



Marketing Refresher Course

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DTN/The Progressive Farmer

2010 Ag Summit

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Analyst to Follow?



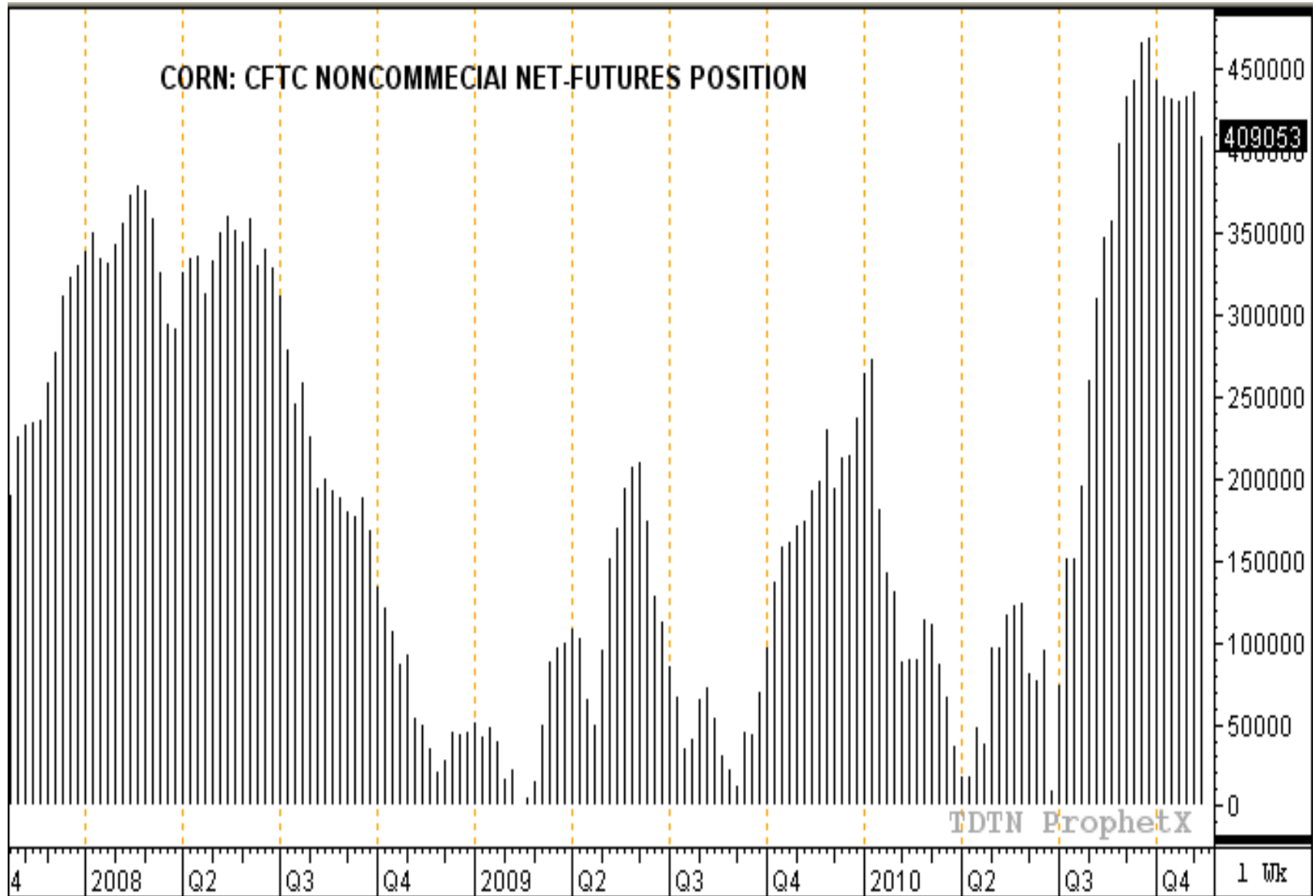
Sir Isaac Newton

