Why Marketing?

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To paraphrase an often-heard comment, I can not do anything about prices so why bother with all this marketing stuff. While it is true that any one individual does not have much control over the price received for an agricultural commodity, the real issue is ***timing of marketing decisions*** rather than the level of influence on the price received at a particular point in time. If marketing decisions are made only once or twice a year, and the marketing of agricultural commodities is completed in a "traditional" fashion, there really is not much need to spend a lot of time updating marketing skills. However, you only need to look at the 1996 crop year to get some indication of the missed opportunities for marketing grain at favorable prices.

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Figure 1 shows the price pattern for both the cash and near term futures prices of wheat for 1996. While the price was at an annual low during harvest time, there was a tremendous opportunity to market grain during the spring of 1996. Producers, who took this opportunity, could have gained as much as $3.00 per bushel over harvest prices. The opportunity to sell at favorable prices did not come at the traditional time for marketing grains. The traditional time is typically during or close to harvest.

The ability to influence the price you receive is due to timing of marketing decisions rather than your bargaining power with the local elevator operator.

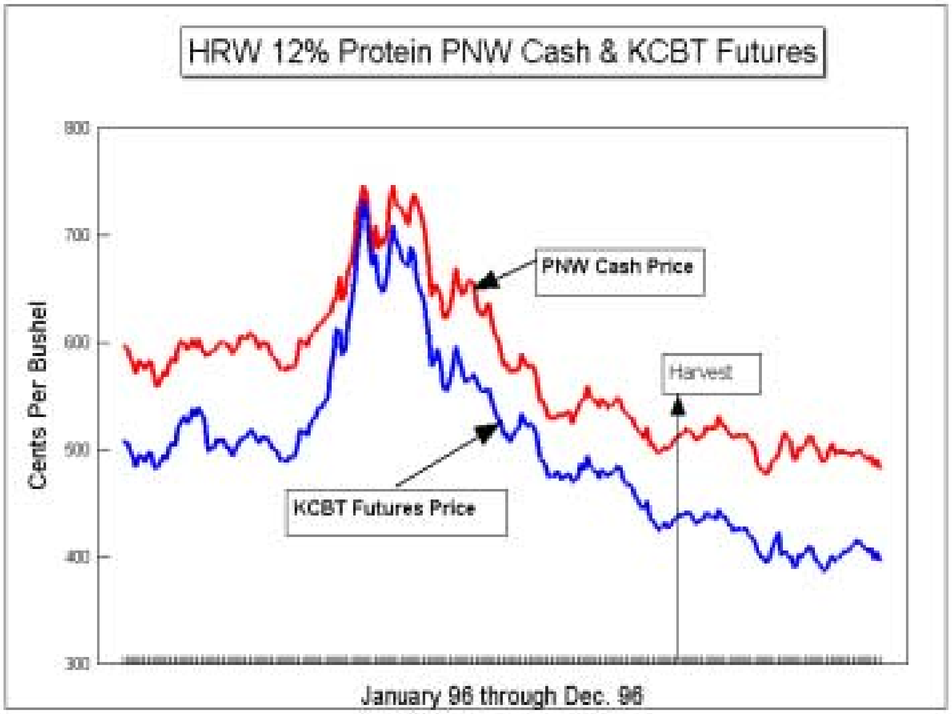


Figure 1. Pacific Northwest (PNW) Cash and Kansas City futures price.

