



While you don't have a crystal ball, gathering meaningful market information can give you much more accurate price forecasts.

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Wouldn't it be wonderful if someone knew where December 2000 corn futures will be on Oct. 1, or how big the U.S. wheat crop will be this year? But alas, no one knows for sure. Despite all

the market newsletters, wire service stories, and technicians with their Wizard of Oz-like analytical tools, there is no crystal ball that reveals the future. So why then do we spend so much time talking about market outlooks?

Owners and merchandisers have market risks to manage and it's logical (not to mention a good career move) to want to do it well. Gathering information does help you decide the best strategy to follow. Making important merchandising decisions based on throwing darts at a board full of choices is hardly the best approach. Instead, be an informed consumer of information and opinions. Not all information is relevant to a situation, for example. Sometimes it may just seem important, or the facts may need to be put into a broader context.

Consider this statistic for example: In the 1999 crop year, USDA projects China's coarse grain imports to rise by 6.3%. That may sound exciting to a U.S. farmer eager to see higher U.S. exports. But that's not the whole picture: China's coarse grain exports are also expected to rise, by 50%, nonetheless! Both statistics are of little value until put

in the context of volume.

China's coarse grain exports will rise this year, but by 1.7 million tonnes, from 3.35 to 5.03 million tonnes. Which number sounds as if it would have greater market impact: a 50% increase, or a 1.7 million tonne increase? Now consider that the United States exports around 56 million tonnes of coarse grains each year. Suddenly

Table 1. The players — 1999 crop world production, % by country or region.

	Corn	Soybeans	All wheat
United States	40.0%	46.8%	10.7%
Brazil	--	20.2%	0.4%
Argentina	2.6%	12.4%	2.5%
Australia	--	--	3.9%
Canada	--	--	4.6%
China	21.4%	9.1%	19.7%
EU-15	6.2%	0.8%	16.5%
FSU	0.7%	--	11.0%
India	--	--	12.2%
Mexico	3.2%	--	--
South Africa	1.4%	--	--
Subtotal	74.8%	89.3%	81.5%
Total Production	597.99 million tonnes 23.55 billion bushels	154.1 million tonnes 5.65 billion bushels	584.2 million tonnes 21.48 billion bushels

— USDA January 2000 World Supply/Demand Report

China's 50% increase seems less significant.

It's all perception

Statistics can be presented so that they tell various stories. You can set the scale on a graph to lessen or increase the perception of volatility. You can use certain data sets that exclude facts which might lead to alternate conclusions. Another favorite technique is to talk about averages. Remember when you had to do math drills back in grade school? Before you read further, calculate the average of these nine theoretical spread quotes: 1 cent, 1 cent, 1

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Prices could rise sharply this summer, but that depends largely on a low-probability event: a major U.S. drought.

cent, 2 cents, 2 cents, 1 cent, 3 cents, 50 cents, \$1. Now, jot down your answer. (We'll return to this quiz later.)

Using averages can paint a picture that describes no single event from the past, let alone be rele-

vant to considering what might occur in comparable future years. Always question statistics when reading newsletters, stories, market faxes, or other information. Think what may be missing, or see if the story explains what type of average was calculated. Look for the broad context so you can give the information appropriate weight. As in the statistics about Chinese vs. U.S. exports, consider total volume or quantity involved, as well as any percentages of change.

Check whether relevant data sets are used. Using the past 25 years to analyze basis is probably meaningless, for example. Much has changed in transportation structure and costs, the location of domestic/export demand points, and the nature of agriculture as a whole, making very old basis data of questionable value for today's markets. Ten years is a more appropriate time frame, and even that has to be laid aside on corn and soybeans now that the new Chicago Board of Trade certificate delivery system is in effect. All corn and soybean basis history is of less value now than it was a few months ago.

In the end, many of the facts and figures we see every day represent little more than market noise. You're probably wondering then why so many people put out

so many bulletins and cite so many figures. In large part, it's a response to the public's desire for information. In part it's because there's so much time and space to fill each day in the news world. (Try writing a meaningful market commentary every day and you'll see in a hurry why writers include so many statistics!)

Now look at your answer to the quiz. Some folks will surely say 17.9 cents, but you can just as easily (and correctly) say 1 cent. The mean average is 17.9 cents, but the

median is 1 cent (the midpoint of the range of numbers). I could influence your perceptions if I write a story about these numbers but only cite a "17.9 cents average" without showing the data or explaining how I derived my answer.

Some elevator merchandisers, advisers, or others used mean-averages in evaluating the old crop/new crop hedge to arrive at rollover strategy. (Think what the mean average of the July/December corn spread will be now that we include 1996!)

Making accurate conclusions

Sorting through the barrage of information to draw meaningful conclusions is difficult. Here are a few tips:

- Separate known facts from potential developments. Give greater weight to what's known.
- Try to quantify (at least informally) the impact of certain potential developments. Is the impact worth worrying about?
- Put the most talked-about information into context so you can weigh its importance. (Remember the projected 6% increase in Chinese grain imports?)
- Identify the methodology that sources use in citing statistics. (Is it measured data or inferred conclusions?)

Table 2. The players — 1999 crop exporters, % by country or region.

