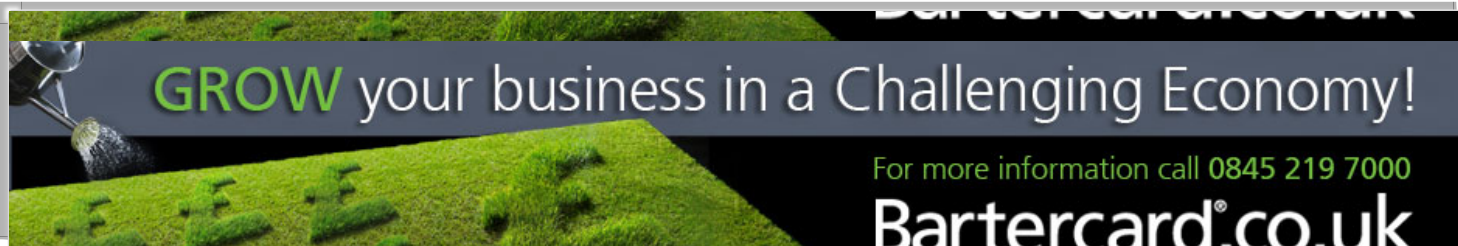




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Volatility makes a mockery of crop marketing but not necessarily your income

Last Updated on 18 January 2012

agricole^B e honest, how long do you spend per week investigating the factors that are affecting the price of the crops in your field? An activity that can make or lose your bottom line more money than controlling all input costs put together.

I mean really reading up on the subject; comparing international Government stats from this month with last, HGCA, NFU information, consulting the internet and merchant emails, rather than referring to texts, tweets, 'Facebooking' your friends, 'Linkedining' your more serious friends or even gazing in the trusty crystal ball? Half a day, an hour, less? Whatever it is it's probably less time than you spend having a bath or eating your lunch? "More! More!", I hear you shout, like some 1830's Oliver in the dinner queue at the workhouse.

Well before you all turn puce with rage, throwing the computer out the window and sticking pins in my effigy, I'm coming to the conclusion that it doesn't matter much how well your market research is, or how long you deliberate over putting the bullish and bearish factors on that day into a particular order.

The reason being that the market is so unpredictable and volatile at present, that decisions made now, for anything more than a week ahead, are equally likely to be very right or very wrong. Obviously you have to decide to sell/not sell every day, unless you're an Ostrich hoping it's light at the end of the tunnel, and not a train. So does it matter about your maker knowledge or what you do on any day? Of course it does, because you may be right and the market does exactly what you think it will do and you can stride into the market, if there was one to still stride into, head held high, chest swelling and singing a merry rural ditty. (www.youtube.com/watch?v=fon7r1YtFAM).

But what happens if the market conditions change 4000 miles away and like the butterfly beating its wings, it impacts on your decision, making it look wrong?

We have seen such an occurrence over the Christmas 'quiet-time'. Before Christmas the market was awash with reasons to be bearish/neutral. Too much wheat in the world, firmer dollar, lower world demand due to the recession, corn exports stagnating as its price rose. Ethanol production down in the EU, supplies of Southern crops being imported to decrease UK demand, stronger Sterling hampering exports, merchants and advisors telling of plenty of UK wheat and OSR in store for the next six moths' requirements. Sell, sell, sell. The markets fell.

Then while everyone was stuffing themselves with Christmas turkey, enjoying the Boxing Day shoot, visiting relatives and skiing, the S. American El Nino news began to emerge, like a butterfly from it's chrysalis. The weather was dry, the butterflies' wings began to beat, the weather was set to stay dry, the butterflies wings began to beat faster.

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Within days this viral news spread, the world markets were on fire, not quite panic but frenzied buying on all markets. The S. American corn crop was marked down 10%, importers of the crop looked to switching their supplies from the US, reducing already dangerously low stocks further. Domestically, the UK LIFFE market rose £13 in two weeks, nearly 10%. Very few farmers realised the markets were rising, fewer sold. The market retrenched a little but rose again, settling a good £10 above pre Christmas levels, well in excess of what the pre-Christmas market information was suggesting.

Since the January 2012 LIFFE future opened, back in January 2010, it has traded from £112 to £195, a difference of £83/t, then back to £142, now £154/t. The potential difference in margin from the top to the lowest price on a 10t/ha crop is £830/ha! Even halfway right/wrong is approx £153 = £415/ha.

Either of those numbers is massive when considering for the previous couple of years, when margins have been virtually zero, and income was the IACS payments alone.

What can be done to stop the market volatility? Nothing, so stop trying. What can be done to stop the market volatility adversely affecting your income? Quite a lot really, and the story all starts with your farm's budget and a hedge.

Do you know the secret of a good suspense story?... I'll tell you next month.

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