Anyone for tea?

Doing nothing when it comes to marketing grain is rarely the best option, says Jeremy Cole.

After last month's random walk around the farm, I feel it is time to come inside and have a cup of tea.

Markets move in a random fashion and trying to second-guess them is pointless. A 10% movement either way could just be down to short-term market inefficiencies of resource allocation, rather than some greater structural schism leading to the market moving 50%.

Since last month, there has been no new really bullish news from the grain markets, UK, EU or globally. Currency seems to have been the main feature altering prices. But the market has moved up £10 from its low on 14 September.

The question here is: Why? Or it that the real question? Does it matter why? Is not the more important question: What is the market going to do from here and what should the grain marketing decision maker on the farm do now?

I heard a good theory on the Radio 4 the other day about politicians and the tea bag theory. It goes along the lines that you never know how good your cup of tea is going to be until you put the tea bag into hot water. The same apparently applies to politicians. How do they react when in a tight corner or with difficult decisions?

Holy Grail

East Anglian farmers are in that situation now with the grain trade. Is it best to tight and watch the market in the hope that the recent £10 rise is the start of something bigger, allowing the Holy Grail of £120/tonne to be rediscovered?

Or is it best to sell some grain into the rise, even though the price remains £25 below the £120 level required to make a decent margin, and gamble with the remaining stocks?

Then again, it might be better to sell the entire remaining unsold crop with a sigh of relief that at least most costs have been covered. Or sell the remaining crop with some sort of hedge, to guarantee a minimum price in case the market rises in the future.

Doing nothing is a very risky strategy as we have already seen possible prices fluctuate from £85 to £150/t over the marketing life of the November 2009 Future. But which price, within that range, should be deemed acceptable?

Storing until May will cost £10/t at least, so a market rise of £10 is needed to pay for storage alone. Then you could add on a possible £5/t as a worry premium to make the extra hassle and the "gamble" worthwhile taking on.

The second option is a continuation of a sell-little-and-often policy, thus ensuring an average price over a marketing period of 36 months. This should be £110-120 if steady selling has occurred and would be a good result for this season. But because so little was sold forward, I feel this average will be nearer £95-100.

Risky

Selling all the remainder is nearly as risky as the first option. Again, it is putting all your eggs into one basket but at least a base price has been drawn and some sort of margin guaranteed. Downside risk is capped but what happens if the market rockets?

The final strategy, selling with a hedge to capture a rise just in case the market rises significantly, has the advantage of setting a base price which can be added to previous grain sales so a margin can be locked into.

It also means, for an agreed premium, that an upside can be captured if the market rises. The downside risk is limited to the premium paid – about £6-9/t. But its cost can be reduced to £2-5/t by applying the hedge to half or a quarter of the sold tonnage.

This costs less than the first strategy and limits any potential losses from a lower grain price. The benefits from a rise will be reduced if only half the cover is taken but the hedge can be increased if the market looks to be on the rise.

If the market never rises, a cost of £2-5 is incurred but it was a known potential cost when the hedge premium paid and is significantly less than the traditional storage costs.

This last method looks to cover most bases for the risk averse decision maker, while still allowing for the random walk of the market to give a windfall gain on top of the already guaranteed acceptable margin locked into.

What kind of tea do your prefer?

Jeremy Cole, Bsc Agri Econ (Reading), runs Agricole – an independent grain brokering and marketing service for farmers. For a weekly grain market report, call 01954 719452 or visit www.agricole.co.uk

Time to walk those crops

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lower yielding than earlier sowings, but should still give a reasonable return. Weak strawed varieties are particularly suited to this drilling period as lodging pressure will be much lower.

Any winter bean sowing should be completed soon. As discussed before the crop can be sown as late as January and still give a reasonable return but the optimum window is still late October to early November. Refer to last month's In the Field for pre-emergence weed control choices.

Richard Overthrow is membership services manager with The Arable Group (TAG), the UK's largest independent agronomy organisation with several research centres across East Anglia. For more information about TAG services and advice, call 01285 652184.