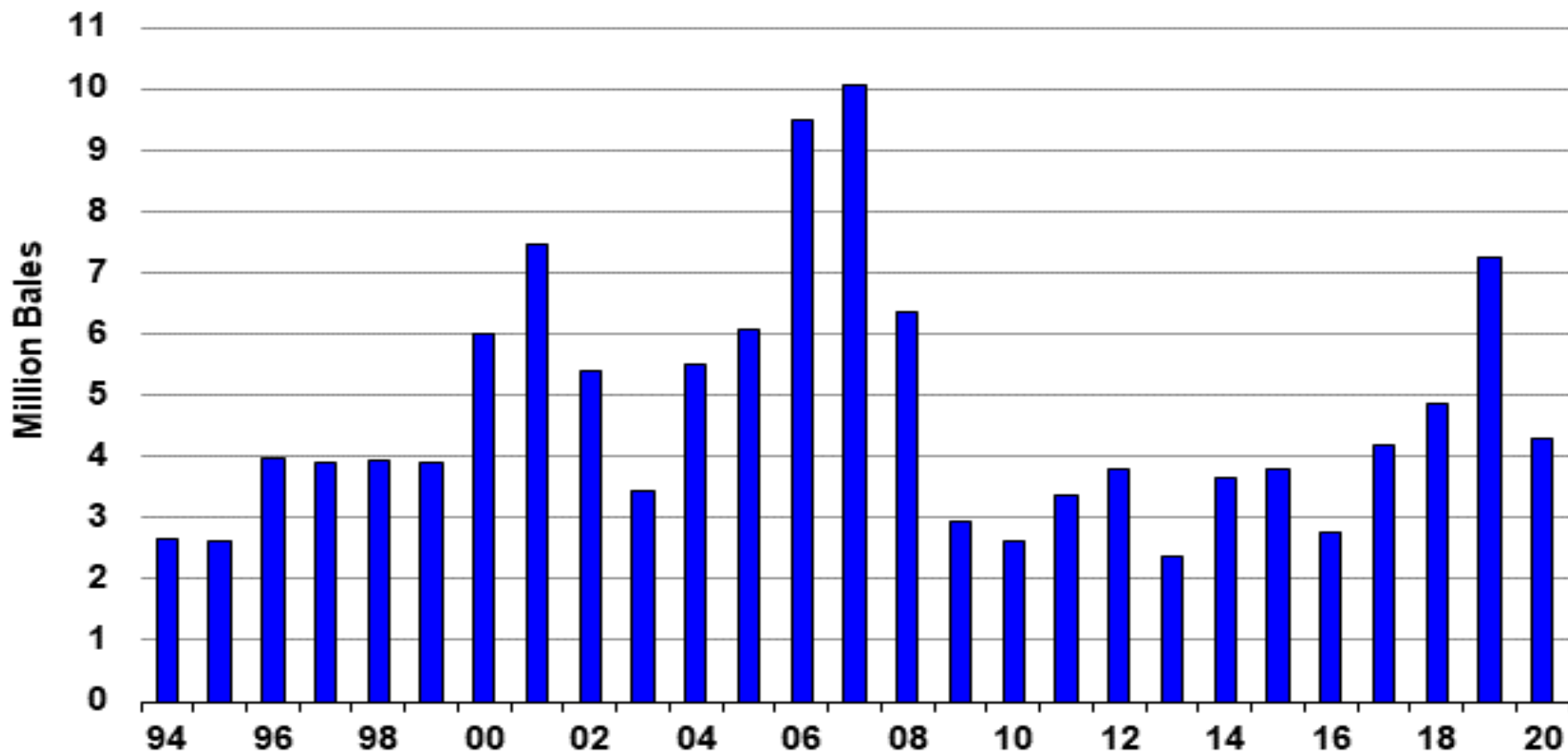


Cotton Yield United States

Pounds per Acre

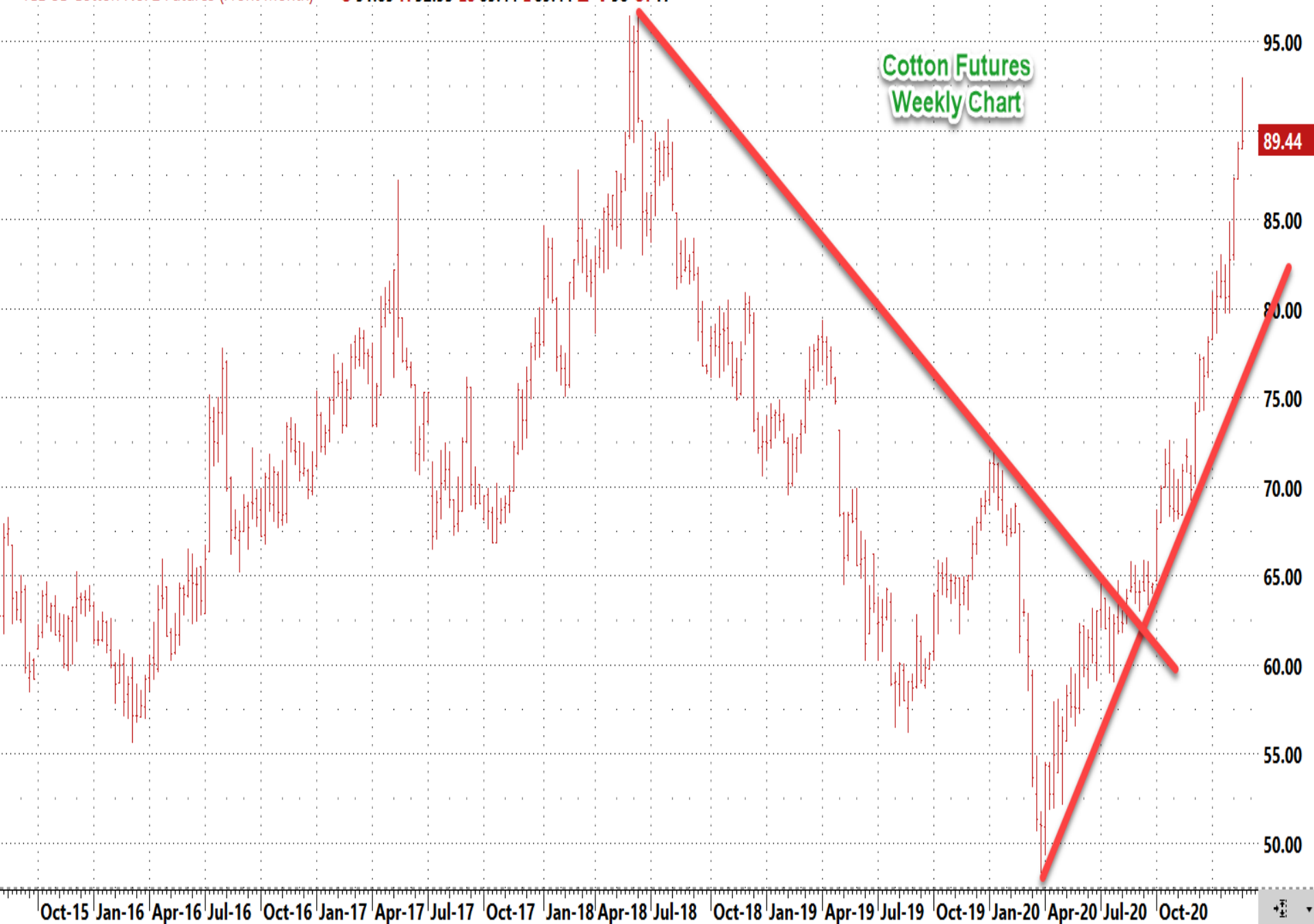


US Cotton Ending Stocks



ICE US Cotton No. 2 Futures (Front Month) O 91.89 H 92.95 Lo 89.44 L 89.44 Δ V 98 OI 17