	Corn	Soybeans	All wheat
United States	64.2%	57.2%	23.2%
Brazil	--	22.3%	--
Argentina	11.1%	7.3%	7.9%
Australia	--	--	14.3%
Canada	--	--	14.7%
China	6.4%	0.2%	0.4%
EU-15	10.6%	3.5%	30.0%
FSU	--	--	5.4%
India	--	--	0.2%
Mexico	--	--	--
South Africa	--	--	--
Subtotal	92.3%	90.5%	96.1%
Total World Exports	78.1 million tonnes 3.07 billion bushels	41.1 million tonnes 1.51 billion bushels	126.2 million tonnes 4.64 billion bushels

— *USDA January 2000 World Supply/Demand Report*

will help you decide whether certain facts or developments are significant or not. Table 1 shows the major producing countries on corn, soybeans and wheat, and Table 2 shows the major exporting countries. Give greater weight to news that

- Look for the source of the statistics, and consider the credibility of that source. (A nonofficial source is not necessarily less credible than an official source, but markets often react more to official information.)

- Be a skeptic about conclusions and forecasts. Consider the possibility that other events will occur.

Your own crystal ball

Here are some statistics that

affects the main countries in each sector.

Dry conditions in South America, for example, are of little importance for corn, but could be important for world soybean production. Cutting South American

soybean production 10% would equate to about 180 million bushels, approximately 3% of the world's production.

When we look at the statistics in Table 2 (exporting countries), it's easier to see why U.S. wheat prices are struggling. The United States is not a controlling force in world wheat trade, and the United States has a huge wheat surplus relative to domestic use. (Note that Tables 1 and 2 both reflect the 1999 crop only. Past or future year percentages may vary.)

Another statistic that can help you put news in context is whether the world has adequate overall inventories. This graph of ending stocks/use ratios shows that world soybean inventories have declined over the past decade, but have not changed significantly in the past three years.

Coarse grain relative surpluses are holding around 17+%, a comfortable figure, contributing to the weak world grain prices. (Coarse grains include corn, sorghum, barley and oats.)

Critical factors to watch as we move through the spring and summer of 2000 include:

- existing U.S. domestic and world surplus ratios (neutral/bearish);
- pace of recovery of Asian economies (neutral/slightly positive);
- South American soybean production problems (unknown);
- extent of precipitation shortfall in prime U.S. crop areas this spring/summer (unknown, but a potential problem); and
- U.S. producers' willingness to hold 1999 crop production until spring/summer (neutral to bearish factor).

Conclusions

Looking ahead through 2000 and into 2001 is a challenge. Key agricultural commodity prices are very low, and represent good value for end users. But should users forward price aggressively; are prices really likely to rise significantly? Should producers give up and price their 1999 crop now, or hold on (with inventory or on paper)?

Much has been made of South America's crop conditions this winter. Here in the United States we're also having a warm and dry winter. That could portend a La Nina drought this summer.

Minor problems in either area may not cause a significant market rally because world inventories are sizable. But severe problems in both hemispheres could set off a dramatic rally, even if it's

short-lived.

One approach for producers and end users both is to assume the greater probability is still for only slightly higher or lower markets. End users would generally still go relatively hand-to-mouth in such circumstances. Each group can still protect their operation against the low-odds, but significant event.

End users can buy somewhat out of the money call options, or instead buy futures and also buy out of the money put options. Producers who still own inventory but have taken an LDP could buy a deferred-month put option in case prices should decline. Summer month corn futures already represent about a 20% premium over values seen in late summer 1999. Perhaps much of the 'risk premium' is already in the markets.

Even if such U.S. weather problems occur, rallies may be sharp but short-lived. Despite the cuts to U.S. ending stocks reflected in the January 2000 USDA report, our existing surpluses still pro-

Table 3. Three arbitrary production/usage scenarios.

	Corn			Soybeans		
	Bad	Mid	Good	Bad	Mid	Good
Planted (million acres)	77.0	77.0	77.0	74.4	74.4	74.4
Harvested (million acres)	70.3	70.3	70.3	73.2	73.2	73.2
Yield (bushels/acre) ^a	115	132	141	34	36	40
+ Product (million bushels)	8085	9280	9910	2490	2640	2930
+ Carry in (million bushels) ^b	1720	1720	1720	365	365	365
- Usage (million bushels)	9300	9500	9600	2575	2650	2700
Ending stocks 2001	505	1500	2030	280	355	595
Stocks/use ^c	5.5%	15.8%	21.1%	10.9%	13.4%	22.0%

^a 1999 corn yield was 133.8 bushels/acre and soybean yield was 36.5 bushels/acre.

^b "Carry-in" figures are from the January 2000 USDA report and are rounded off.

^c The projected ending stocks ratios are 18% for corn (66 days worth) and 13.9% for soybeans (50.7 days worth).

vide us with a nice cushion. Carrying charges should stay wide well into late 2000, if not longer. Basis this summer will depend on how long U.S. producers decide to hold, but at this time the fundamentals indicate a repeat of 1999 is probable.

Table 3 shows one last set of numbers. Assume close to 400,000 corn acres switch to soybeans this year in the United States. Now, take the three arbitrary production/usage scenarios and see what might be left in 2001. (Usage numbers are Grain Service Corp. figures, and only represent potential scenarios.)

Viewed in this context, it's hard

to paint a truly bullish picture. Soybean and corn rallied sharply after the January reports, but such strength may be hard to sustain. It's going to take a substantial cut in yield to make a significant dent in U.S. ending stocks ratios. A moderate yield cut (e.g., 132 bushels/acre or 36 bushels/acre) still leaves us with the probability of another year of sluggish markets.

Economics aren't the only thing that drives markets, however. Psychology plays an important role. Once the trade accepts the idea of slightly higher prices, that alone may fuel some buying and add to our volatility.

Watch the news and the weather, but keep one eyebrow raised and put news in context so you can decide whether the fundamentals have really changed or you're just hearing market noise.



The statistical source used in this article was the world production, export and ending stocks ratios from USDA World Supply/Demand report, January 1999.

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World ending stocks use ratios

