Price Volatility an Increasing Factor in Marketing Decisions

by Bruce Erickson

While marketing skills are more important than ever, price volatility is making those decisions even more difficult, says a marketing analyst that will be a part of this year’s Top Farmer Crop Workshop. “February and March are usually not known for price volatility in soybeans, but this year those two months were record-setters. Soybeans were more volatile this year than in the early springs of 1983, 1988, 1996, and any other year you want to name,” said Alan Brugler, President of Brugler Marketing and Management in Omaha, Nebraska.

And while corn has not set volatility records so far this year, price volatility was above average. Historically corn price volatility maximizes in June and July as the crop enters the key pollination stage in most of the U.S. The distinction for the most volatile price year goes to 1996, the year of the hedge-to-arrive contract problems.

“Part of growing crops for a living is selling them for high enough prices so that you have the income to continue living. This, of course, is marketing. If you think it takes second place to agronomy or engineering, take a look at how much of your income is riding on those marketing decisions,” added Brugler.

The bean market tamed down in April, reverting to mean or “average” volatility. More exciting times may be yet to come, though, as the most violent market moves for soybeans typically occur in July. For calendar year 2005, the price of front month soybean futures has already ranged from $4.98 to $7.52, or $2.54/bushel. For corn, the price range has been 42 cents since the first of the year. And the year is only half over.

Brugler says those numbers add up quickly. “Multiply the soybean range by 45 bushels per acre, and you’ve got $114.30 per acre in revenues based solely on when you decided to pull the trigger.” Similarly for corn at 160 bushels per acre, that’s $67/acre or more riding on those marketing decisions. The corn trading range has actually been fairly tame, due to the boat anchor effect of having 2.5 billion bushels of old crop ending stocks that nobody wants yet. Still, how many decisions do you make on corn that cost $67/acre or more?”

What’s driving the volatility? The poor soybean crop in Brazil and dry weather in the eastern Corn Belt certainly deserve a share of the blame. However, Brugler says that increased speculative
participation is also a factor. “The CFTC recently increased speculative position limits allowing managed commodity funds and the newer commodity index funds to hold much larger positions. The index funds, which have added more than $60 billion of net new activity to the commodity markets since the beginning of the year, are also adding to the volatility because of the size of their positions.”

“Strategy changes are required with this level of price volatility,” says Brugler. “Conventional hedging can require huge credit lines with this volatility. Sadly, there are a number of stories over the years of producers who were true hedgers right until the money ran out. And, that money ran out quite close to the top of the market.”

Brugler added, “Price averaging tools and trade options being offered by some of the major elevator firms can capture some of the movement with less exposure, but our research shows that they leave significant dollars on the table. We need to focus on price floors that don’t also include price ceilings, and look at technical indicators that tell us when the hot money is getting ready to leave the party.”

Brugler will discuss this, and related topics when he addresses the Top Farmer group July 19.

For more information, and to look at what’s in store at this year’s Top Farmer program, please visit the Top Farmer web site at:  http://www.agecon.purdue.edu/topfarmer