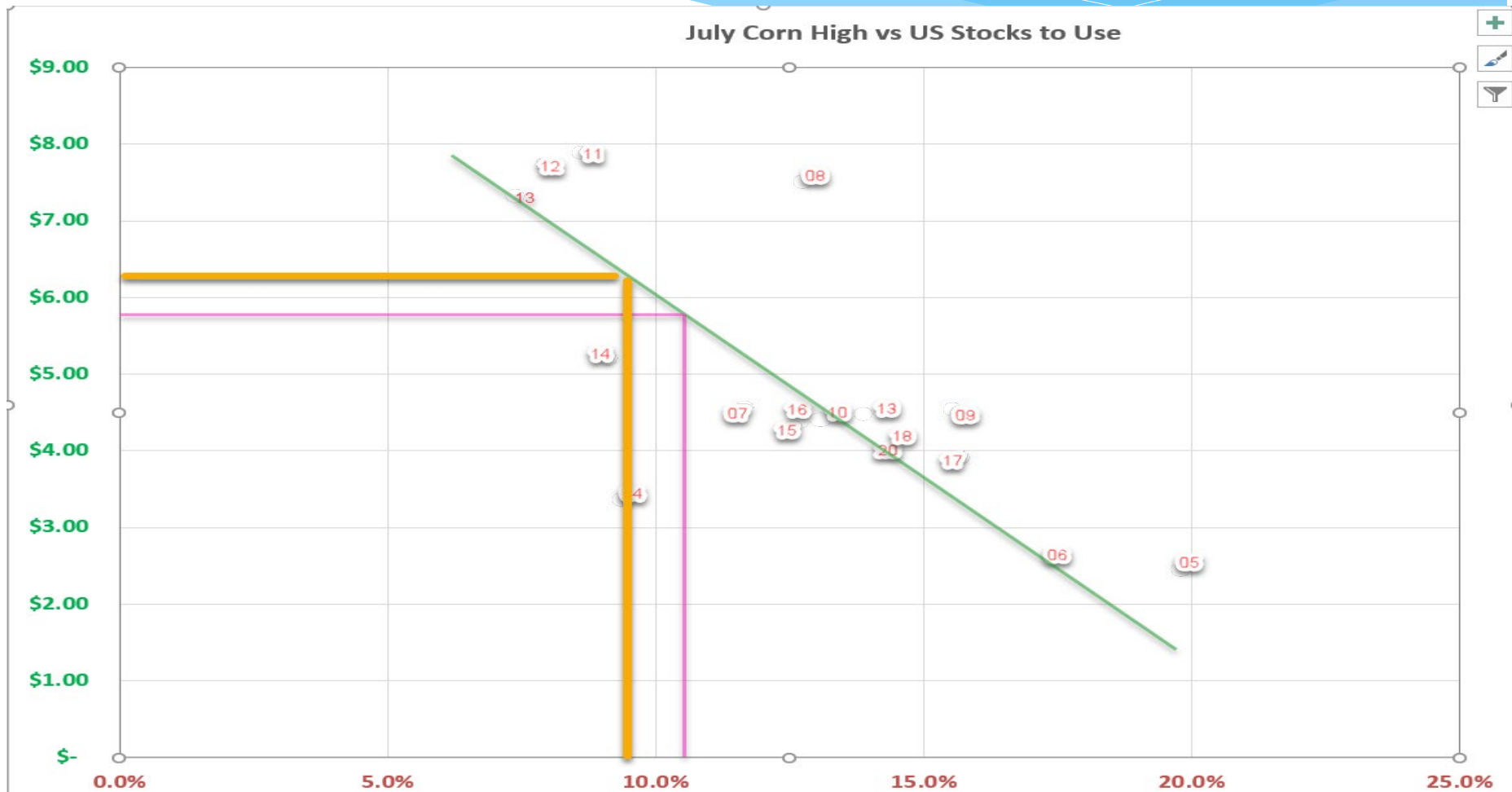
Cotton Futures
Weekly Chart



Corn

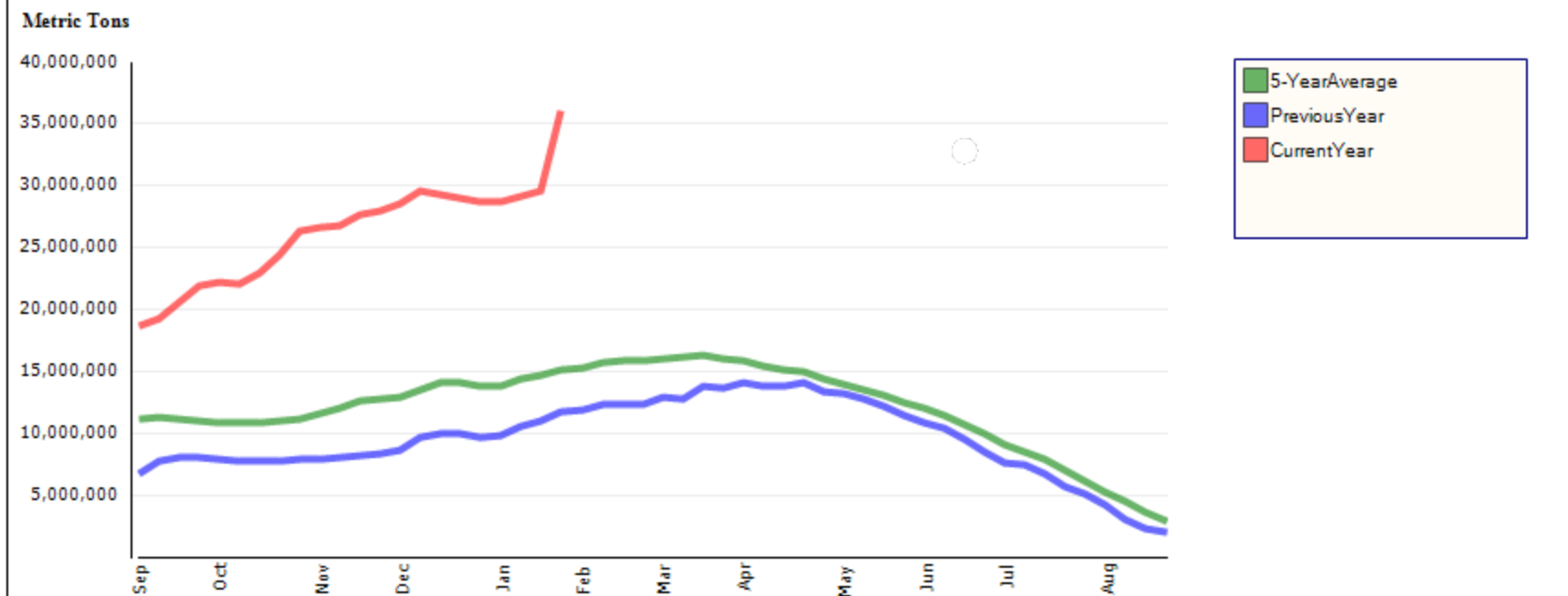
- * US Export sales at a torrid pace and the export lineup the next 90 days is massive.
- * Argentine weather the next 30 days will like determine if the spring high is around \$6.00 or up near \$6.50
- * USDA export projection Tuesday was disappointing and could lead to an increase in use (price pressure near term).
- * How do you project 2021 yield at 180, given the last 2 years? Still does not make stocks burdensome at that yield level with a 1.2 million acre increase in the US.
- * The US will be the export market for corn until mid-June.

US Corn Stocks to Use Ratio Points to Higher Prices.

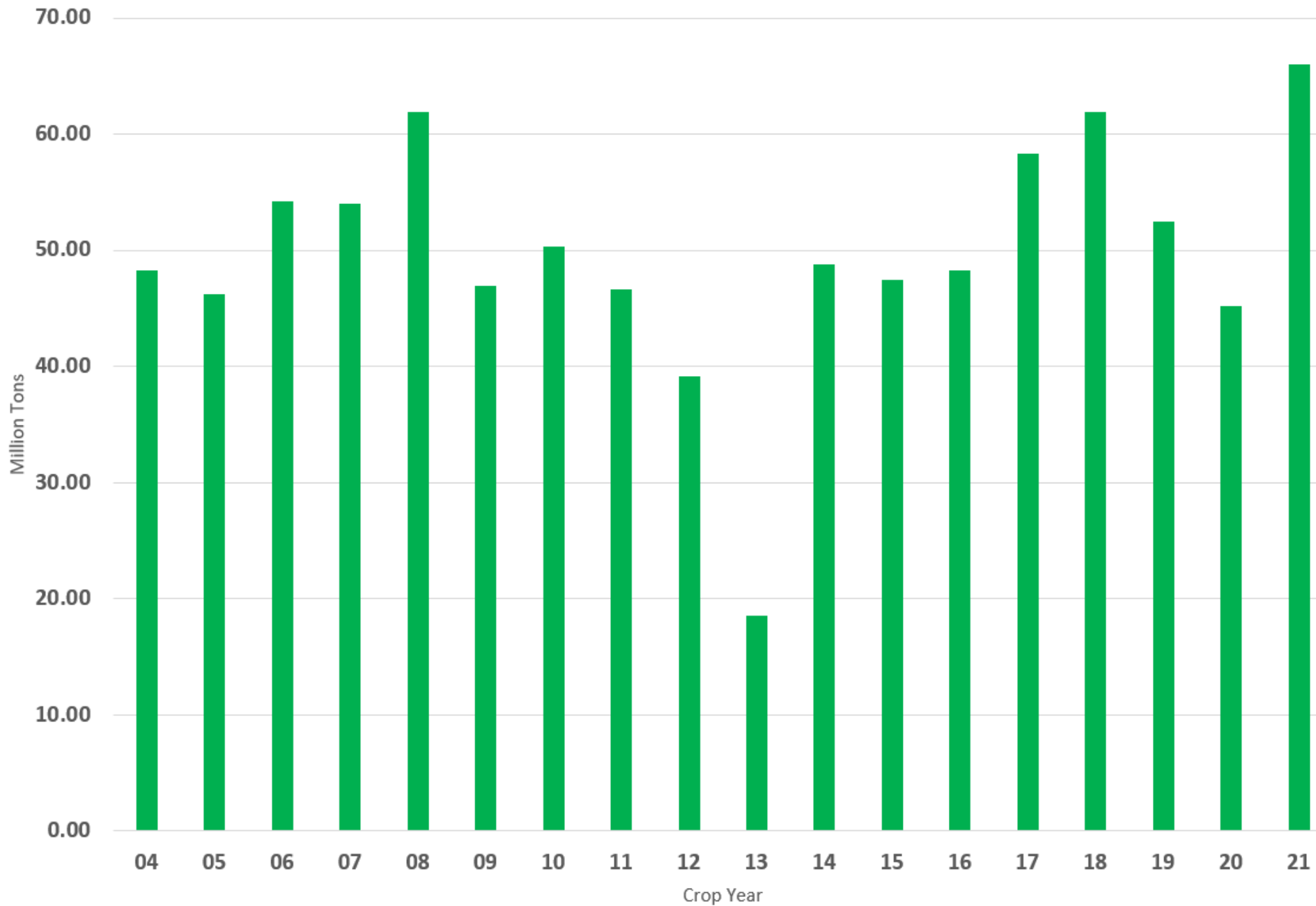


Outstanding Sales - World Total Corn

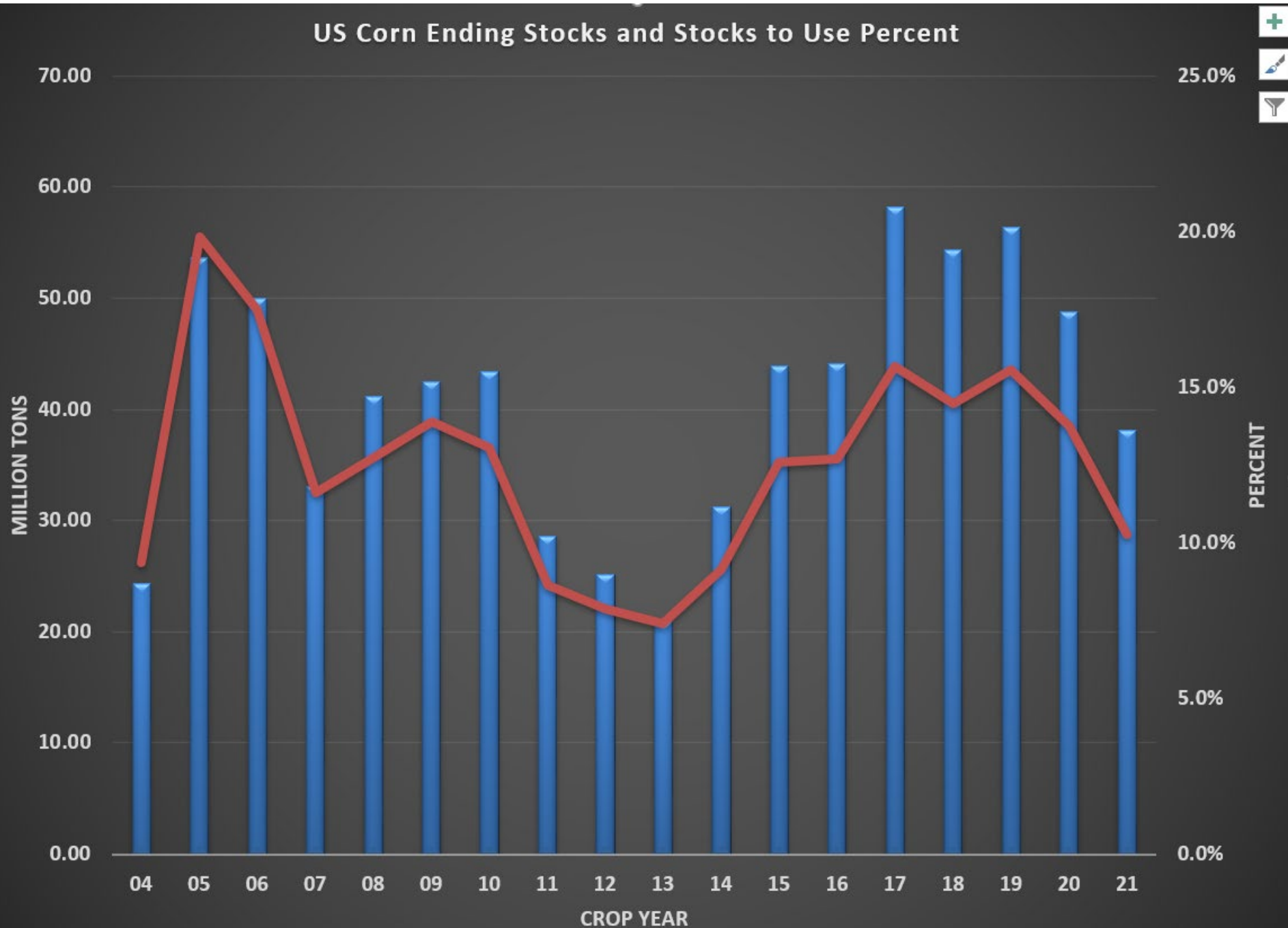
Selected Year: 2020-2021 as of 01/28/2021



