Commodity Challenge

Section I: Introduction to Futures and Options Markets

Chapter 4: Market information

Learning objectives

- WASDE and other important reports from USDA
- 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 feed buyers version of Commodity Challenge, you are placed in the position of a dairy or livestock producer. Your challenge is to manage input costs and risks 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.

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, this report offers the first official estimate of planted acres for the winter wheat crops. An estimate of planted acres is critical to forming ideas about total wheat supply in the year ahead.

Prospective Plantings

Issued in late March, this report shows expected plantings for corn, wheat, soybeans and many other crops. These figures are based on surveys of grain producers as of March 1.

Weekly Weather and Crop Bulletin

Posted weekly on Wednesday, this bulletin offers a detailed look at weather, climate and agricultural developments in the U.S. and worldwide.

Crop Progress

Issued weekly during the growing season, this report shows planting and harvest progress, development stages, and overall crop conditions in major producing states.

Grain Stocks

Issued quarterly (March, June, September and December), this report shows stocks of wheat, corn, soybeans and other crops by state and for the U.S. It also reports stocks held in on-farm vs. off-farm storage.

Other reports address the issue of demand

- **U.S. Export Sales:** Weekly report detailing export sales.
- **Renewable Fuels Association (RFA):** Monthly data on U.S. fuel ethanol production and demand.
- **Private sources:** Data on oilseed crushings and flour production.

Opinion and Analysis

USDA generally sticks to reporting facts and does not offer much in the way of market opinions. For opinion and analysis, you will have to search outside USDA. Three recommended public sources:

FarmDoc and farmdocDAILY

(http://farmdoc.illinois.edu/, http://farmdocdaily.illinois.edu/) Products of the University of Illinois, offering integrated information and expertise for farm business management.

AgManager

(http://www.agmanager.info/) A Kansas State University resource offering analysis and decision-making tools.

Ag Decision Maker

(http://www.extension.iastate.edu/agdm/) An Iowa State University Extension resource offering decision-oriented agricultural business information.

There are also numerous private companies offering market insights.

Charts and technical analysis

Fundamental analysis uses supply and demand data to evaluate commodity prices. Technical analysis focuses on prices and price action, arguing that past price patterns are indicators of future movements.

A recommended website for technical analysis: **Barchart.com** (www.barchart.com).

Exercise #4

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

Ending Stocks

	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.)			

Average Price

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

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