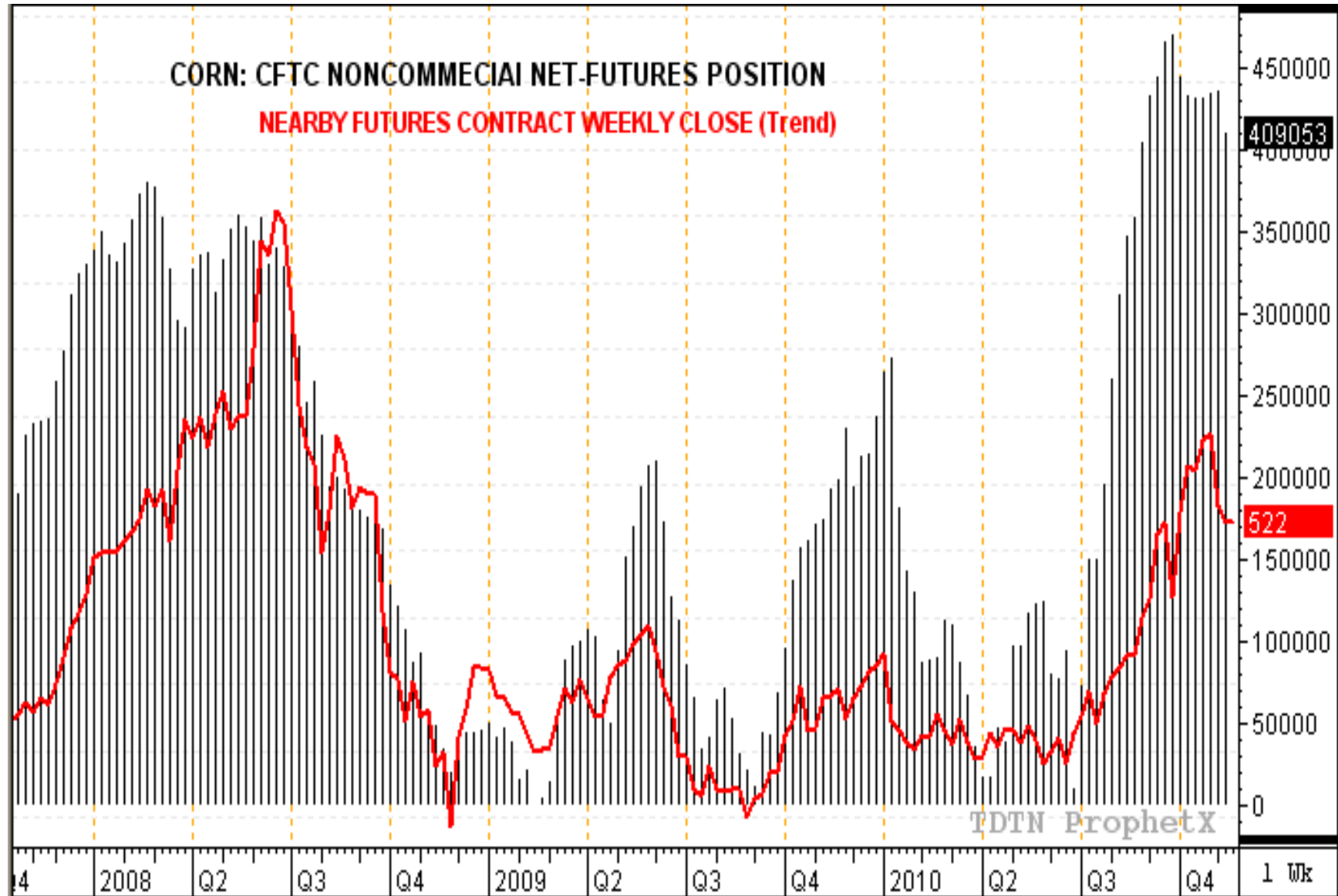
NEWTON'S FIRST LAW OF MOTION

- **In Physics:** An object in motion tends to stay in motion until acted upon by an outside force.

- **In Markets:** A trending market will stay in that trend until acted upon by an outside force.