US Corn Exports



US Corn Ending Stocks and Stocks to Use Percent

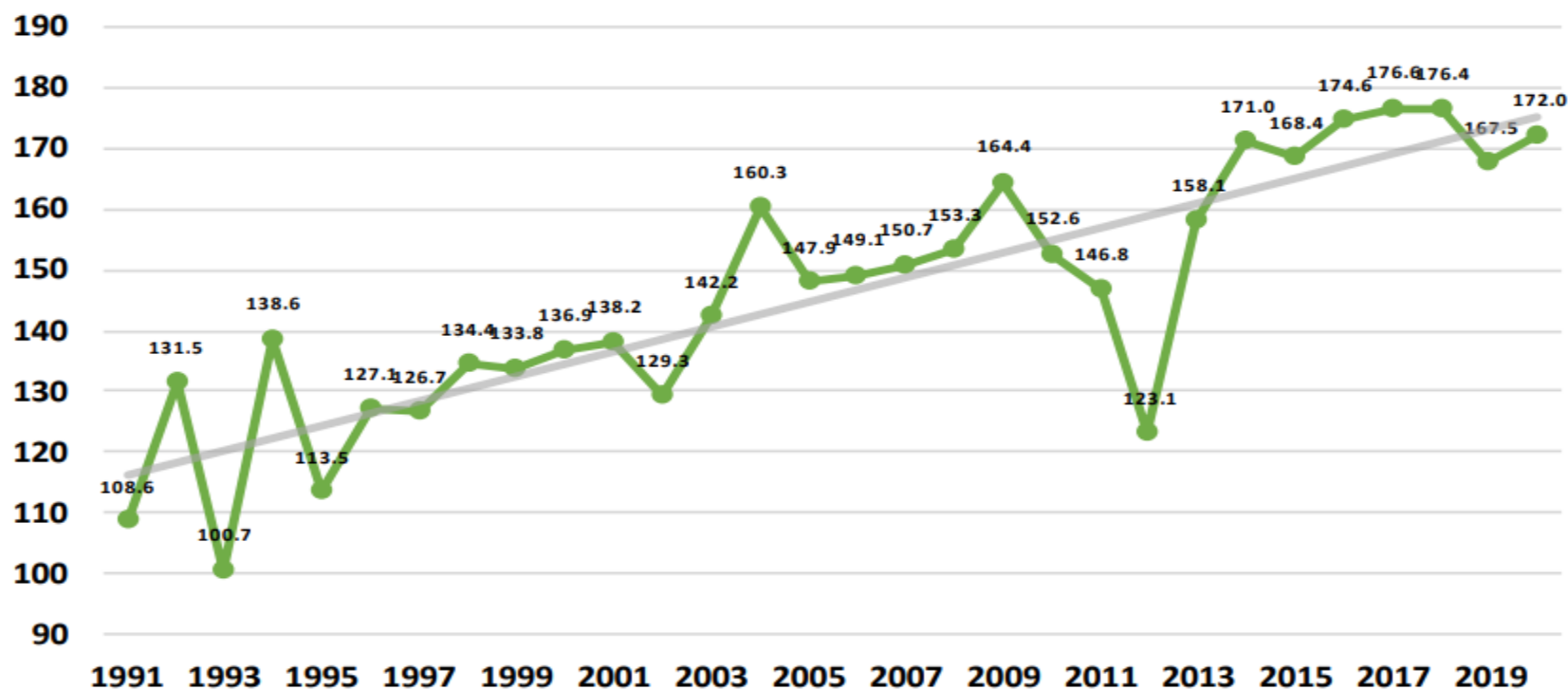




Corn Yield United States

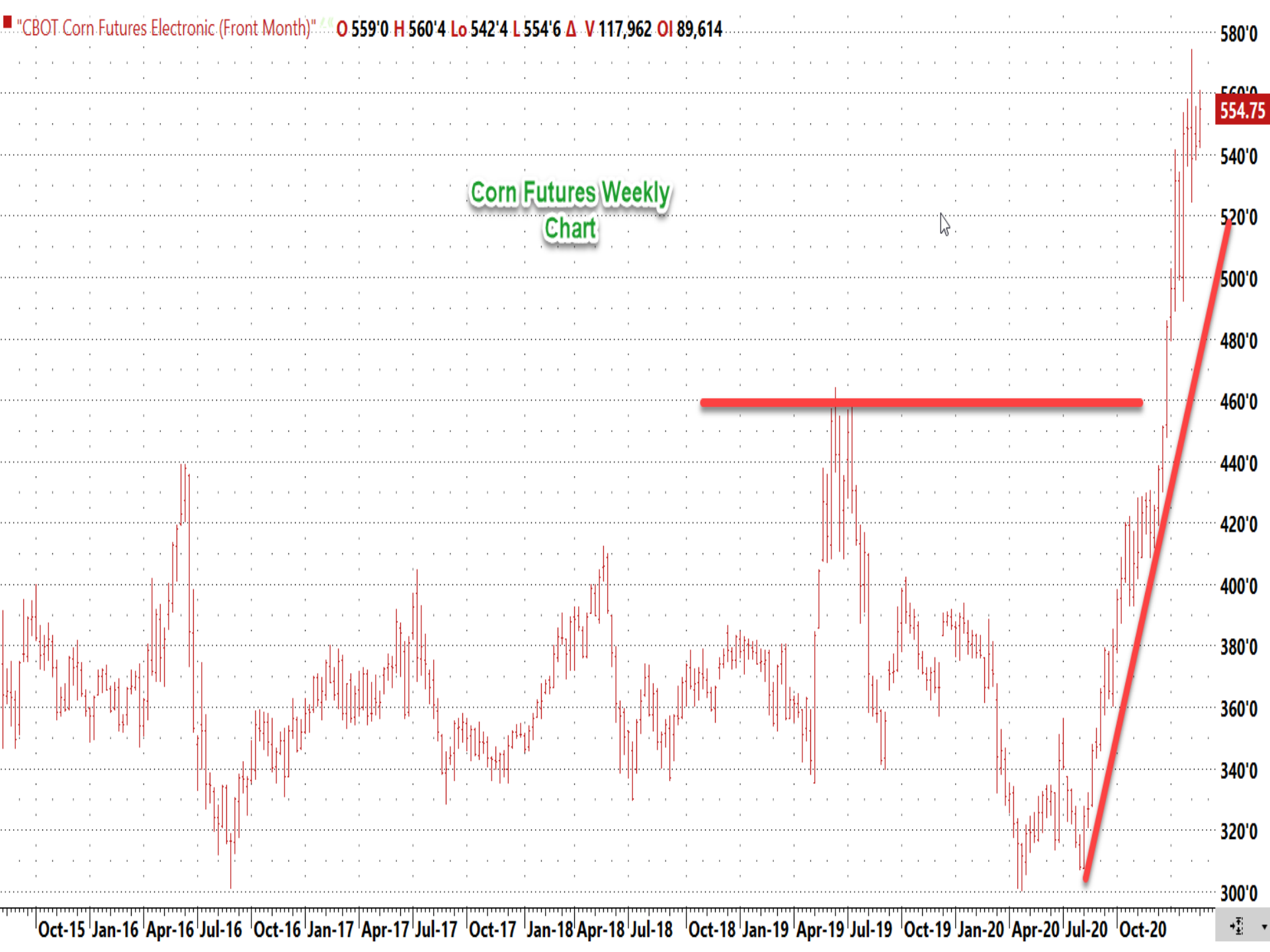


Bushels per Acre



■ "CBOT Corn Futures Electronic (Front Month)" O 559'0 H 560'4 Lo 542'4 L 554'6 Δ V 117,962 OI 89,614

Corn Futures Weekly Chart



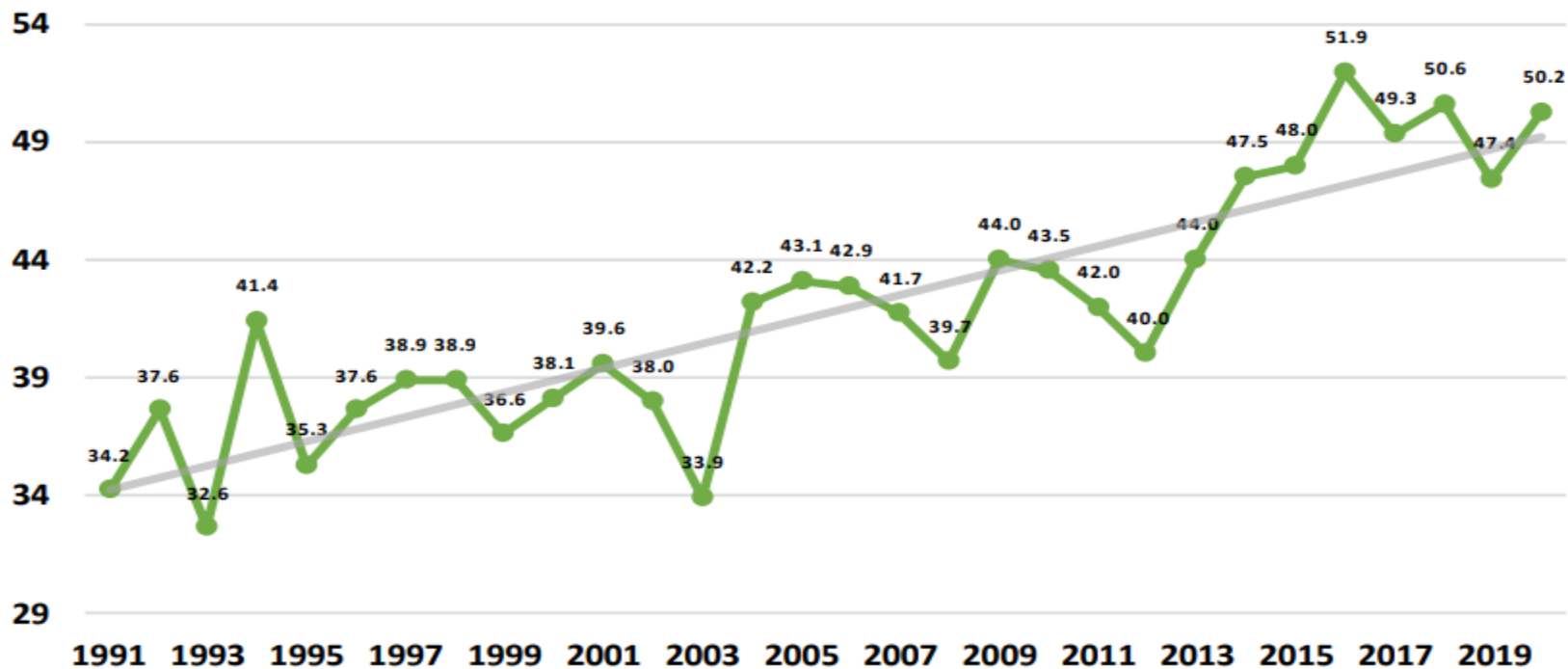
Soybeans

- * Vegetable oil demand has been a key driver in the strength in the soybean complex.
- * Don't want to downplay the demand for soymeal, but vegetable oil demand across all sectors very strong.
- * Once again, how do you project a 52 bu/acre yield.
- * This is the crop that will “grab” the most fringe acres outside the heart of the Corn Belt this spring.
- * US exports at record pace, but we “have done all we can do”.
- * US crushers will likely be the sector that rations the US soybean supply.
- * Just need to average 1.6 mb per week of sales to until August 31 to reach USDA export projection.

