Farmer's Corner

"Helping The Producer Sell Better"

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What Will Cause the Next Rally?
(And More Importantly, What Will You Do About It?)

Most if not all farmers readily agree that growing crops is the part of farming they enjoy most. If you asked them to rank all the farming related activities from most enjoyable to least, marketing would for many be way down toward the bottom, somewhere between getting audited and putting out a combine fire. This is true even in the best of circumstances, and we are not in the best of circumstances now.

The factors that make up grain price movement are too many to process, but we can identify the big phases of the cycle we've been through in recent years. (For simplicity's sake, we'll avoid referring to specific crops since the general pattern applies across the board.)

We started out in the early 2000s with generally big crops and low prices. This was the era of low prices and basis, LDP and loan rates. All facets of the market were relatively stable. On average, the best opportunity to sell was during a pre-harvest production scare. Forward contracting became more and more common.

As we passed the halfway mark of the 2000s, demand became more of a driving force and price levels began to rise. 2005-2009 was a roller coaster ride, with high price and low price years following each other in quick succession. Like always, an increase in volatility made grain marketing more difficult – as if it wasn't hard enough already.

Starting more or less with the 2010 crop, there were a few years of production hiccups. Strong demand and smaller supply really lit a fuse under volatility. For 3 or 4 years, price and basis existed at very high levels with dramatic swings in both directions. This was the ultimate mixed blessing, as it brought very high profitability to farming, but also set the stage for problems to come. First, it set proactive grain marketing back in a big way, as producers got tired of selling what seemed like a good price only to watch the market march upward relentlessly. It's an odd situation to reap record profits and still feel like you made a big marketing mistake. For some time, the best approach to marketing was to do nothing and let prices keep on climbing. Second, competition for farm inputs, especially but not limited to land, drove the cost of production to never before seen heights. What had been very profitable prices became just the necessary minimums to cash flow a farming operation.

A free market responds to profits by producing more of the profitable item, and as soon as favorable growing conditions allowed, we grew some gigantic crops in accordance with that principle. We now find ourselves a few years into that situation. As might be expected, bountiful production allows for the building of excess stocks, which leads to lower prices. The trouble is, high input costs have not fallen at the same rate as prices, so there is real danger of losing the equity created during the years of prosperity.

The preceding is not intended to break down every nuance of the past several years, just to provide a general outline of the changing environment and the path leading to where we are now.

What to do now? Here are a few simple but powerful ideas that will help build a framework for a marketing plan.

1. **Get some outside perspective**
   It's very useful to listen to people who aren't in the same boat as you. Since your situation is a big contributor to your perspective, find someone who isn't in your situation to bounce your ideas off of and get input from. Your spouse, someone in another sector of agriculture, banker, CPA, grain elevator manager, or anyone else who is in your world but doesn't sit in your chair is a good candidate for this. They don't know what the market is going to do any better than you, but they may have some insight on things that are easier to see from their chair than from yours.

2. **Be aware of the psychological traps of marketing**
   There are a few of these that plague anyone trying to determine price direction in any market. Anchoring is a common one, where it becomes hard to move away from your first stance on something, even if the environment changes. In the case of farming, it might sound something like, "Demand is so strong that prices can only go up." The confirmation trap is another, where you tend to listen only to those who share your views on something. In this business, it's very easy to build up good arguments in support of your price opinion, no matter which side you are on.

3. **Keep the thing, the main thing**
   The formula for long-term success in any business is simple – revenue must exceed costs over and over. This is one of those things that is simple but not always easy, since there are plenty of distractions and competitive pressure to do things that don't necessarily support that goal. This is especially true of farming, where you can sell a profitable price and watch the value of the crop double after you sell, or miss out on a sale by pennies and watch the price plummet away from profitability. This volatile environment makes it hard to stay disciplined, but discipline is typically the most needed where it is the hardest to maintain. Adhering to the simple goal of making revenues exceed costs tends to smooth out the price curve for the person who does it, eliminating extreme highs and lows.

4. **Build a foundation for profit**
   It's not glamorous, but one of the best ways to know when to act in marketing is to have a firm starting point for decisions. Knowing your cost of production is the best way to do this. It's not always the easiest number to pin down, but it's worth the effort because it gives you a way to make concrete statements in the wild world of price movements. Framing a price in terms of its approximate return to you is better in every way than having an abstract discussion about which way prices might move from yesterday's close. It's often said that the market doesn't care about your cost of production, and that's true – but you care.

5. **Take a stand**
   All the perspective, planning, and procedure in the world doesn't do any good if it isn't acted on. A frequent conversation between grain buyers and farmers goes something like this: "Call me when it gets to price X, and I'll see what I want to do then." There are a few problems with this. Price X may happen in the middle of the night, or the farmer may be the 74th out of 75 people who asked to be called, or the availability of price X might make it seem a lot less attractive than it did when prices were lower. We find that entering a firm offer to sell removes all the logistical and emotional problems that make it hard to sell a good price. Perhaps the most important current argument in favor of the firm offer is that it's hard to identify what will cause the next price rally, when it will happen, or how long it will last. Since we don't know those things, a firm offer working round the clock represents the best chance of capturing a rally if and when it does happen.

We firmly believe that profit for everyone in agriculture starts on the farm. We'd rather pay you a high price than a low price, and we want to have you as a profitable customer for as long as you want to keep farming. If you have a price goal in mind, we'd love to get an offer working to improve your chances of reaching it.