

COMMODITY CHALLENGE

Section I Introduction to Futures and Options Markets

Chapter 4: Market information

Learning objectives

- USDA, WASDE and other important reports
- farmdocDAILY, AgManager, and Ag Decision Maker
- Barchart.com

Key terms

Balance sheet: A detailed presentation of supply, usage and stocks for a specific commodity and for a specific period of time, typically one year.

Fundamental analysis: An approach to market analysis that uses market data about supply and demand to evaluate commodity prices.

Technical analysis: An approach to market analysis that focuses on prices and price action, with the belief that past price patterns are an important indicator of future price movements.

As a player in Commodity Challenge, you are placed in the position of a grain producer. Your challenge is to manage price risk in the market. The best place to get futures and options price quotes is at the source, the CME Group (<http://www.cmegroup.com/>). However, managing risk requires more than price quotes. To understand what's happening in the market, what's driving price quotes and current events in the grain industry, you need market information. Where will you turn for good market information?

A good place to start is the United States Department of Agriculture. The USDA regularly publishes a number of important reports that speak to the current supply and demand situation in grain markets. Let's look at some important reports published by the USDA.

The WASDE report (<http://www.usda.gov/oce/commodity/wasde/>)

WASDE is short for World Agricultural Supply and Demand Estimates. This monthly report is the flagship of all USDA reports, offering information and current forecasts for agricultural commodities in the U.S. and for the world. WASDE goes beyond grains and oilseeds, offering information on rice, cotton, sugar

and livestock. The WASDE report is typically released between the 8th and the 12th of each month, and reflects conditions as of the first of the month.

SOYBEANS	2011/12	2012/13 Est.	2013/14 Proj. Jun	2013/14 Proj. Jul
		<i>Million Acres</i>		
Area Planted	75.0	77.2	77.1 *	77.7 **
Area Harvested	73.8	76.1	76.2 *	76.9 **
		<i>Bushels</i>		
Yield per Harvested Acre	41.9	39.6	44.5 *	44.5 **
		<i>Million Bushels</i>		
Beginning Stocks	215	169	125	125
Production	3,094	3,015	3,390	3,420
Imports	16	25	15	15
Supply, Total	3,325	3,209	3,530	3,560
Crushings	1,703	1,660	1,695	1,695
Exports	1,362	1,330	1,450	1,450
Seed	90	90	87	87
Residual	1	5	33	33
Use, Total	3,155	3,085	3,264	3,264
Ending Stocks	169	125	265	295
Avg. Farm Price (\$/bu) 2/	12.50	14.40	9.75 - 11.75	9.75 - 11.75

The supply and demand balance sheet for soybeans, WASDE Report, July 11 2013

An important part of the WASDE report is the publication of an up-to-date balance sheet for each commodity. A balance sheet for commodities is not a financial balance sheet, which shows assets and liabilities. A commodity balance sheet is a detailed presentation of supply, usage and stocks for a specific period of time, typically one year. USDA balance sheets often serve as the baseline for supply and demand discussions and debate from experts in the public and private sector.

Other important supply and demand related grain reports

While the WASDE report is the most important USDA report, USDA issues a handful of other important reports that speak to the supply side of the balance sheet. A simple search on the internet will lead you to the latest reports.

Winter Wheat Seedings: Issued in early January, the Winter Wheat Seedings report offers the first official estimate of planted acres for the winter wheat crops. An estimate of planted acres is, of course, critical to forming ideas about total wheat supply in the year ahead.

Prospective Plantings: Issued in late March, the Prospective Plantings report shows expected plantings for corn, wheat, soybeans (and many other grains and oilseeds, along with peanuts, cotton and hay). These figures are based on surveys of grain producers as of March 1. Again, estimates of grain supply in the year ahead start with planted acres.

Weekly Weather and Crop Bulletin: This weekly bulletin is posted on Wednesday, and offers a detailed look at weather, climate and agricultural developments in the U.S. and worldwide. Rain makes grain, and if you hope to stay on top of yield potential, you need to stay on top of weather trends.

Crop Progress: Issued weekly during the growing season, the Crop Progress report shows planting and harvest progress, development stages, and overall crop conditions in major producing states. In this report you can learn, for example, if the soybean crop is 50% planted, what percent of the corn crop is dented, and how much of the spring wheat crop is rated good to excellent. The data is summarized by crop and by state.