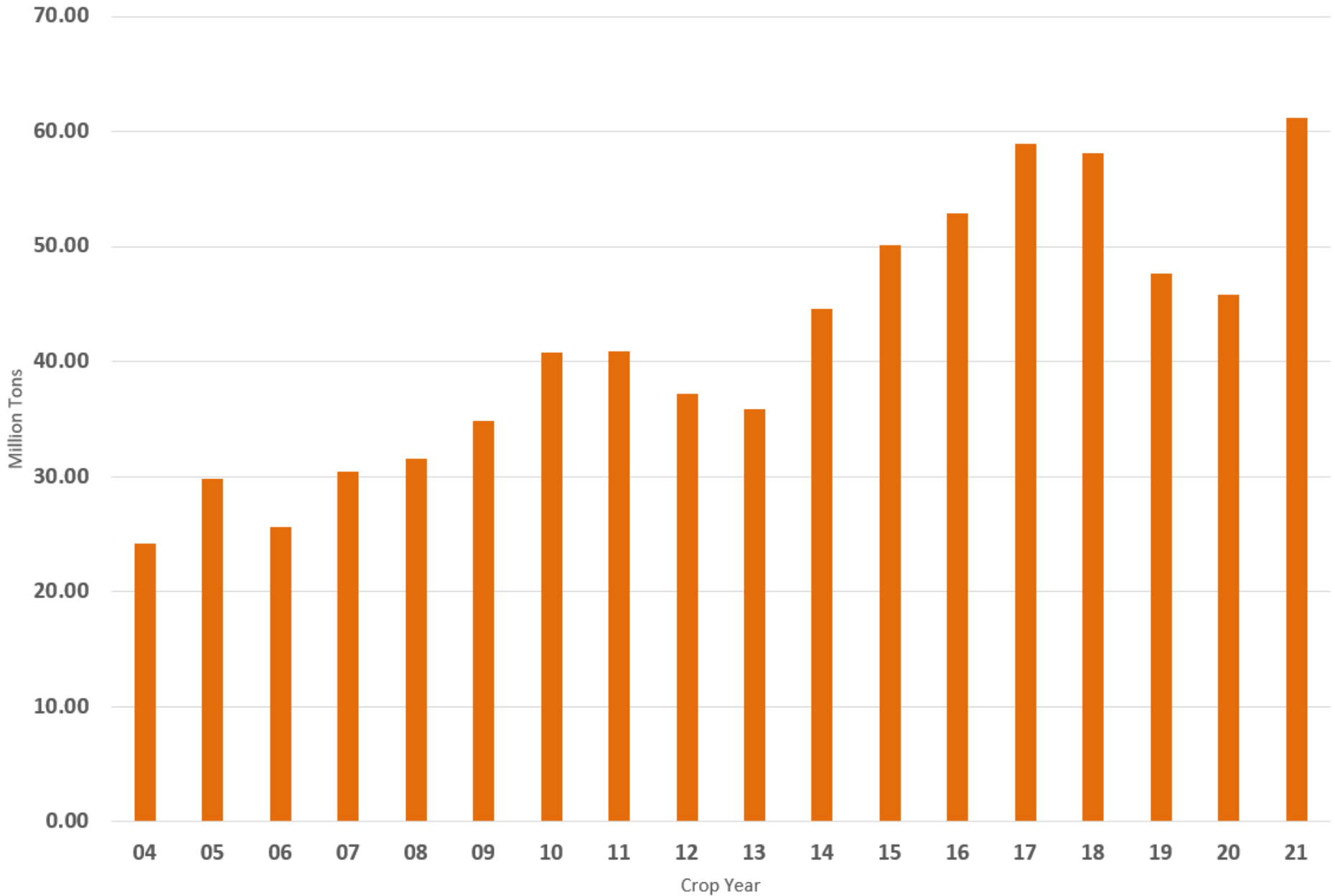


Soybean Yield United States

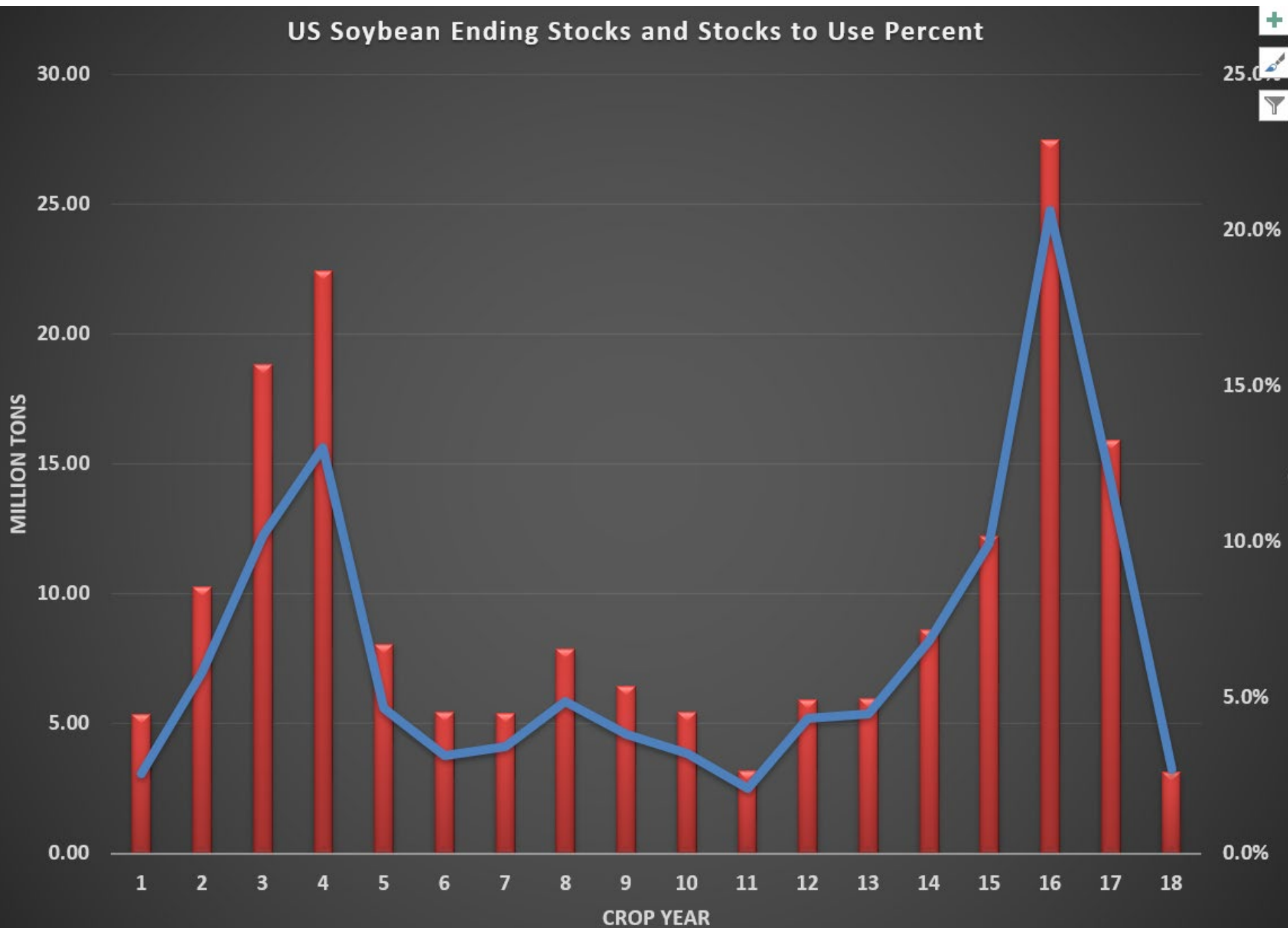
Bushels per Acre



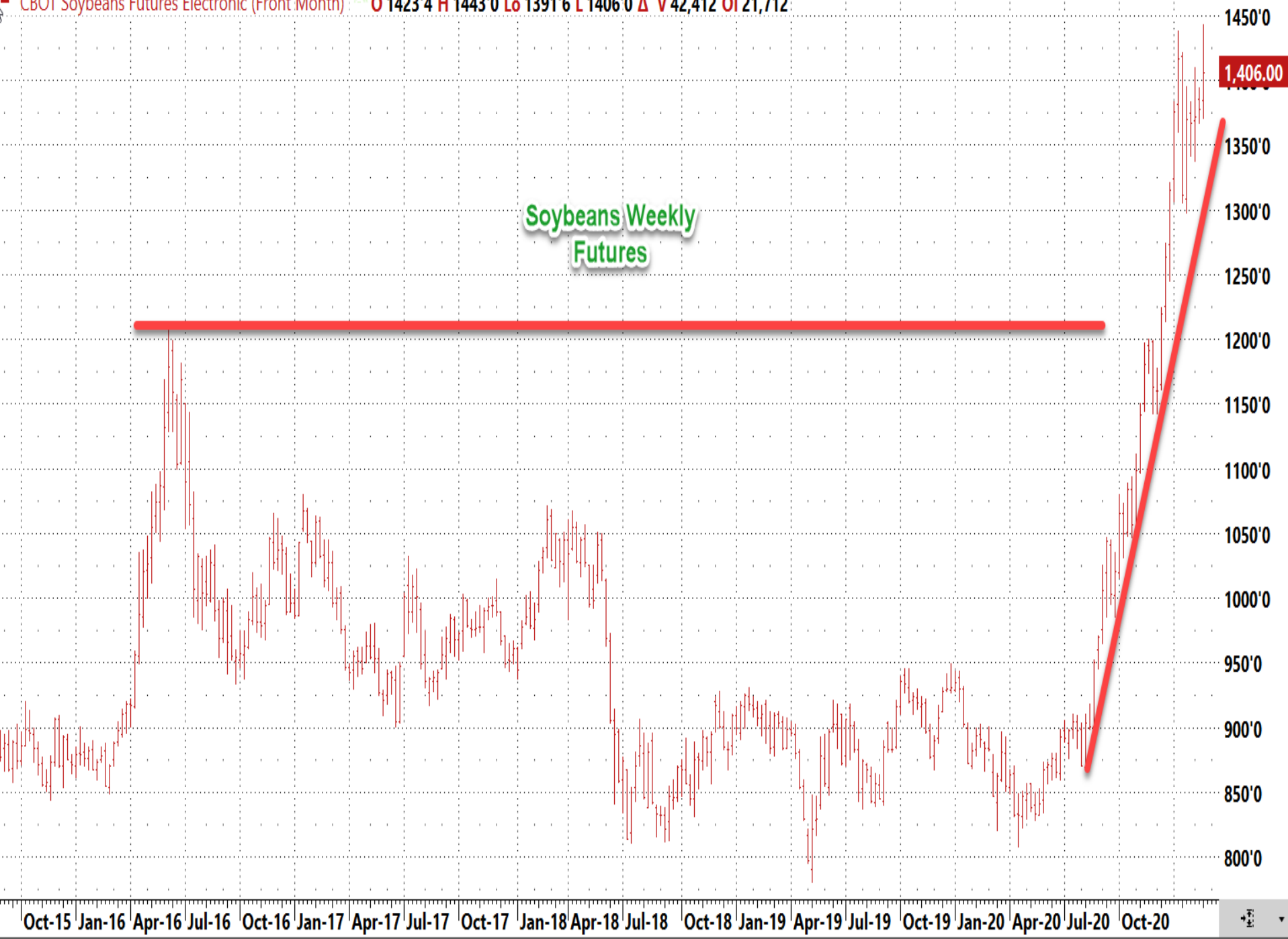
US Soybean Exports



US Soybean Ending Stocks and Stocks to Use Percent



■ "CBOT Soybeans Futures Electronic (Front Month)" ▲ O 1423'4 H 1443'0 Lo 1391'6 L 1406'0 Δ V 42,412 OI 21,712



■ "CBOT Soybean Oil Futures Electronic (Front Month)" ▲ 51.14 H 52.13 Lo 50.26 L 50.96 ▲ V 12,479 OI 9,158

