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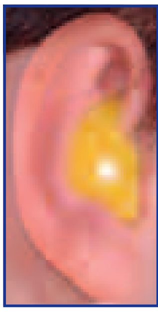

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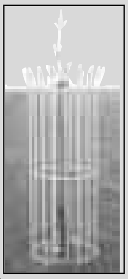

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Market movements make winners and losers

Recent events at Agrimarche highlight the need for farmers to become futures registered, writes Jeremy Cole.

Much has happened in the last month or so. Good and bad. The good news is that prices have risen. The bad is that the season has claimed its first trade victim.

Agricultural markets, especially wheat, have descended into chaos. Every player is entering new uncharted territory. New worlds exist over the horizon but not everyone will survive – as we saw at the end August.

In July's *Anglia Farmer*, I suggested wheat would reach £200/t by May 2009. The prediction, originally made by a Norfolk customer, prompted some wry comments. Yet by early September, November 2007 futures had risen from £140 to £190/tonne. That's £50 in a month. Although some days have seen £10 rises and falls too.

The reasons are well charted. The overriding feature is that global wheat supplies are down, demand is up and stocks are even lower than last season and falling. Global crops and those across Europe have dwindled and harvest has seen estimates pushed even lower. The European market has rocketed, pulling our domestic market with it.

But it's a stark fact that yields are down. Many farmers who sold what they thought would be half their crop before harvest, now find they actually sold 75%. Those that sold 75% are now 100% sold or worse still over sold. Quality since rain in late August has fallen and under-deliveries are resulting in the buying in process beginning. We are talking big numbers.

Many farmers are understandably unhappy they sold so much forward. A few organised growers planned ahead, reached a budget figure or more, and sold at a level that made money. Those with Options however, are less concerned, as their insurance will pay most of the difference.

That said, recent events at Agrimarche – where the whole business, including their profitable "Options book", is in receivership, have left farmers in the lurch. This highlights the need for farmers to become futures registered so they have their own "real" Option on the futures ring, with all the associated LIFFE protection it brings.

Trading via any other intermediary has – and always will have – associated risks, as does selling grain to any buyer. Those that "never sell until harvest" have been proved correct this year and have made a fortune. But can they repeat their magic touch for the 2008 harvest, which is now trading at historic highs?

Markets have risen so far so fast that normal relationships between futures, delivered and ex-farm prices are now beginning to diverge. At present, the normal delivered prices quoted are £3 under futures. Normally, it is between the futures price or £2 over. So correspondingly the ex-farm price differential to futures is not £3-4 lower, but £8-9. This is making life difficult for all participants in the processing chain. It makes it difficult for any player to know the true price to the nearest £5. The answer depends on how urgent the buyer is to buy or the seller to sell, at any hour of the day.

What will the market do tomorrow, next week, month or year? No-one knows, but whatever it does will affect your potential income. The trick is to try to have a plan in place to lessen the effect of adverse movements and accentuate the positives. Selling a little and often is fine, but it has the inherent potential problem of having to deliver something to someone at some time. With historically high prices and huge volatility in price and yield, the risks have now doubled.

Using Options as the insurance can negate this as because a minimum price can be fixed, with the premium the only true cost. If grain must be sold, the upside is again achieved by a Call Option. Other methods are far riskier, especially the use of futures to the untrained user.

Despite recent trade problems, no sale or non-sale should be left uncovered, at least 50%, by an Option. Even a £15 premium looks cheap when the market moves £50-£100/tonne.

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