

Farmer's Corner



May/June 2017

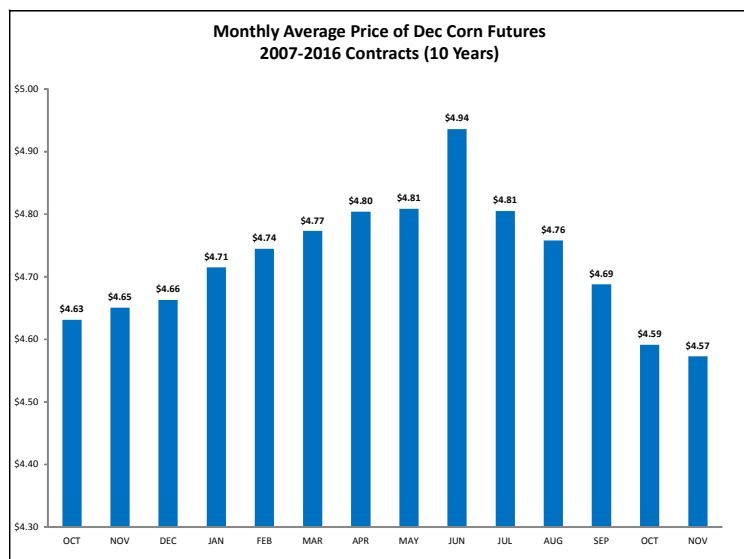
Number 3

Perception or Reality?

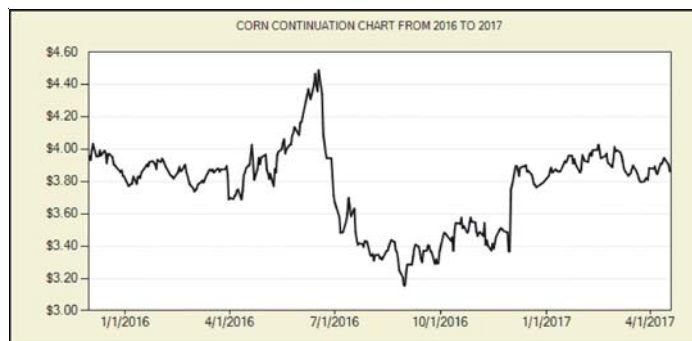
Most parents who have raised children have experienced a natural phenomenon known as the TERRIBLE TWOs. Around the age of two or three, children tend to enter a transitional period between relying on their parents and wanting to gain their independence. If you have not experienced this personally, no doubt you have witnessed the havoc and frustration that it can create for others. Not good! The grain markets are subject to a similar transitional natural phenomenon period each year which we might term the TERRIBLE TOOs. It often comes with some havoc and frustration, but also good opportunity for the producer.

Most seasons, beginning with the release of the USDA Planting Intentions Report, the market begins its intense observation of the production prospects for fall crops. Often, during this period until pollination or flowering, there are times when planting and growing conditions are either too wet, too dry, too cold, too hot or it is getting too late. As a result of these TERRIBLE TOOs, the market begins to perceive a problem with yields, and ultimately production and the supply/demand balance. Is this a reality at this point? No – it's just a perception.

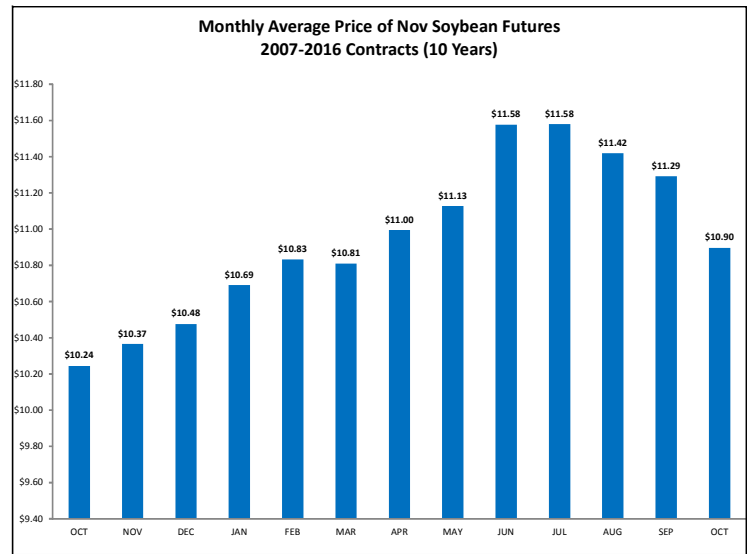
The TERRIBLE TOOs often result in a rally in prices, and that's not just a perception. It's a real opportunity to lock in good prices. Most years, as the season progresses, the perception of low yields turns out to be false and lower prices then become the reality.



The accompanying charts demonstrate this tendency from both a short-term (2016) and long-term (ten years) perspective.



To carry this thinking a step further, when the reality of a good harvest arrives and prices are depressed, many bushels go into storage because of the ease of finding some perception that prices will certainly rally. So, how should we handle these phenomena? There are exceptions to every rule, so we must speak in generalities. Generally, it appears that harvesting a good crop is a reality more often than not. The market's perception of a less than ideal crop, and a corresponding rally during the early growing season, is a reality more often than not. **How about accepting the realities and rejecting the perceptions?** Sell bushels during the spring and summer rally for delivery during and/or after harvest. At least lock in enough bushels to cover costs.



What could go wrong with such a strategy? There will be years occasionally when the yields are less than ideal and prices continue to rally. History will prove that these years are the exception rather than the rule. A good profit-based marketing program, using Target Offers, Forward Contracts and utilizing the benefits of Crop Insurance will survive the test of time over the long haul.



The season of the TERRIBLE TOO's is upon us. The excitement could begin any day and who knows what it might be. Get your targets entered into the market and occupy yourselves with your specialty, growing bountiful crops for a hungry world.

We wish you a safe and prosperous planting season!