Weekly Soyoil Futures



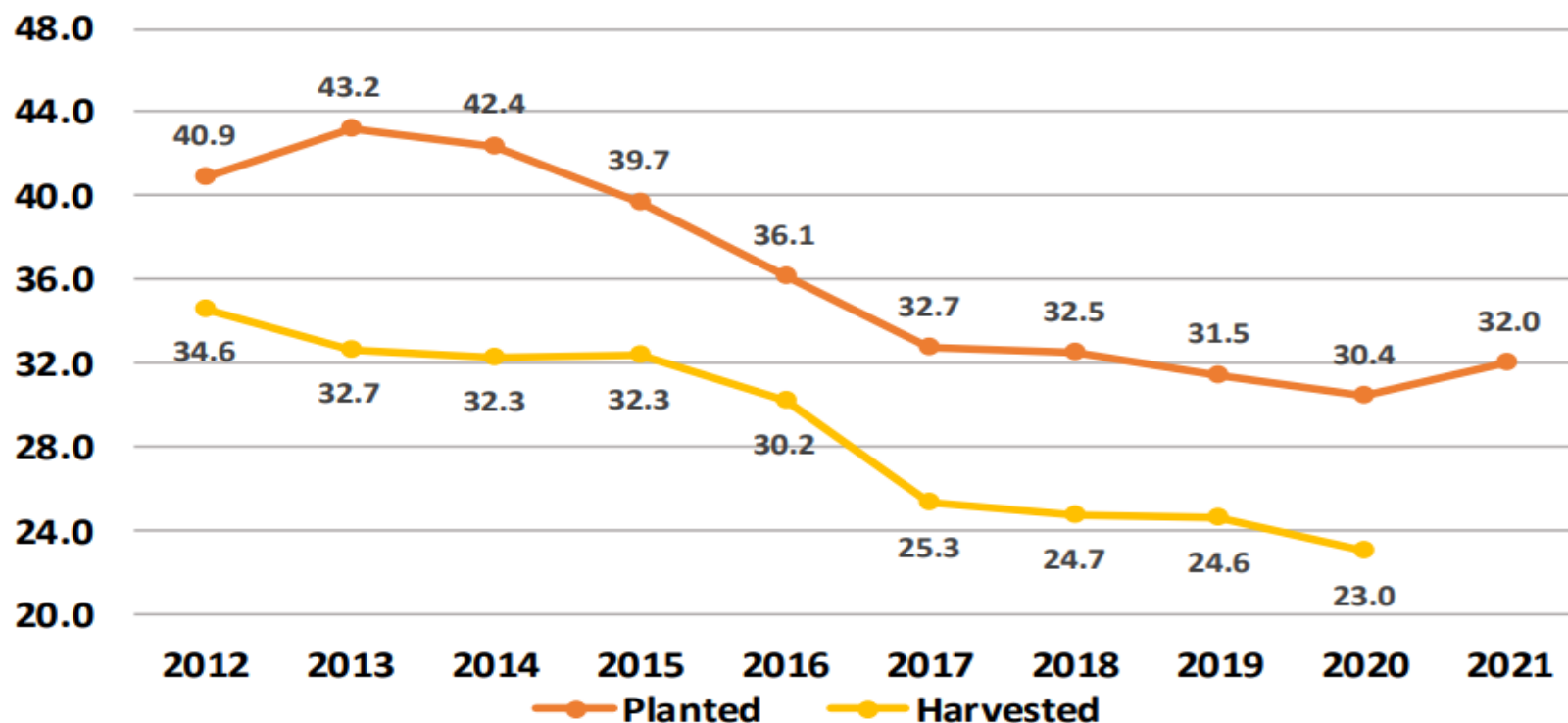
Wheat

- * The wheat market has generally been a “follower”.
- * Overall fundamentals still a little burdensome.
- * The positive factor is that much of the exportable supply in the world is held in pretty strong hands right now.
- * Lot of uncertainty about Russia and Ukraine crop as we go into spring.
- * Russia taxing exports as they do not like wheat/flour prices skyrocketing.
- * Strength in corn pushes for wheat into feed rations outside of the US
 - * Example: EU

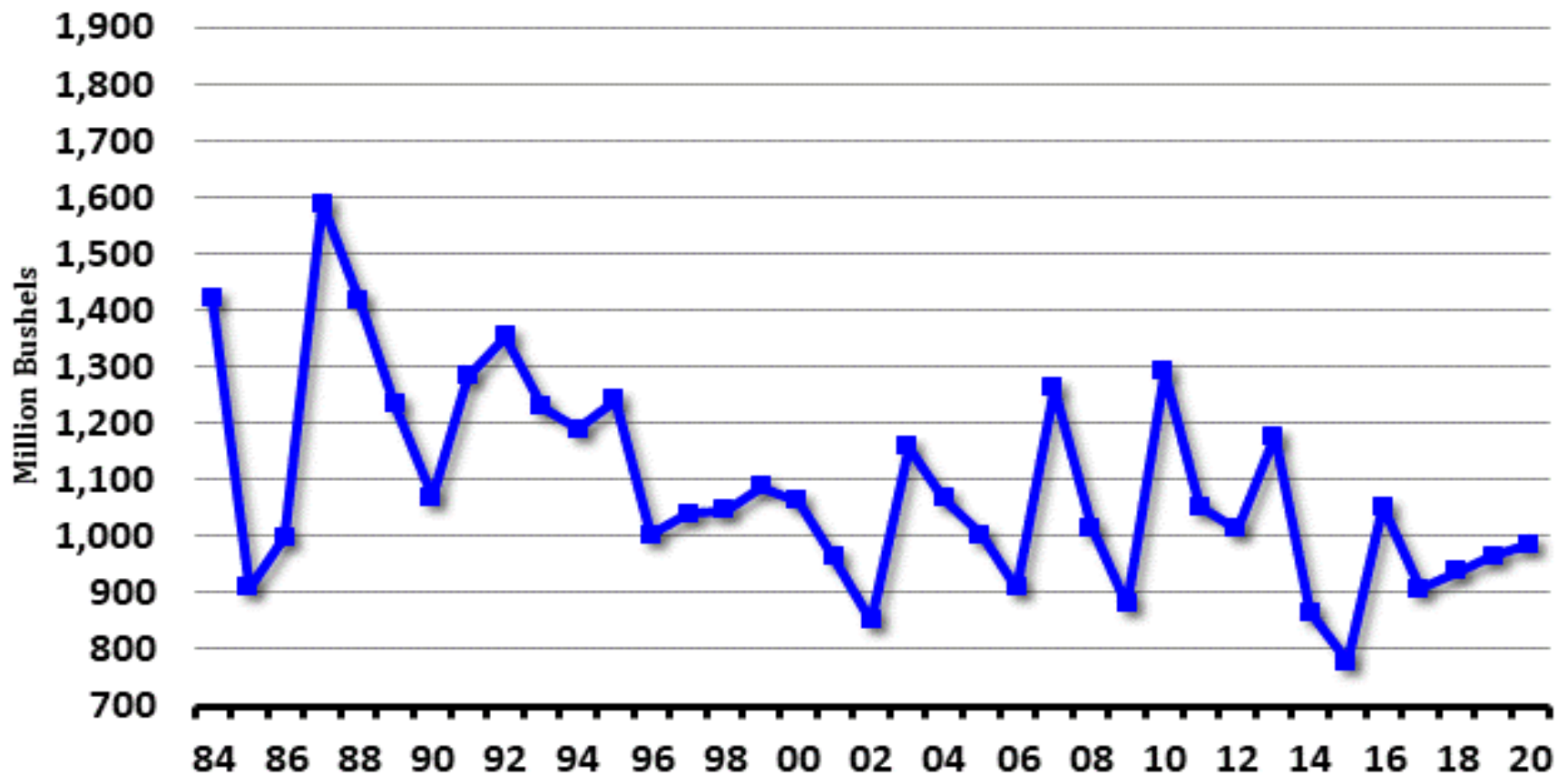


Winter Wheat Acres United States

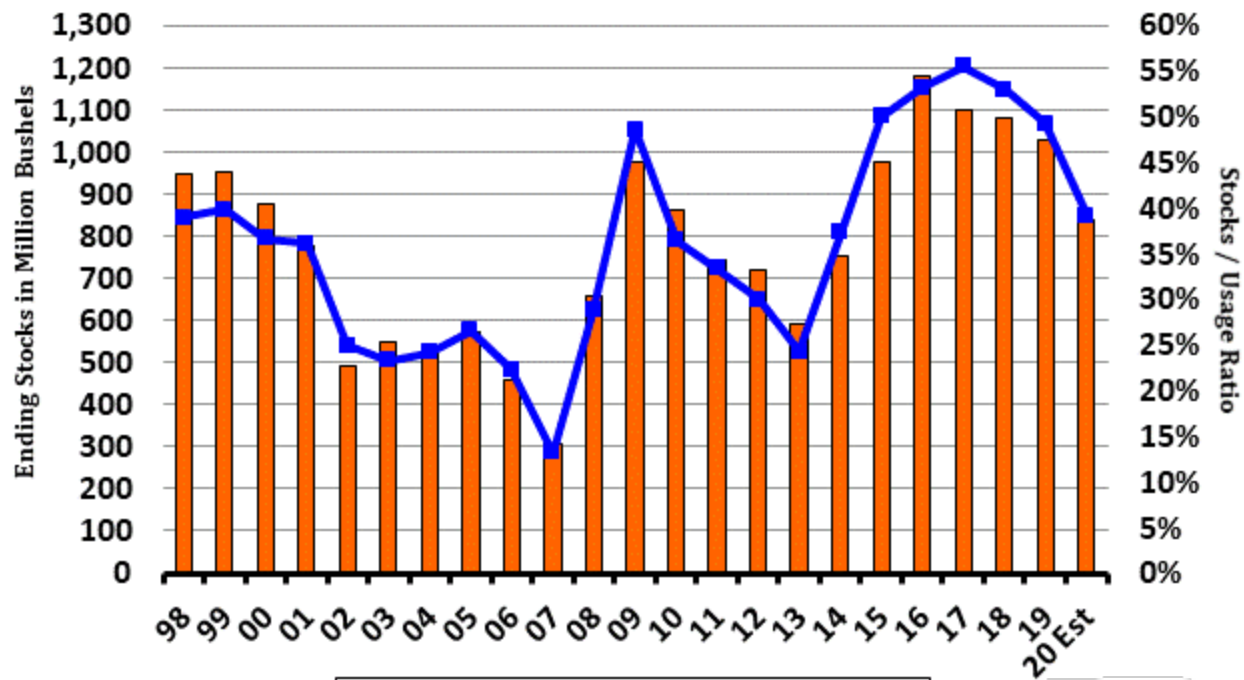
Million Acres



US All Wheat Exports



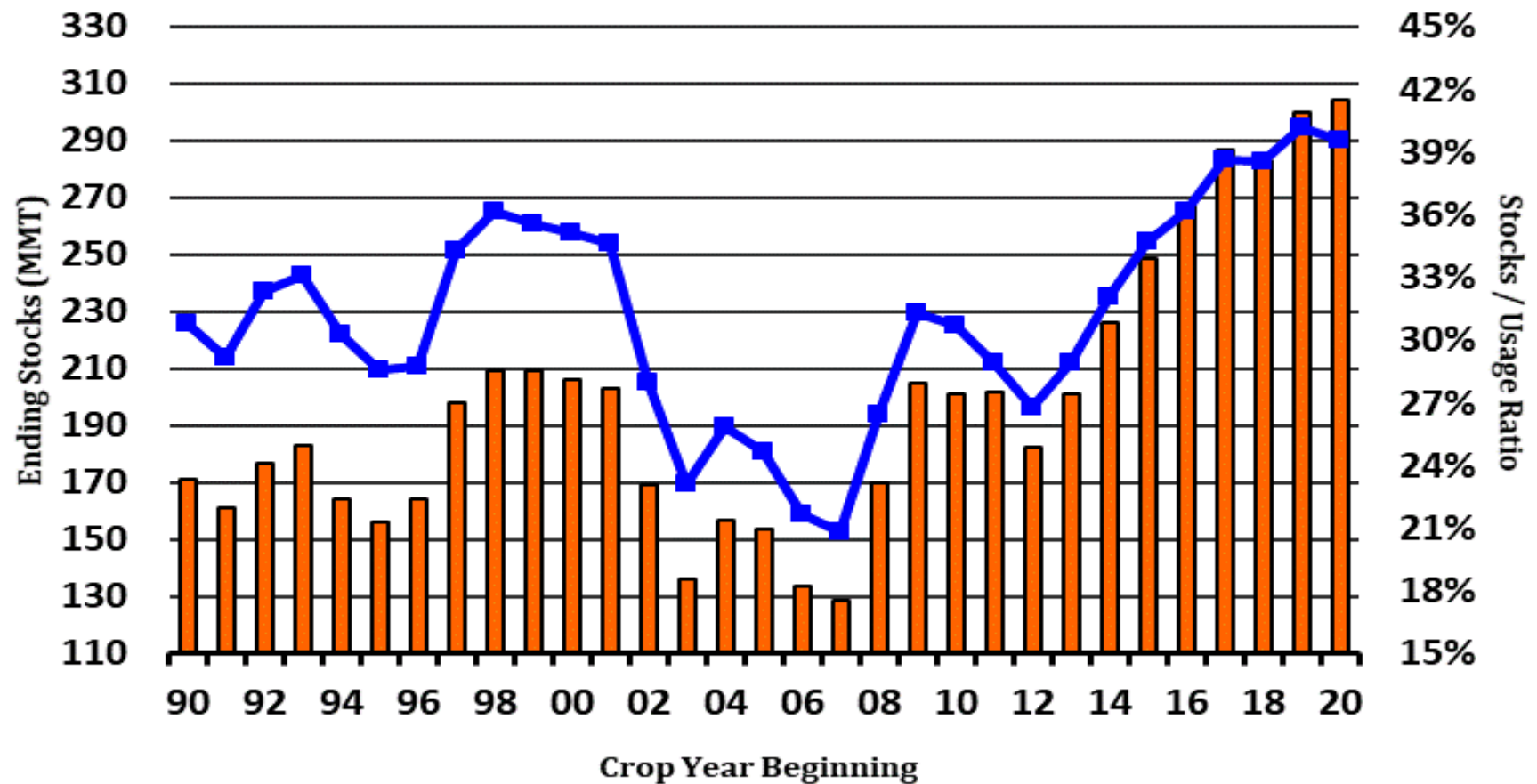
US All Wheat Ending Stocks vs Stocks / Usage Ratio