- **Q:** What is the dominant outside force in commodities that changes market direction?
- **A: Noncommercial traders**
 - Commodity funds
 - Hedge funds
 - Index funds





First Law of Marketing

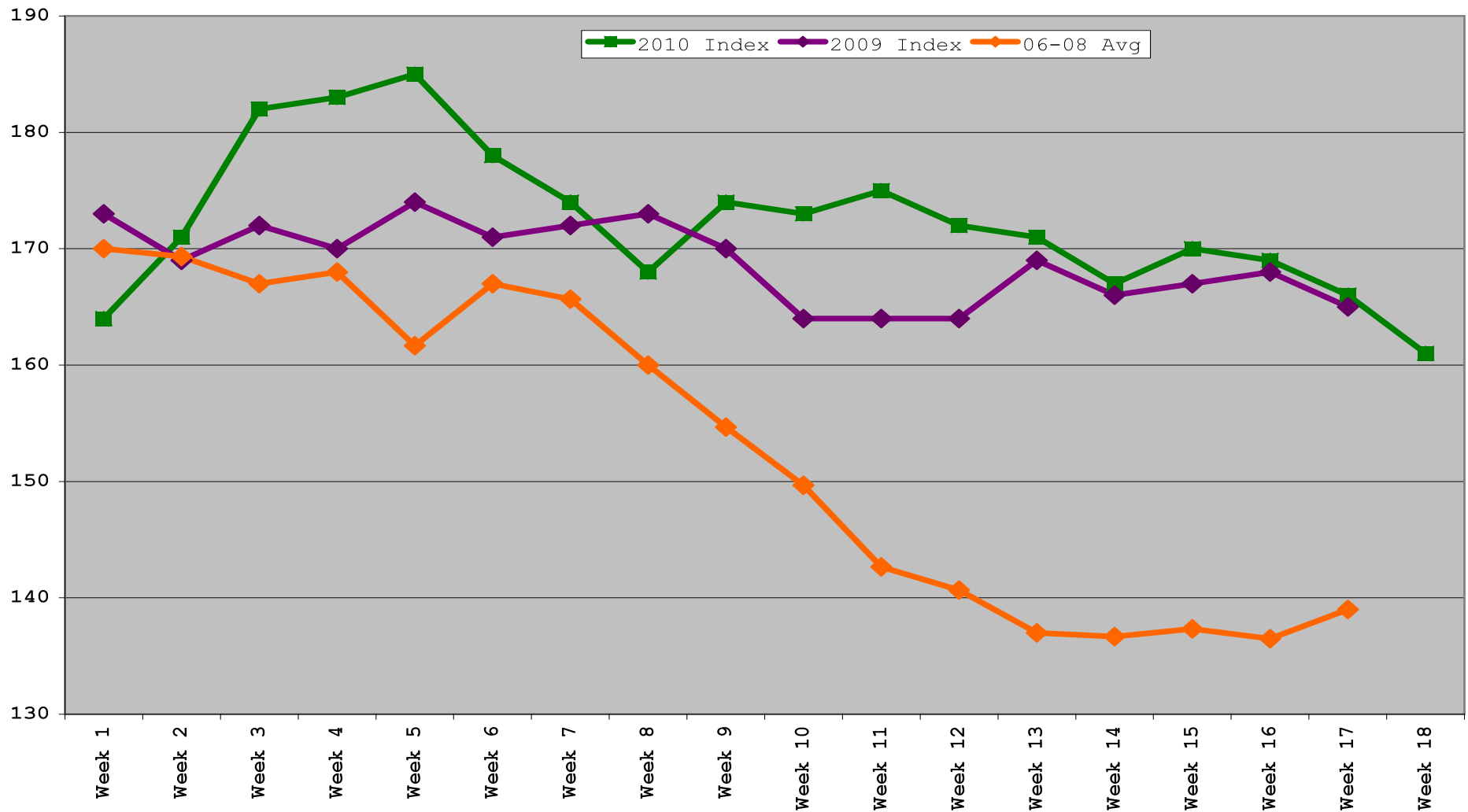
- **Remember Newton's First Law of Motion**
- **Keep in mind the old saying, "the trend is your friend". Also, "keep your friends close and your enemies closer".**
- **Following the trend means you are following the large money in the market**
- **Marketing Rule #1: Don't get crossways with the trend.**

The Fundamental Question

- **Q: What do you use to get gauge supply and demand (fundamentals) in any particular market?**
- **A – USDA/Government reports**
- **B – Observing your own situation and estimating it to be the same everywhere**
- **C – Look for market signals**

