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EXTENSION

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Today's Agricultural Markets

Macroeconomic headlines have dominated news headlines over the last few weeks. These concerns over inflation, interest rates, and banking have spilled into outside markets, including agricultural commodity markets.

With such wide-reaching effects, it may be best to review how commodity crop growers market their crop, and address some of the potential impacts these economic changes have had on the farmer's bottom line.

Oxford Dictionary defines a commodity as a raw material or primary agricultural product (of a standard, universal set of characteristics) that can be bought or sold. Locally, farmers most commonly grow commodities like field corn, soybeans, wheat and barley. Farmers sell these commodities at local "elevators", or grain buyers, at prices determined by the combined effects of local, regional, national, and international supply and demand conditions.

Starting from the top, the national/international price of a commodity is determined through the trade of Futures Contracts on the Chicago Mercantile Exchange (CME)--effectively the stock market for commodities. Futures are financial instruments that represent a contractual agreement between a buyer and seller that specifies the terms and conditions of delivery for a particular commodity. However, these full terms of the contracts are not often carried out; rather they are traded in a manner that rarely results in the physical delivery of the commodity. No less, these are the underlying assets that determine a local grain price.

The regional level is the sum of local supply and demand conditions. Take for example the Mid-Atlantic: much of the corn, soybeans, and to some extent, wheat is grown for feeding the millions of poultry raised on the Eastern Shore of Maryland, Delaware, and Virginia. Therefore, we have a relatively strong regional demand for these products, wherein grain buyers can be more willing to offer a premium for a commodity over the respective CME Futures Contract price.

This difference between the local and national price is referred to as the "basis". With strong demand or limited supply, elevators may offer more therefore creating a positive basis. With limited demand or high supply, elevators may reduce their "bid" creating a negative basis. Tracking local basis changes through time is a vital component of an effective grain marketing strategy.

As mentioned, the current economic environment has shaken markets, and in today's world it appears that the ripple effect is in full swing. This to say, a small change in one market can have drastic effects on other markets.

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For instance, over the last year the Federal Open Market Committee has addressed inflation concerns by raising the Federal Funds Rate. These changes have made the cost of borrowing money more expensive, and therefore supported the relative strength of the dollar over other currencies. This in turn, makes our exports less attractive as international buyers may seek cheaper options. U.S. corn has borne the brunt of these changes as the U.S. has not sold nearly as much corn as previously predicted. Back on the farm, we have observed a decrease in the corn price over the last few weeks as these changes in exports have been codified.

This ever-changing environment is nothing short of mind-boggling. Even the most adept investors can struggle with the complexities of these markets. However, the general trends of the market must be well understood by farmers to effectively market their crops to maximize profitability.

Producers: if you would like to learn more about grain markets, risk-management and marketing strategies please consider attending one of the University of Maryland Extension's regional grain marketing meetings. If you are interested, please contact Mark Townsend at mtownsen@umd.edu or at (301) 600-3578.

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