Updated: 02/09/2021

Ending Stocks Stocks / Usage Ratio

World Wheat - Ending Stocks vs. Stocks / Usage Ratio



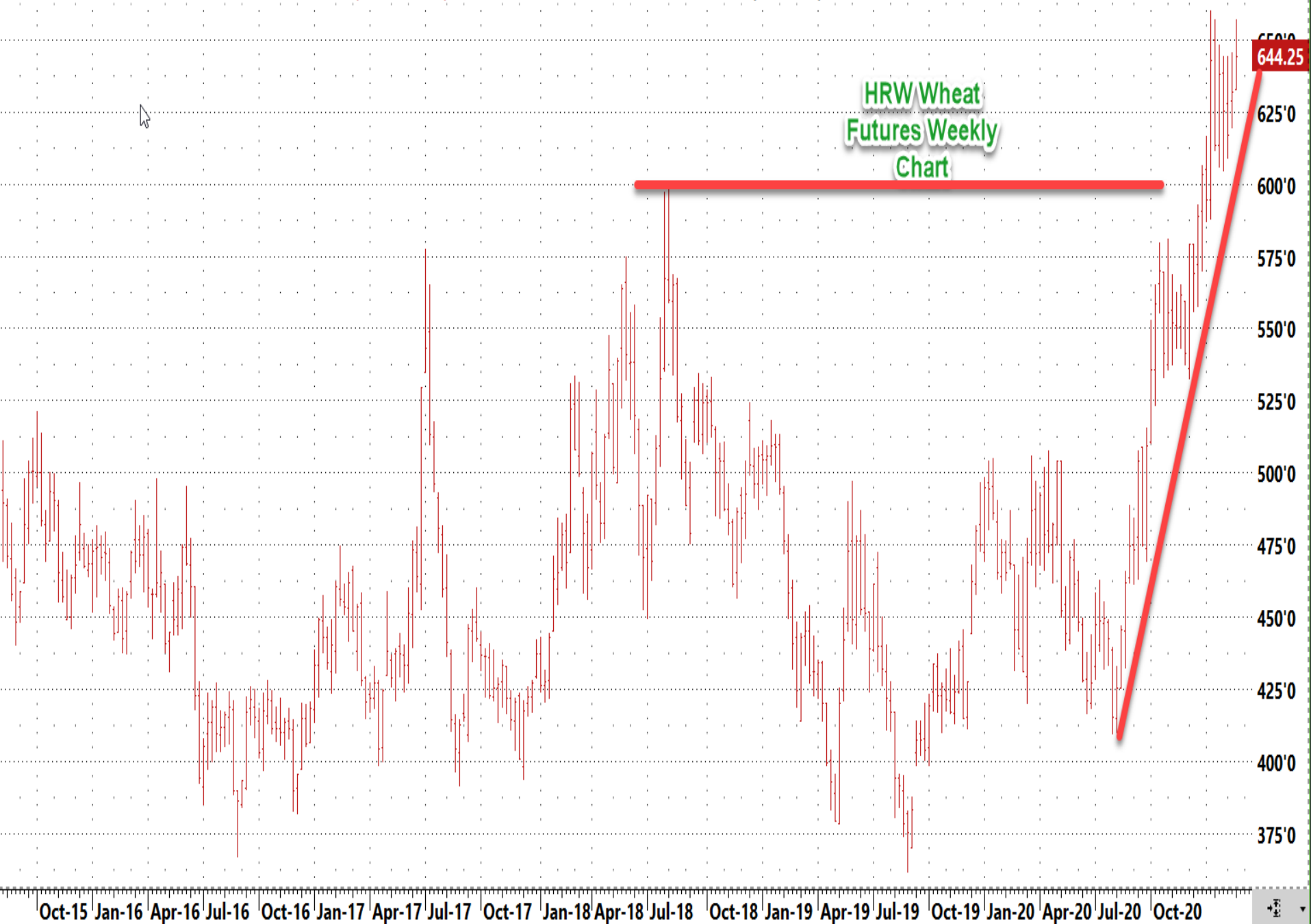
Most Recent: As Of 02/09/2021

Ending Stocks

Stocks / Usage Ratio

■ "CBOT Hard Red Winter Wheat Futures Electronic (Front Month)" ▲ O 654'2 H 656'0 Lo 637'2 L 644'2 Δ V 7,169 OI 6,779

HRW Wheat
Futures Weekly
Chart



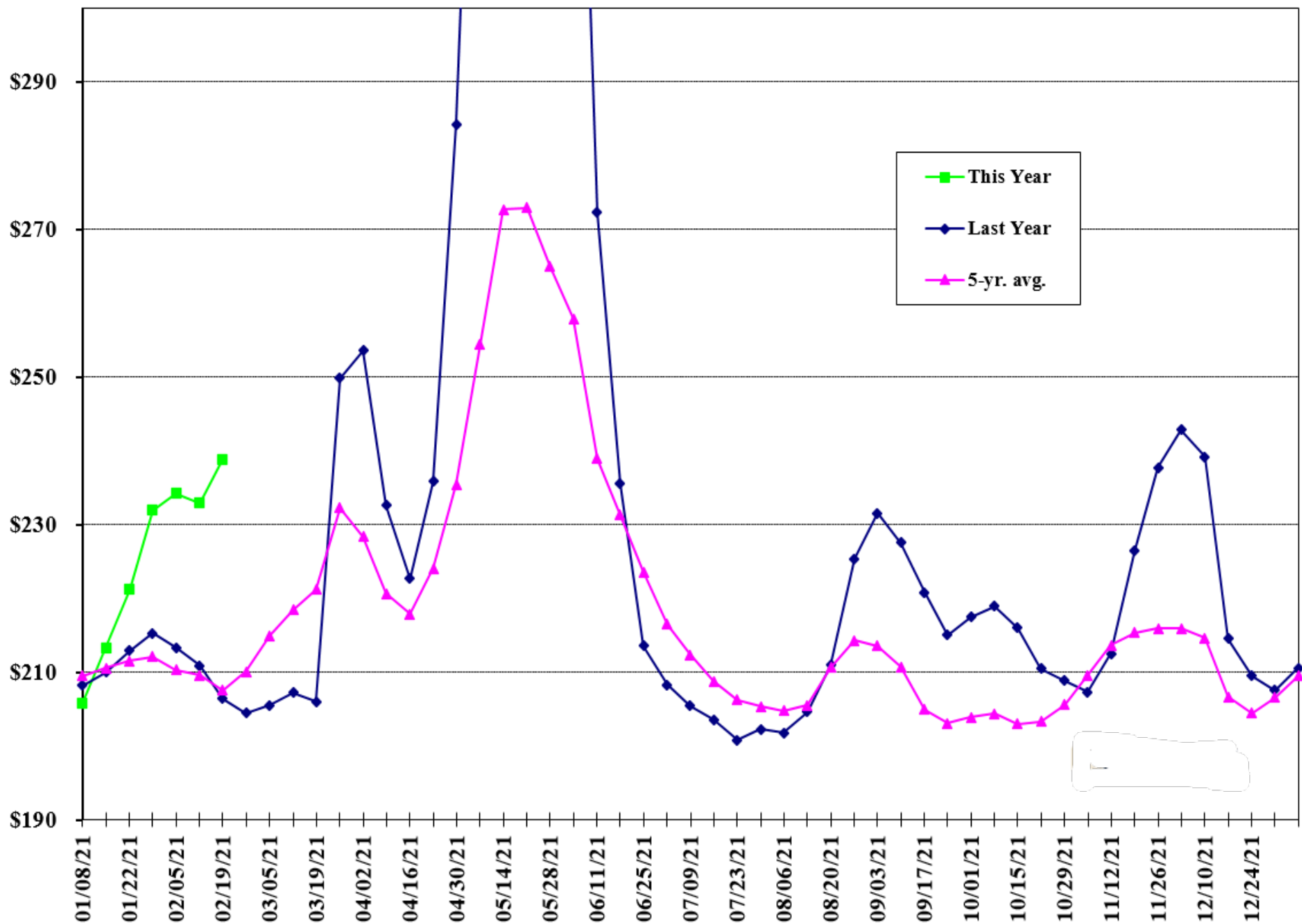
Cattle

- * One of the most difficult years in livestock, poultry and meat business.
- * Major changes in the way business had to be conducted.
- * The good news is that consumers discovered the “value” at the retail sector. Demand very solid.
 - * Exports showing additional growth.
- * My big picture concern is the consolidation in the packing/processing industry is now “hurting” the cattle/beef industry.
 - * It is not sending the proper demand signals down the chain to the cow/calf producer.
 - * Therefore, we are seeing liquidation despite strong demand. That is not long-term positive and is not an efficient market.

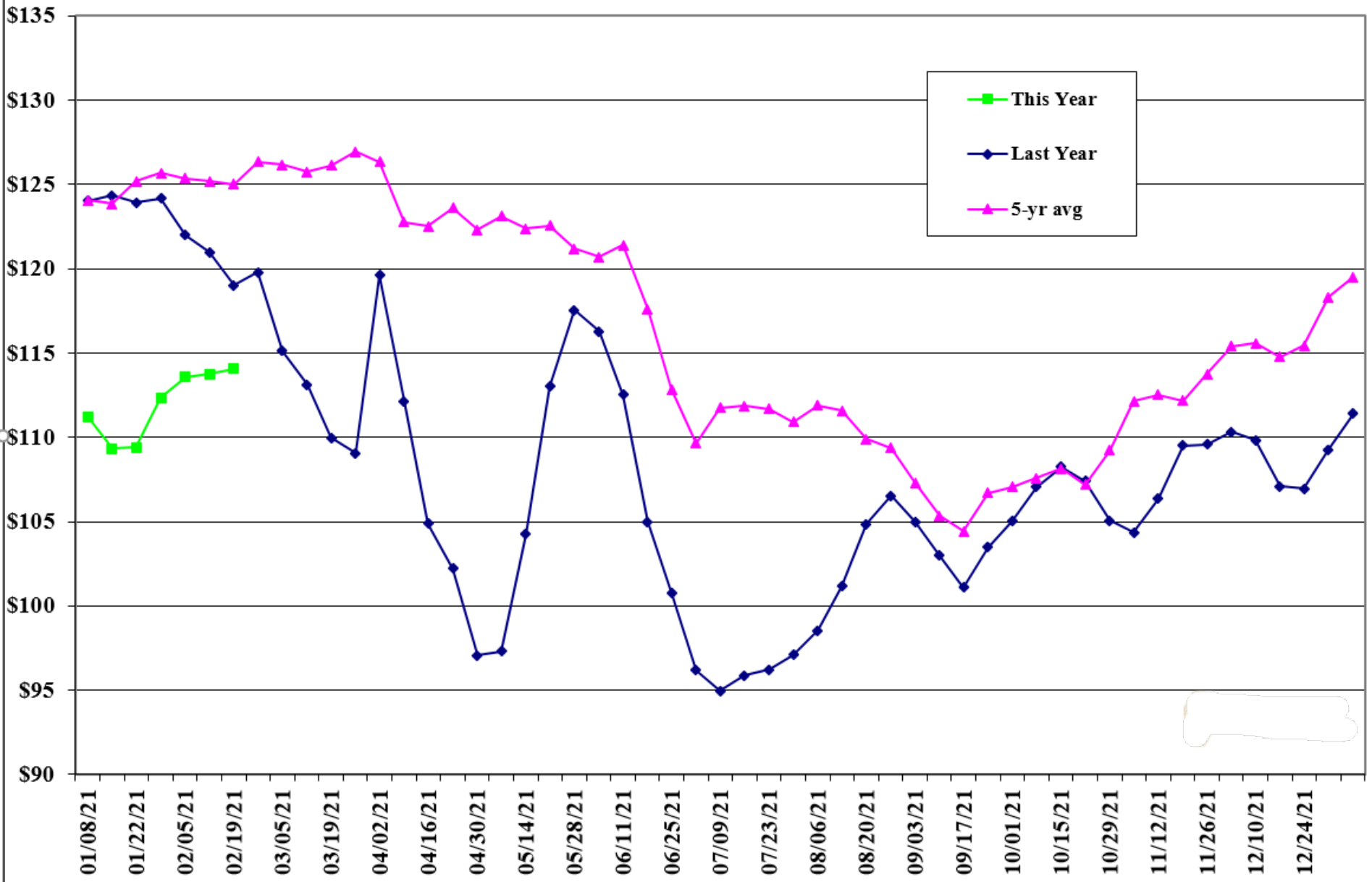
Cattle

- * It is real simple, “packer margins have exploded”.
- * That is the simple explanation between this year and a year ago.
- * Supplies will get tighter
 - * Lower Beef Cow Numbers and Lower calf supplies
 - * Carcass weights will also decrease
- * Long term supply risk lies with drought concern in the Plains this spring and early summer.