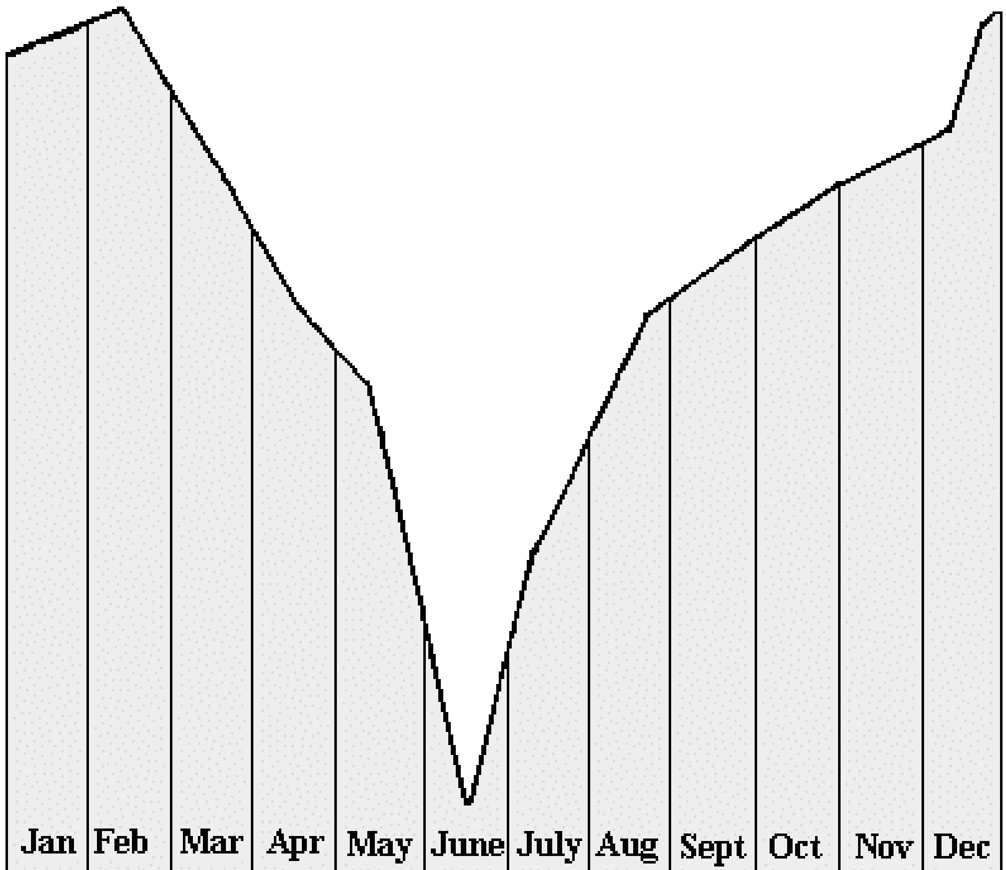
Price Variation in the Market

For a moment, lets forget about what makes prices vary and discuss the different types of price variation. There are only four types of price variation. These are 1) Seasonal, 2) Cyclical, 3) Trend, and 4) Random. These four types of price variation explain all price changes that occur for any commodity. Understanding each of these types of price variation will help you analyze the current market situation and make better marketing decisions. Each of these types of price variation is discussed below.

Seasonal Price Variation

Seasonal price patterns occur due to the nature of the commodity being marketed. In agriculture, small grains are harvested from June through September in the U.S. The recurring nature of the harvest period puts downward pressure on prices as newly harvested crops are marketed. The size of the wheat crop is also most certain at this time of year, hence reducing uncertainty. Over time, prices for small grains "should" show a slump during this time of year.

Figure 2 shows Chicago cash wheat price history. As expected, cash prices have a distinct seasonal pattern.



Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
+$.02	+$.02	-.12	-.13	-.09	-.31	+.21	+.14	+.10	+.04	+.07	+.05
Average price move from previous month											
83%	50%	83%	42%	67%	50%	67%	56%	66%	75%	67%	66%
Percent reliability that move will follow expected seasonal trend for month											

Figure 2. Seasonal Price Pattern for Chicago Cash Wheat.

The first row of numbers at the bottom of the chart is the average price move (up or down) from the previous month. If the number is positive, it means the prices have increased by more cents than they have decreased. It does not account for the number of years in a given period that prices have gone up or down by at least the amount shown. The second row is a reliability indicator for the prices going up or down for that month. For example, the odds are 83% that prices in March will be lower than in February. However the decline will only be -$.12. Figure 3 shows the seasonal price patterns for live cattle in the U.S. Of course, seasonal price patterns are not a certainty, but clearly, paying attention to seasonal price moves “may” provide marketing opportunities for both grains and livestock.

