

# Forecasting grain futures in a volatile market

Are futures prices a true and accurate reflection of tomorrow's grain prices? Yes and no, says Jeremy Cole.

Modern trading in physical commodities takes its origins from markets established in the 1800s. The primary function of these markets was to exchange a commodity, for delivery/receipt at a particular time.

The role of the market was to facilitate the delivery by the seller and the receipt by the buyer of the commodity being traded. But the past 200 years have seen a significant evolution in the markets of physical commodities (for example metals, crude oil, agricultural products) and soft commodities (for example cocoa, coffee and sugar).

Gradually, as trade in these commodities expanded and price volatility increased, there was a requirement among producers and consumers for a market that could provide more sophisticated price risk management tools.

Until the late 1970s, commodity futures contracts were the only derivatives products available. Today, financial futures contracts such as bonds, interest rates and equities are

traded on exchanges around the world.

As a result, physical contracts for forward delivery evolved into price risk management instruments known as futures contracts. These were made available to trade on centralised markets known as derivatives exchanges.

Derivatives exchanges provide markets for trading futures and options contracts, providing all parties from producers to consumers with a method of immediate price discovery, price protection and the transfer of risk of volatile commodity markets.

The longevity of futures contracts and their increased use across the world confirms the vital role of the centralised commodity derivatives market place for producers, refiners, and end-users/consumers.

The price of a futures contract is determined in the same way as it is in the spot physical market for commodities. Buyers and sellers exchange the physical product at a value which both sides feel reflects the supply and demand situation with which they are faced at that particular time.

The exchange does not set the price at which the futures contract trades. When the values of buy and sell orders are identical, they are subsequently matched by the trading platform – the value at which the futures contracts are matched becomes the latest price.

The price for the futures contract is a true reflection of what market participants, (buyers and sellers), believe is the best reflection of the future value of the underlying product.

Naturally, as in the physical market, this latest price can move up or down over time due to many reasons – and in response to changes that are occurring in the supply and demand fundamentals of the underlying product.

Hedging involves buying or selling futures contracts to protect the physical asset that you already own, or are going to buy in the future.

*continued on page 46*



## The National Rural Property & Planning Specialists



**acorus**  
rural property services  
Planning • Design • Property Sales

### New Permitted Development Rights – benefit the easy way with Acorus

There are new permitted development opportunities to change the use of an agricultural building to a residential dwelling. Acorus can help you to make the most of this and avoid potential pitfalls.

The new provisions are generous, allowing for up to 450m<sup>2</sup> of agricultural building to be converted to up to three dwellings, and there is no restriction as to the type of building. However, the regulations contain a number of features which will undoubtedly lead to significant debate and different interpretations by Local Planning Authorities.

The prior notification procedure relates to both the change of use principle and the design. Acorus, with in-house Chartered Surveyors, planning consultants and designers are well placed to offer as much help as required.

Contact David Ellis for more details.



[www.acorus.co.uk](http://www.acorus.co.uk)

Tel : 01954 267 418

Email : [david.ellis@acorus.co.uk](mailto:david.ellis@acorus.co.uk)

## BUSINESS DIRECTORY

### INSURANCE



www.fentongroup.co.uk Call 01553 760005 for a quote

### INSURANCE FOR AGRICULTURE

#### Cover for Farms and Renewable Energy

#### Farm & Estate Insurance

- Property
- Revenue Protection
- Vehicles & Implements

#### Renewable Energy Insurance

- Wind turbines
- Solar panels
- Biomass



Fenton Insurance Solutions Limited is registered in England Number 5241217. Registered address: Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, Kent ME14 3EN. Authorised and Regulated by the Financial Conduct Authority. Media: AF13

### CONTRACTORS

## Suggitt Farm Services

Agricultural Contractors

Steven - 07789 870979

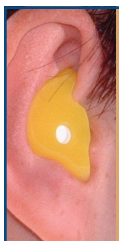
Sarah - 01953 717297

For a full list of services & equipment, visit [www.suggittfarmservices.co.uk](http://www.suggittfarmservices.co.uk)



Spreading up to 300T per day  
We're spreading into the future

### EAR PROTECTION



## Custom Moulded Ear Defenders

Ultra comfortable, re-usable & last for years. Acoustic filter allows you to still hear everything, whilst protecting you from harmful noise levels. Available with CE approval. Earpieces are custom moulded from soft silicone, and offer the highest degree of comfort whilst providing an effective acoustic barrier. Choice of colours available.