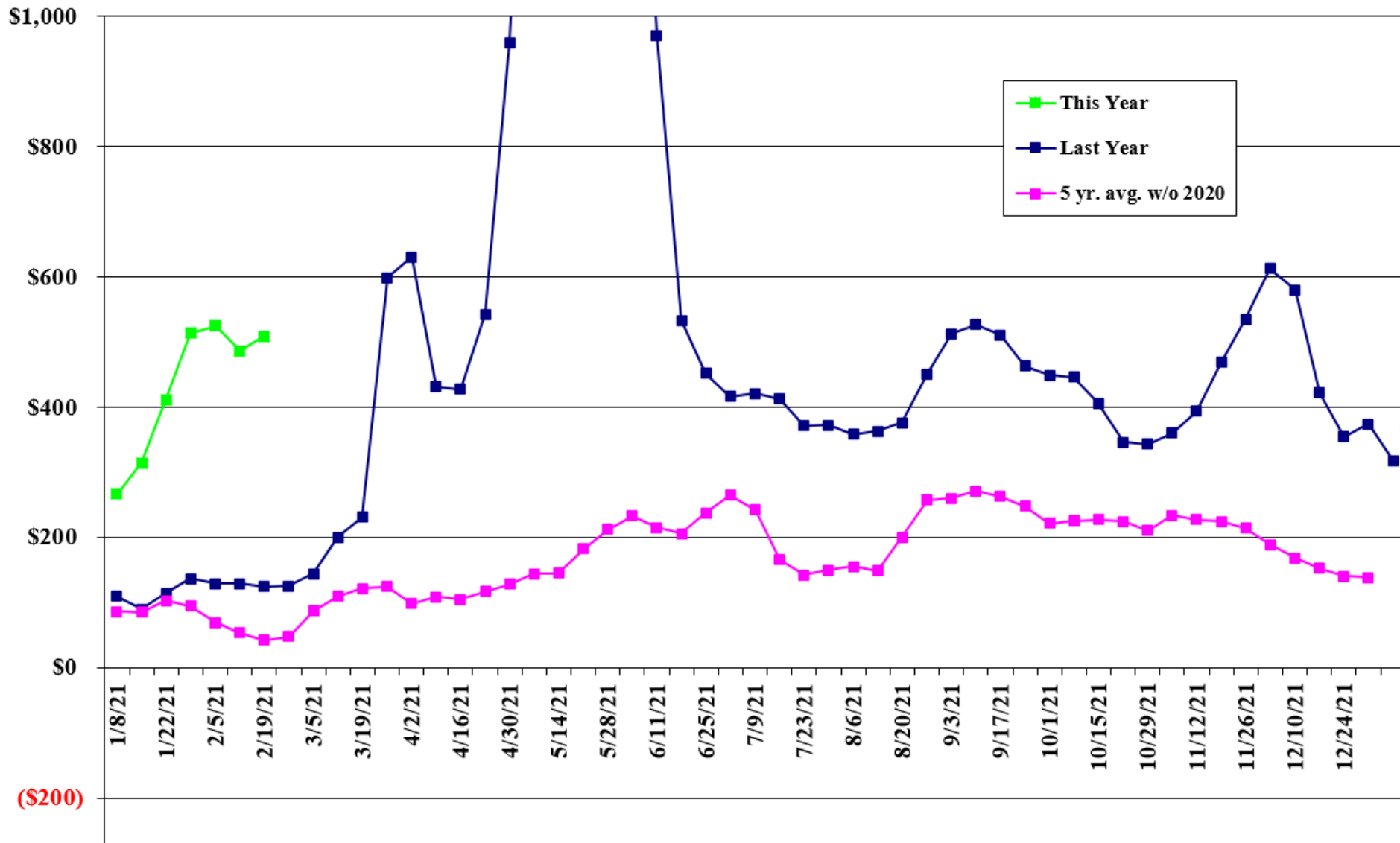
Choice Cutout



Cash Price Live Cattle



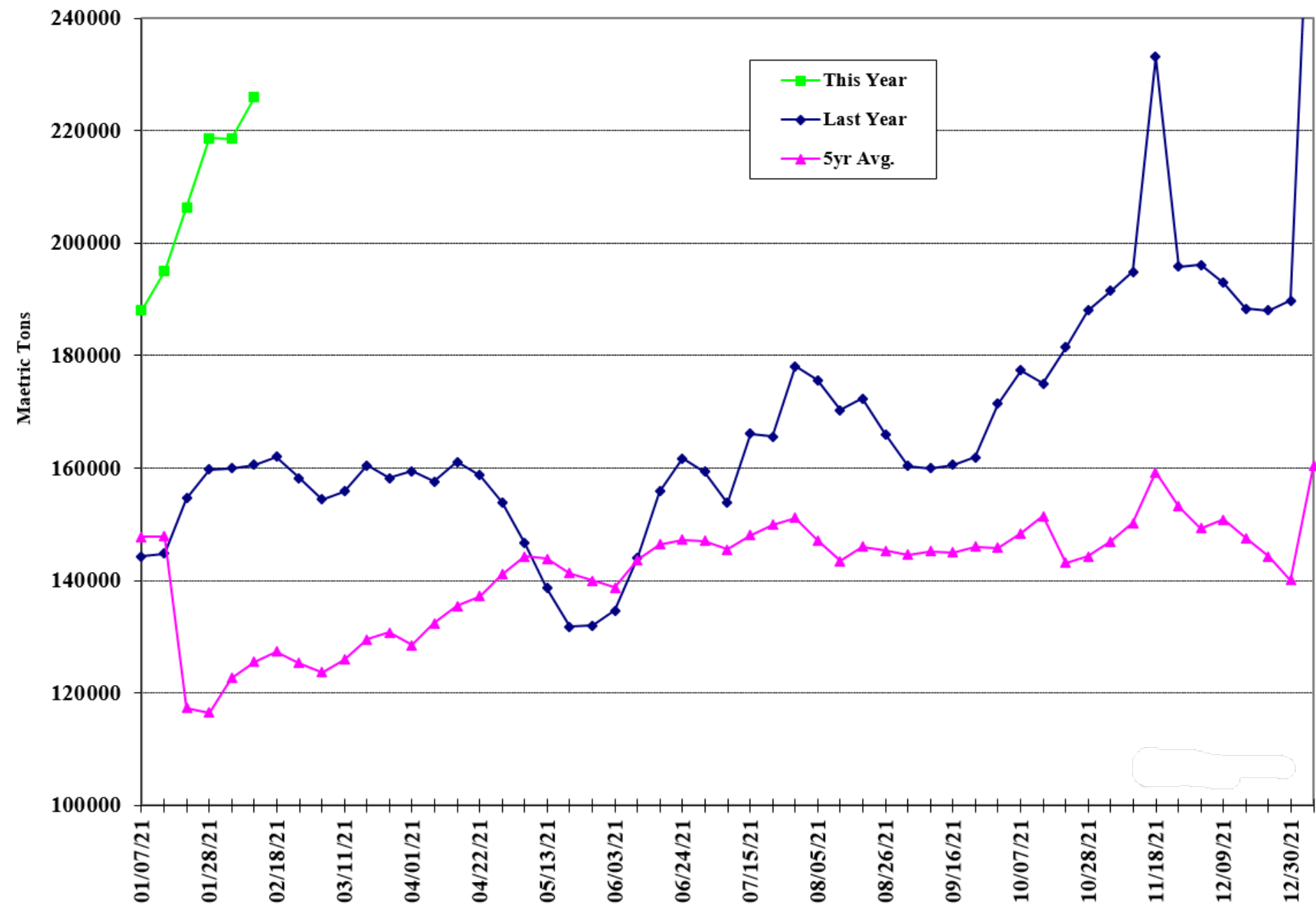
Packer Margin



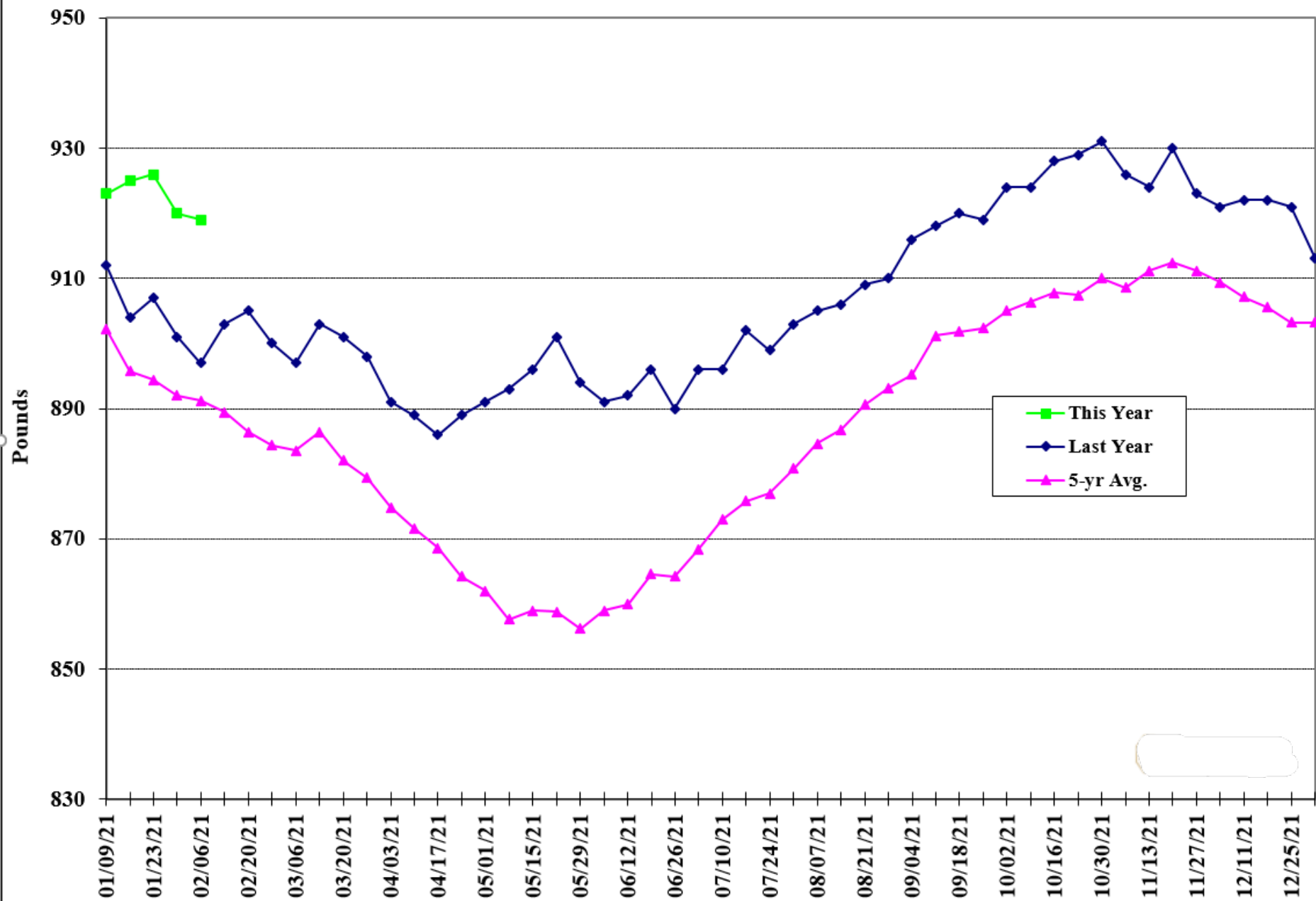
Contract & Formula % of Steer & Heifer Kill 4 week running average