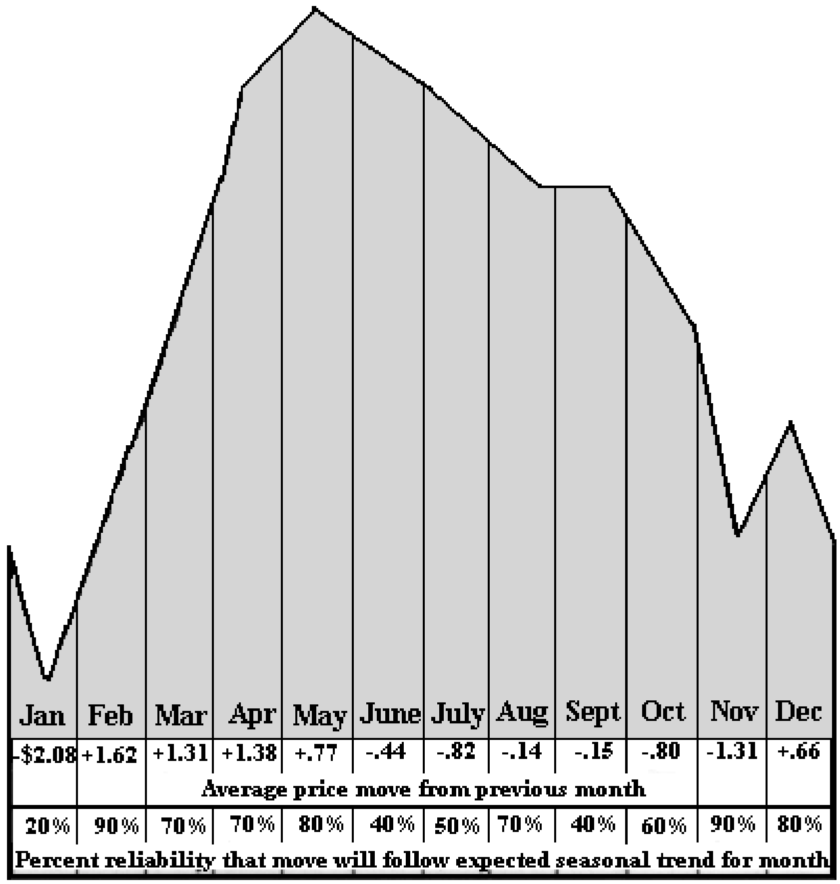


Figure 3. U.S. Live Cattle Seasonal Price Patterns.

Cyclical Price Patterns

Cyclical price patterns are similar to seasonal prices but over a longer period of time. Where seasonal patterns imply a calendar year, cyclical patterns can be for any number of years. A prime example is the "ten to thirteen year" cattle cycle. Through the years, this cycle has been a reliable indicator of cattle numbers and prices. Ignoring this cycle for long term business planning is a mistake. As prices adjust due to the cattle cycle, profits can disappear in the cattle business. What about wheat cycles? Is there is a wheat cycle and if so, is it reliable? How long is the wheat cycle? Is there more than one wheat cycle?

Price Trends as Variation

Price trends are "major" moves in prices in the same direction. These trends can be up, down, or sideways. A trend is established after prices move in one direction for a significant amount of time. The reasons for a major price trend are usually "fundamental" in nature. A fundamental reason is one that relates to basic harvest, storage, transportation and handling or the demand and supply of a commodity in a local, regional or world market. A prolonged and severe shortage in boxcars for shipping grain could cause tremendous downward pressure on price at a local or regional level. This downward pressure would disappear (all others things being equal) once the box car shortage disappeared.

Figure 1 shows a major downward trend from early spring of 1996 through the first part of November. The reason for this trend was continued easing of world wheat stocks and an ever-increasing certainty that wheat yields for the 1996 crop year were going to provide adequate supplies. These are both fundamental reasons that put downward pressure on price. Typically, these major trends are not broken until another fundamental change takes place.

Random Price Variation

The last type of price variation is simply the random variation that occurs with imperfect information in the market place. Random variations are caused by many different factors. Short term weather scares in the U.S. or around the world that creates uncertainty about crop yields and/or harvest difficulties produce price movements of a “random” nature. The key to this type of price movement is that it is relatively short lived. One of the other three types of price variation will eventually prevail to establish price patterns. Again, Figure 1 shows a major down trend for both cash and futures prices in 1996. However, this down trend is not a smooth straight line. The minor up and down movement of prices that occurred during this major down trend show the random variation that exits in the market. Uncertainty creates this random variation. As more information became available during 1996, there was less uncertainty about U.S. and world supply and demand conditions. Unfortunately, supply conditions eased and downward pressure continued on wheat prices until November of 1996. At that time, prices stabilized for the remainder of 1996.

Summary

Why market? Prices constantly change and a continuous effort in marketing is the only way to make sure opportunities are not missed. Marketing is not about your ability to bargain with the local elevator at harvest time to get a few cents more for your wheat. Marketing is a continuous effort to take advantage of the opportunities provided by the market place to get the best possible price.

Understanding each of the types of price variation and the fundamental reasons for each provides a good foundation for marketing decisions.