

Farmer's Corner



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The More Things Change, The More They Stay the Same

Alphonse Karr

Everyone knows that we are experiencing phenomenal changes in agriculture. That's an established fact as well as an understatement. Changes are not confined to just agriculture. Around the world we see upheavals in economics, politics, weather and we even see the surface of the earth being rearranged, with the country of Japan being moved a few feet by an enormous earthquake, resulting in a huge loss of life and property and economic repercussions felt around the world. What do all of these happenings have to do with marketing grain?

Your farming operation is part of the world community and your success or failure can be impacted by events that occur around the globe. There seems to be an escalation in events and circumstances that potentially affect your outcome for either good or bad. Lately things have lined up in favor of production agriculture, with the profit potential on row crops being the best ever. This creates various responses among farmers, ranging from some being ecstatic to others being suspicious or apprehensive regarding what may be next. How do we find stability in this environment?

"Because things are the way they are, things will not stay the way they are." ~ Bertold Brecht

Since change is one of the few things constant, we need to have an unchanging plan for dealing with change. Let's take a look at the major changes that have taken place in production agriculture during the last few years and then look at the risks that you need to manage and some unchanging principles and strategies to manage them.

CHANGES:

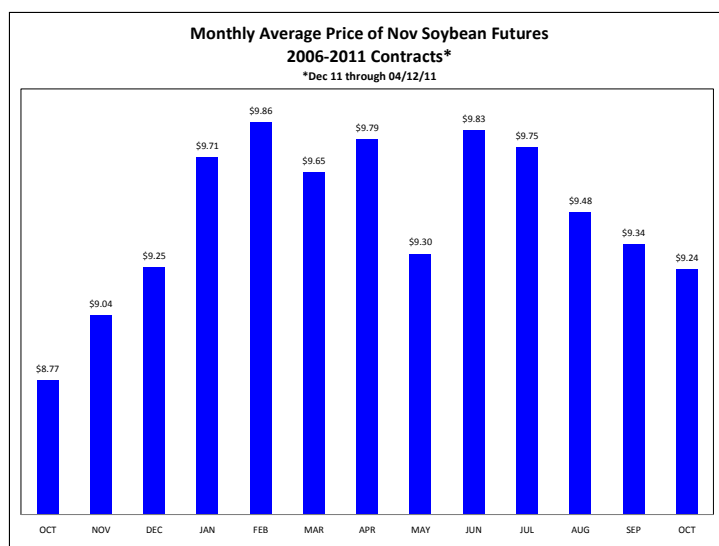
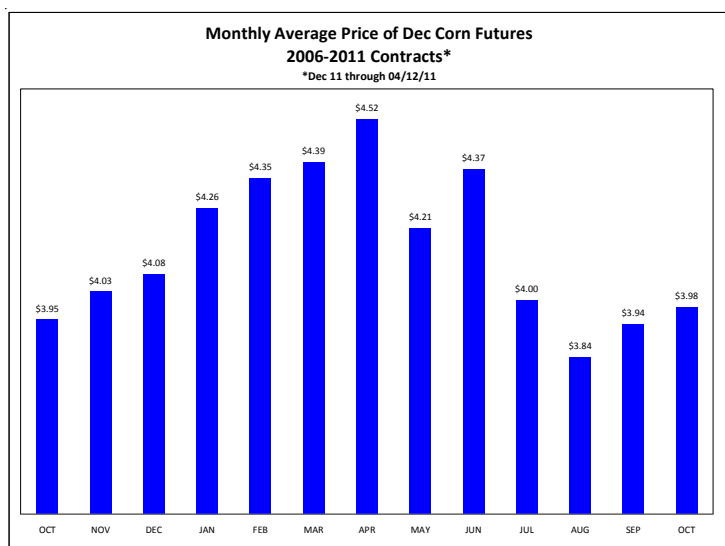
- Increasing demand for the commodities that you produce, domestically and internationally
- Historically high commodity prices
- Historically high production costs
- Higher and higher crop yields
- More money in the futures markets, with speculative positions dwarfing those of the cash grain industry
- More volatility in prices and input costs
- Record profits in cash grain farming
- More farmers second-guessing their marketing plans

The majority of the items on this list are things over which you have no control. That means that any of them are subject to change at any time and not necessarily in a way that helps you to remain profitable.

In our last issue of this publication, the risks that you need to manage were identified as land costs, input costs, price and production, just a short list. In spite of our ever changing economic climate, the proven tools to help you manage these risks are still effective. At this point in the production/marketing cycle, land costs are known, input costs should be mostly known, production risks could have been addressed by buying crop insurance, leaving the remaining risk, price, the only one that may need to be addressed. Continually rising prices tend to contribute to procrastination on the part of many sellers, but how can you ignore such tremendous profit potential?

An Unchanging Statistic

Historically, over a 20 year period, the highest average new crop futures prices occurred in late winter through spring. Given the increased volatility in prices, tightening supplies, etc., one might conclude that such patterns have changed. The charts below show that during the last 6 years, the period of increased volatility and higher prices, the pattern has changed only very little. We are currently in the period of the best pricing opportunities, from a historical, seasonal perspective in this new era of volatility. ***The more things change, the more they stay the same.*** It would seem to be a good time to remove some price risk.



“Hindsight is wonderful. It’s always very easy to second guess after the fact.”
Helen Reddy

A lot of second guessing has taken place on the farm during the last few years. Many have used their time-proven marketing skills and made sound marketing decisions based on profit and then witnessed prices and profits rise to levels never seen before. We empathize with you. Who could have anticipated such opportunities? No one. The fact remains that, over the long haul, those who lock in a consistent profit year after year will remain in business and such consistency will always be the result of careful planning and disciplined actions.