Ideal for shooting - maximum protection without impairing hearing.

Autotel Ltd - 01508 528837 • [www.autotelradio.co.uk](http://www.autotelradio.co.uk)

### MATERIAL

## GRADED ROAD PLANINGS

TERRY SEAMAN TRANSPORT

20/30 TONNE LOADS  
DELIVERED TO EAST ANGLIA

CALL TERRY/SOPHIE

01502 575282 07818 415901 [www.terryseamantransport.co.uk](http://www.terryseamantransport.co.uk)



### PEST CONTROL

## COMMAND PEST CONTROL LTD

#### • RODENT CONTROL

#### • GRAIN MONITORING

#### • GRAIN FUMIGATION

#### • GRAIN STORE TREATMENTS

TEL: 01787 248049

Local staff in all regions covered by Anglia Farmer

[www.commandpestcontrol.co.uk](http://www.commandpestcontrol.co.uk)

Command House, Church Lane, Preston St Mary, Suffolk CO10 9NQ



### TANKS



KING

## STORAGE TANKS



The UK's largest stock of used storage tanks.  
4,500-70,000 litres (1,000g-15,000g).

Mild steel, stainless, glass lined.

Fuel, water, effluent, fertiliser. Single skin or bunded.

All at highly **COMPETITIVE PRICES**

Extensive range of refurbished steam & hot water boilers for sale or hire.



Tel: 01638 712328

[www.thekinggroup.co.uk/tanks](http://www.thekinggroup.co.uk/tanks)



[www.REGALTANKS.co.uk](http://www.REGALTANKS.co.uk)

## INDUSTRIAL STORAGE TANKS

HIRE - NEW - USED

01502 710100 [info@regaltanks.co.uk](mailto:info@regaltanks.co.uk)

## PROPERTY

## Farmland prices break £7k/acre barrier

English farmland prices rose by 6.4% during the first three months of 2014, according to the Knight Frank Farmland Index – the first time average values have broken the £7,000/acre barrier.

Over the past 12 months values have increased on average by 16% and over the past 10 years by 212%. This compares with 133% for prime residential property in central London, 51% for the FTSE 100, and just 27% for average UK house prices.

Although it looked like farm-

land's 10-year performance would even overtake gold (+235%) following a dramatic slide in the precious metal's value during 2013, bullion has rallied by 7% this year on the back of the Ukrainian crisis and worries over China's economy.

This readiness to return to safe haven assets during periods of uncertainty partly explains the continued allure of farmland for investors, but, unlike gold, farmland offers more tangible benefits in terms of yield and future development potential.

## New Ely-based partner for Cheffins

East Anglian property consultants, auctioneers and valuers Cheffins has announced that Jonathan Stiff has joined the firm as a partner at the firm's Ely office.

With more than 25 years experience as a chartered surveyor and agricultural valuer, Mr Stiff joins Cheffins from national property agents Smiths Gore where he was previously partner in charge of their Newmarket office.

Cheffins chairman Bill King said: "Jonathan brings with him considerable experience of working with some of the largest farm and rural businesses in the area and has the benefit of a wide range of property expertise. We very much look forward to him working with our rural teams."



## Forecasting grain futures in a volatile market

*continued from page 44*

For example:

- **Selling futures contracts** (going short of futures) for the same quantity that you own of the physical commodity (have not yet sold) – hedging in this way is undertaken, by refiners and oil producers for example, to protect themselves against the price falling
- **Buying futures contracts** (going long of futures) for the same quantity that you require of the physical commodity (not yet bought) – hedging in this way is undertaken, by producers, airlines, for example, to protect themselves against the price rising.

When it opened in May 2014, the March 2012 was £164.00. Two years later, it is coming to an end and is at the time of writing (6 March) £164.00. So this indicates that the futures in March 2012 were indeed a true reflection of the future price.

This however hides the fact

that the market rose to £225 by November '12, before falling to its present levels. So even though the May 2014 wheat price was exactly that predicted two years previously, there have been major divergences from it over the contract's life.

Opportunities to gain and dangerous of losses have been evident: you know if you've sold well or missed those opportunities. The modern, progressive and proactive farmer needs to be aware of this volatility and how to protect their income against such adverse fluctuations and benefit from potential price movements, both up and down

*As with the law, 'ignorance is no defence' when things go wrong. Thanks to [www.dgxc.ae](http://www.dgxc.ae) for their futures explanation.*

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