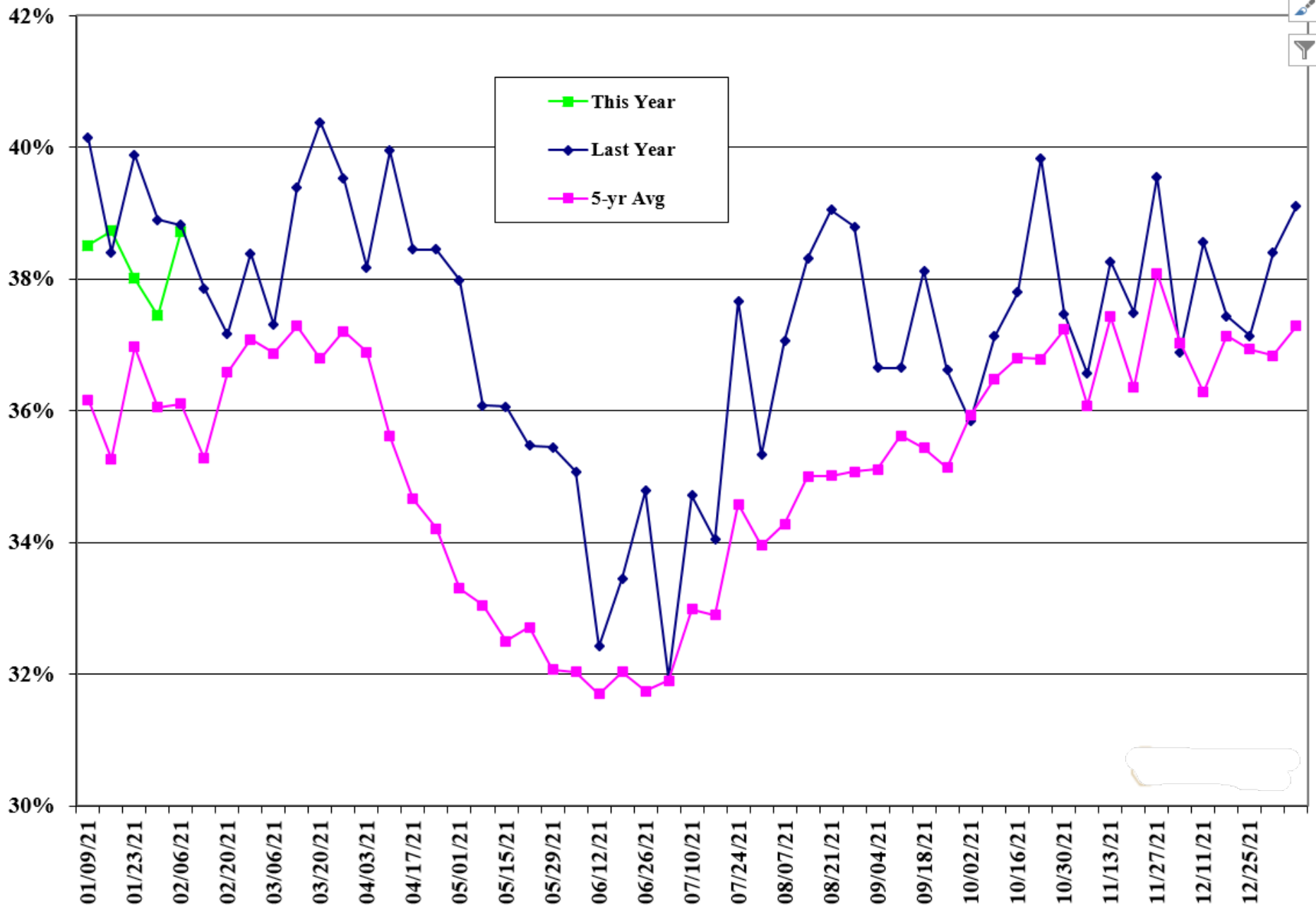
Weekly Beef Outstanding Export Sales



Dressed Steer Weights

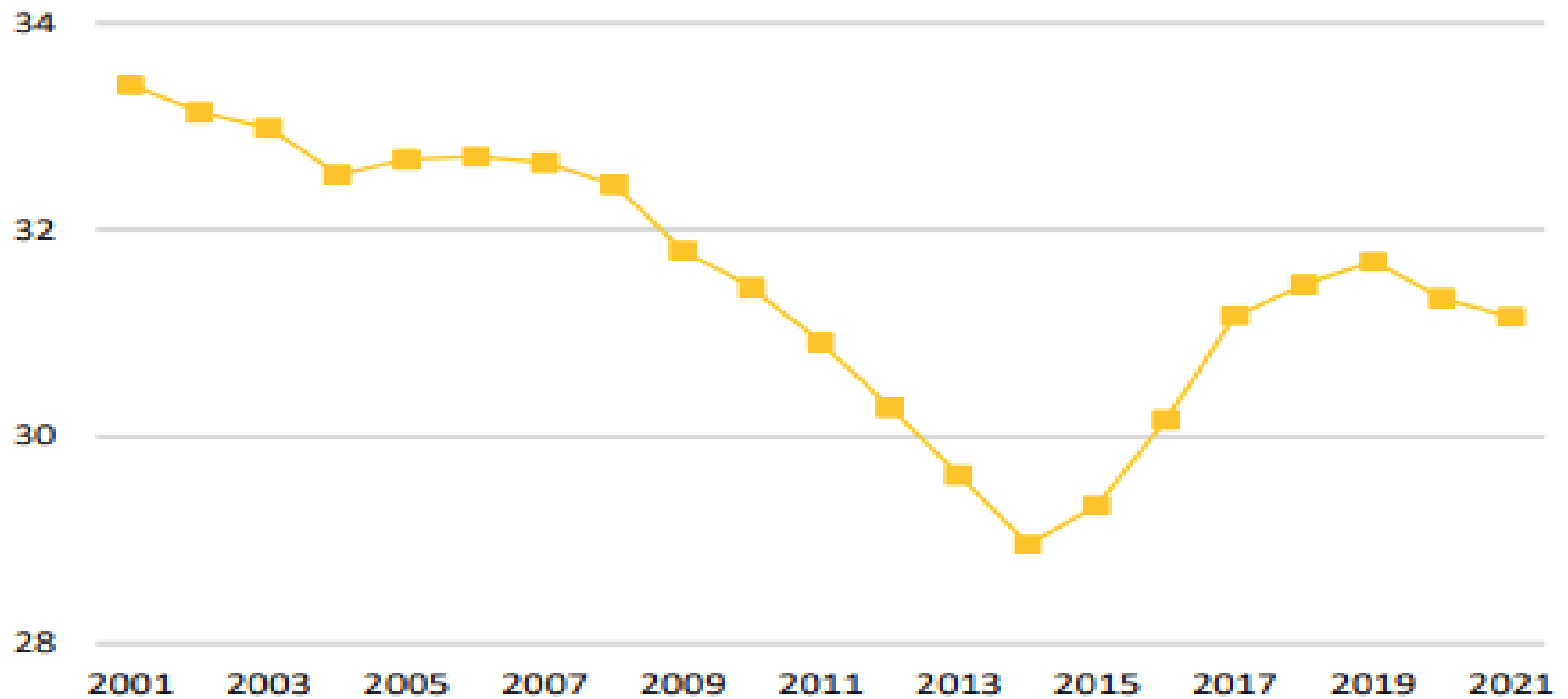


Heifer % of Steer & Heifer Kill



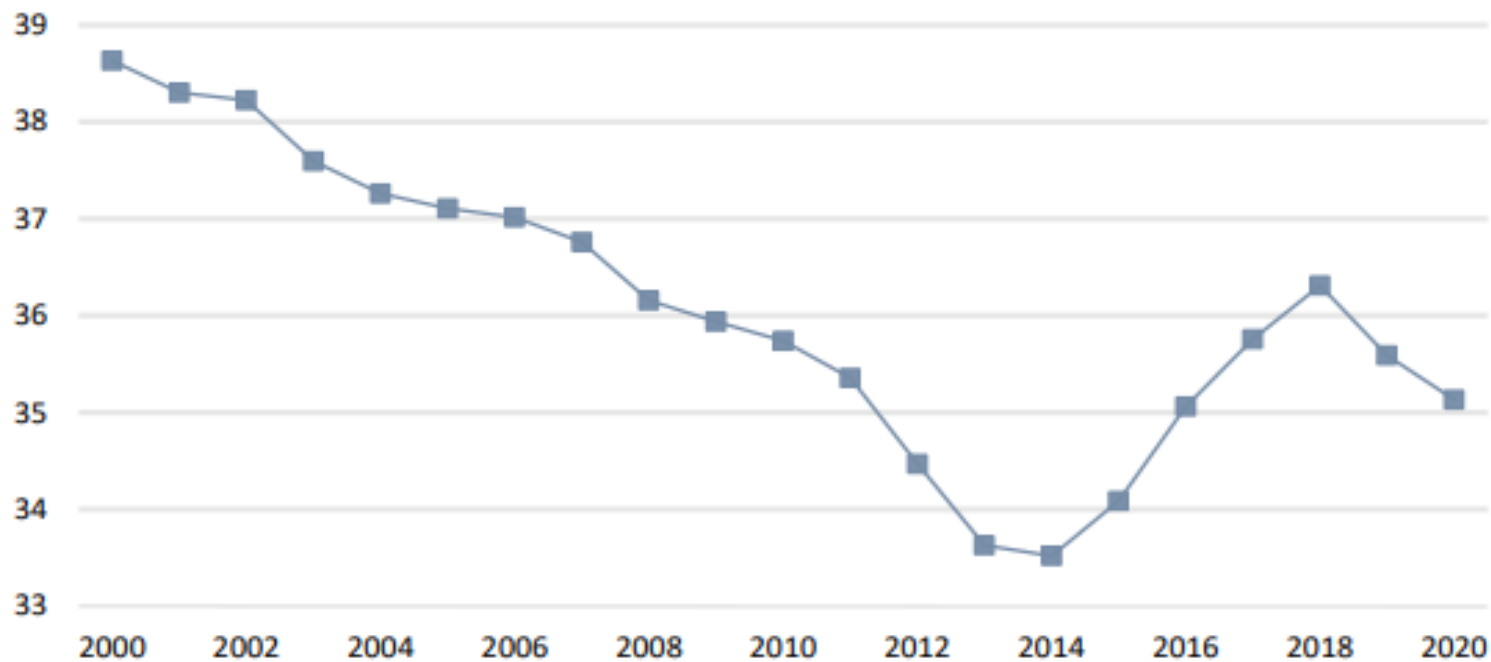
January 1 Beef Cows United States

Million head



Calf Crop United States

Million head



■ "CME Live Cattle Future (Front Month)" O 116.8000 H 117.3250 Lo 116.2500 L 117.0000 Δ V 1,105 OI 963

Live Cattle Futures
Weekly