Grain Stocks: Issued quarterly (March, June, September and December), the Grain Stocks reports shows stocks of wheat, corn, soybeans and other crops by state and for the U.S. This report also reports stocks held in on-farm vs. off-farm (e.g. commercial) storage. I think of this report as the USDA taking inventory of stocks held in storage, and squaring these figures with the most recent estimates of supply and demand.

Other reports address the issue of demand.

U.S. Export Sales: This weekly report details export sales.

The Renewable Fuels Association (RFA) collects and sends out monthly data on U.S. fuel ethanol production and demand. Private sources gather data on oilseed crushings and flour production, which speak to domestic demand for soybeans and wheat.

Opinion and Analysis

USDA generally sticks to reporting the facts of supply and demand, and does not offer much in the way of market opinions (even though their grain balance sheets will offer an estimate of a national average price for the crop year in question). For opinion and analysis, you will have to search outside of the USDA. My three favorite public sources are farmdocDAILY, AgManager and Ag Decision Maker.

FarmDoc and farmdocDAILY (<http://farmdoc.illinois.edu/>, <http://farmdocdaily.illinois.edu/>): FarmDoc and FarmdocDAILY are products of the Department of Agriculture and Consumers Economics at the University of Illinois. It's goal is to "provide crop and livestock producers in the U.S. Corn Belt with round-the-clock access to integrated information and expertise to better manage their farm businesses." FarmdocDAILY analysis is well-written and timely, focusing on what they call "Corn Belt farm economics."

You can subscribe to farmdocDAILY and receive their daily email by following this link; <https://illinois.edu/gm/subscribe/6037>.

AgManager (<http://www.agmanager.info/>): AgManager is a product of the Department of Agricultural Economics at Kansas State University. The website serves as "a comprehensive source of information, analysis, and decision-making tools for agricultural producers, agribusinesses, and others." You can sign-up for AgManager weekly email updates at <http://www.agmanager.info/Evaluation/Email.htm>.

Grain Marketing

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Ag Decision Maker (<http://www.extension.iastate.edu/agdm/>): Ag Decision Maker (AgDM) is a “decision-oriented agricultural business web site designed for farmers, lenders, farm managers, agriculture instructors, and others.” It is a product of Iowa State University Extension and Outreach. You can stay current with monthly updates from AgDM at <http://www.extension.iastate.edu/agdm/notify.html>.

There are numerous private companies – grain merchandising firms and brokerage firms – who offer their insights and opinions on the markets. Simply search “corn prices,” “soybean stocks,” “wheat demand,” etc. and you will find no shortage of opinions.

Charts and technical analysis:

Market information from USDA and other sources form the basis for fundamental analysis - using market data about supply and demand to evaluate commodity prices. Fundamental analysts are experts at developing and reading grain balance sheets. There is an alternative form of market analysis called technical analysis.

Technical analysis is not driven by supply and demand. A good technical analyst will argue that supply and demand is already factored in the market. They focus on prices and price action; reading the charts and “the trend is your friend” because they believe that past price patterns are an important guide and indicator of future price movements.

Websites that feature technical analysis and prices charts are numerous. My personal favorite is Barchart.com (www.barchart.com), simply for its ease of use and the “Technical Analysis” and “Barchart Opinions” sections. You are just a click of a button away from dozens of technical trading opinions on price trends.

Further readings and resources

World Agricultural Supply and Demand Estimates (<http://www.usda.gov/oce/commodity/wasde/>)

Exercise #4:

Find the U.S. balance sheets for corn, soybeans and wheat in the latest WASDE report.

Fill in the following tables. How does the USDA projection for the current marketing year ending stocks compare to last year's price? How does the USDA projection for the current marketing year average price compare to last year's price?

	Previous marketing year ending stocks (mil. bus.)	Current marketing year ending stocks (mil. bus.)	Expected change in stocks (mil. bus.)
All Wheat (U.S.)			
Corn (U.S.)			
Soybeans (U.S.)			

	Previous marketing year average price (\$/bu.)	Current marketing year average price (\$/bu.)	Expected change in price (\$/bu.)
All Wheat (U.S.)			
Corn (U.S.)			
Soybeans (U.S.)			

If ending stocks of grain are projected to increase, would you expect the average price to rise or fall in the year ahead?