

2009 SMFD

Marketing, Policy and Risk

Management – Lubben & Brugler

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Marketing, Policy, and Risk Management

Alan Brugler,
Market Analyst and President,
Brugler Marketing & Management

Brad Lubben,
Assistant Professor and
Extension Public Policy Specialist, UNL

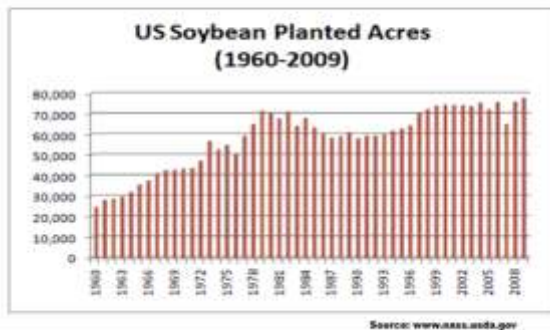
2009SMFDMarket001

Field Stop Objectives

- Using Production Estimates and USDA Reports
- Refining and Implementing Your Marketing Plan
- Integrating Farm Programs and Risk Management Decisions
- Managing Crop Revenue Risks

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US Soybean Acreage



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U.S. Soybean Balance Sheet

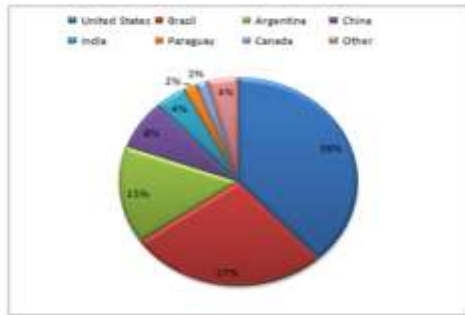
Category	2007/08	2008/09	2009/10
Planted Acreage (Mill. Acres)	64.7	75.7	
Harvested Acreage (Mill. Acres)	64.1	74.6	
Yield (Bus./Acre)	41.7	39.6	
Beginning Stocks (Mill. Bus.)	574	205	
Production (Mill. Bus.)	2,677	2,959	
Total Supply (Mill. Bus.)	3,261	3,179	
Crush (Mill. Bus.)	1,801	1,655	
Seed and Residual (Mill. Bus.)	93	154	
Domestic Use (Mill. Bus.)	1,894	1,609	
Exports (Mill. Bus.)	1,161	1,260	
Total Use (Mill. Bus.)	3,056	3,070	
Ending Stocks (Mill. Bus.)	205	110	
Stocks/Use (%)	6.7%	3.6%	
Average Cash Price (\$/Bus.)	\$10.10	\$10.00	

2007/08 numbers final, 2008/09 numbers projected, and 2009/10 numbers forecast.

Source: USDA WASDE Reports, July 19 & Aug. 12, 2009.

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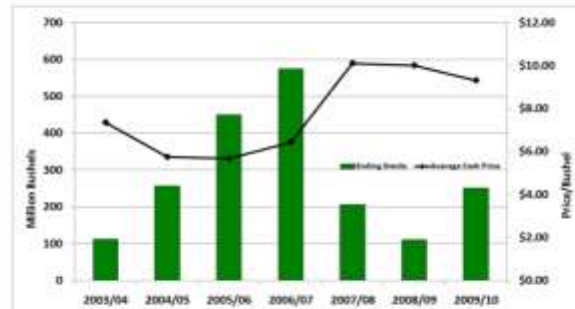
2008/09 World Soybean Production Share



Source: www.fas.usda.gov/soybean

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U.S. Soybean Ending Stocks vs. Price (National Cash Average)



Data Source: ERS, 7-10-09

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Marketing is About Making Three Decisions:

- Price
- Basis
- Time

Selling Tools Formula Brugler's Selling Tools Formula

If Market Situation is:		Selling Tools That Yield Maximum Profit:
Good Price	Good Basis	Sell Cash, Forward Contract***
Good Price	Bad Basis	Futures Hedge, Buy Put Option or Put Spread, Hedge to Arrive***
Bad Price	Good Basis	Basis Contract, Sell Cash and Buy Call Option or Call Spread
Bad Price	Bad Basis	Feed It, DP, Do Nothing, Put Under Loan, Take LDP

A Good Price is defined as:

- 1) Likely to get worse
- 2) Above your cost of production *or*
- 3) Meeting a timing requirement in your selling plan

A Good Basis is defined as:

- 1) Better than last year, or the historical average for the time period *or*
- 2) Likely to get worse

*** Crop revenue insurance if during sign-up period

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Marketing Plan Development

- 1) **Cover Your Costs!**
- 2) **Identify Cash Flow Timing Needs**
- 3) **Spread Sales, Respect the Black Swan**
- 4) **Avoid Catastrophic Failure, i.e. Murphy's Law**

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Marketing Plan Development - 2

- 5) **Big Picture—Slow Sales or Fast Sales Year?**
- 6) **Set Preliminary Price Targets and Strategy**
- 7) **Set Rules for When and How the Plan may be modified**
- 8) **Tie in to the Safety Net**

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Some Spaced Selling Strategies

- 1) **Scale Up**



- 2) **Inverted Pyramid**



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Some Spaced Selling Strategies

- 1) **Scale Up**
- 2) **Inverted Pyramid**
- 3) **Time and % Based**
- 4) **Three Buckets**



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Existing Farm Bill Safety Net

Direct Payment

$$\frac{\text{DP rate}}{\text{DP yield}} \times \frac{\text{base acres}}{85\% (83.3\%)} = \text{DP}$$

Counter-Cyclical Payment Rate

$$\frac{\text{target price} - \text{DP rate} - \text{MAX}(\frac{\text{market price}}{\text{loan rate}})}{\text{CCP rate}} = \text{CCP rate}$$

Counter-Cyclical Payment

$$\frac{\text{CCP rate}}{\text{CCP yield}} \times \frac{\text{base acres}}{85\%} = \text{CCP}$$

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New Farm Bill Safety Net

ACRE State Guarantee

$$\frac{\text{5-year Olympic average state yield}^*}{\text{2-year national average price}} \times 90\% = \text{ACRE state guarantee}$$

Farm Benchmark Revenue

$$\frac{\text{5-year Olympic average farm yield}^*}{\text{2-year national average price}} + \frac{\text{crop insurance premium paid}}{\text{farm benchmark revenue}} = \text{farm benchmark revenue}$$

* Yields per planted acre

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New Farm Bill Safety Net

Actual State Revenue

$$\frac{\text{average state yield}^*}{\text{MAX}(\frac{\text{national average price}}{\text{loan rate} \times 70\%})} = \text{actual state revenue}$$

Actual Farm Revenue

$$\frac{\text{average farm yield}^*}{\text{MAX}(\frac{\text{national average price}}{\text{loan rate} \times 70\%})} = \text{actual farm revenue}$$

* Yields per planted acre

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New Farm Bill Safety Net

If state revenue is less than the ACRE state guarantee and farm revenue is less than the farm benchmark revenue:

ACRE Payment

$$\text{MIN}(\frac{\text{ACRE state guarantee} - \text{actual state revenue}}{\text{ACRE state guarantee}} \times 25\%) \times$$

$$(\frac{\text{Oly. avg. farm yield}}{\text{Oly. avg. state yield}}) \times \frac{\text{planted acres}}{85\% (83.3\%)} = \text{ACRE payment}$$

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The Farm Income Safety Net

Scope of Risk Protection	Farm Level	Area Level	National Level
Price		Hedging ML/LDP	PCCP
Revenue	RA/IP DP	AGR SURE	GRIP ACRE
Production	RA-HPO/CRC CAT	APH	GRP PRF

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Managing the Farm Program Timeline

- 2009 ACRE election and ACRE/DCP signup continues through August 14
- Proving historical yields and 2009 yields will continue through mid-2010
- Calculating actual revenue against 2009 safety net guarantees
 - State yields expected in March 2010 (for ACRE payments)
 - National price for 2009 crop marketing year known in October 2010 (for both ACRE and CCP payments)

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Strategies to Manage Soybean Revenue Risks

- Be Proactive with Yield Estimations, Harvesting and Marketing Decisions
- Understand Market Fundamentals and Marketing Opportunities
- Improve Your Efficiencies for Production and Finance
- Assess the Impact of Your DCP vs. ACRE Choice on Expected Farm Program Payments
- Analyze the Impact of the Farm Program on Your Optimum Risk Management Strategy

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