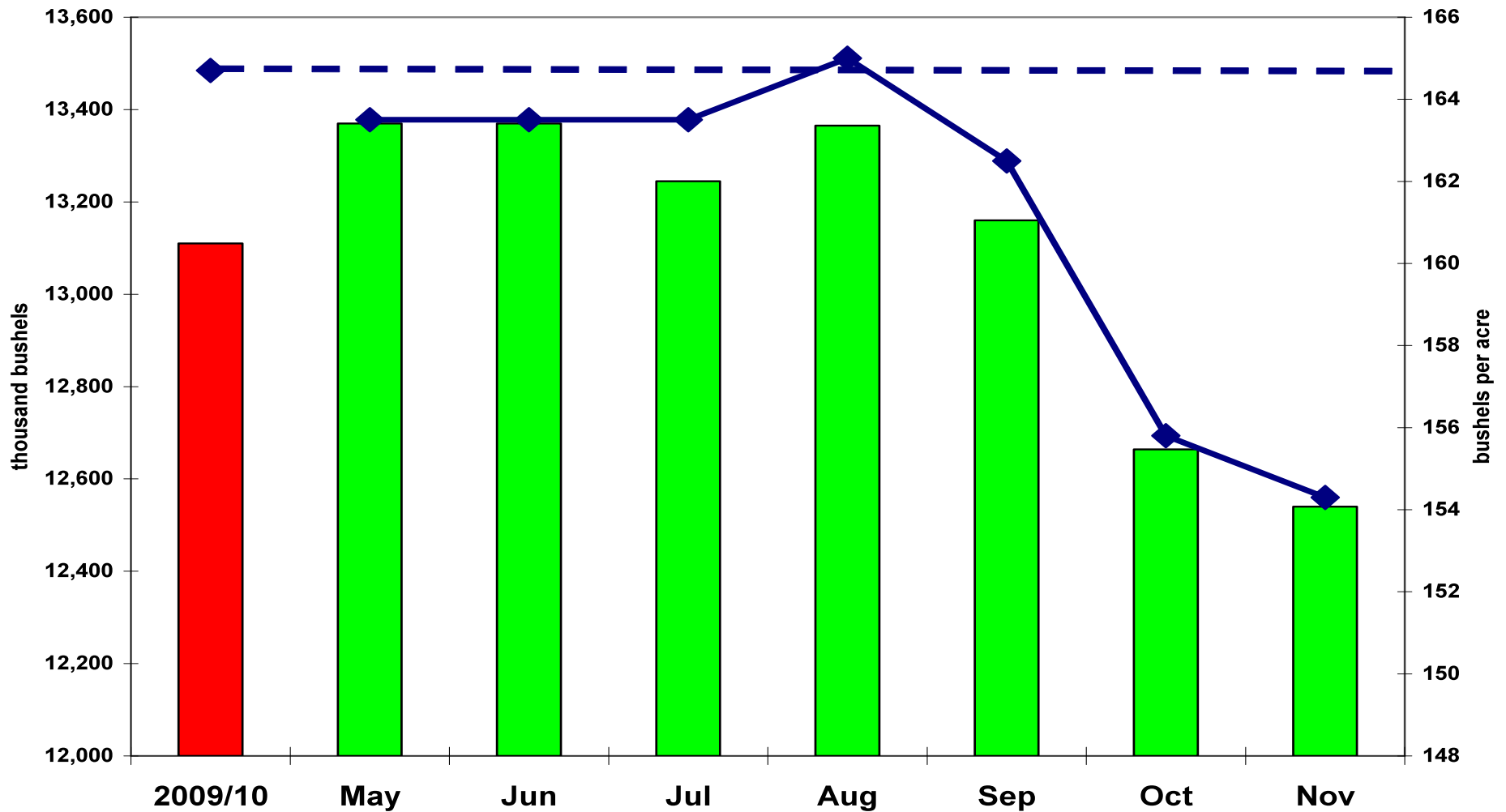
A – USDA/Government Reports

TELVENT DTN CROP CONDITON INDEX: Based on Govt Weekly Crop Cond. Numbers

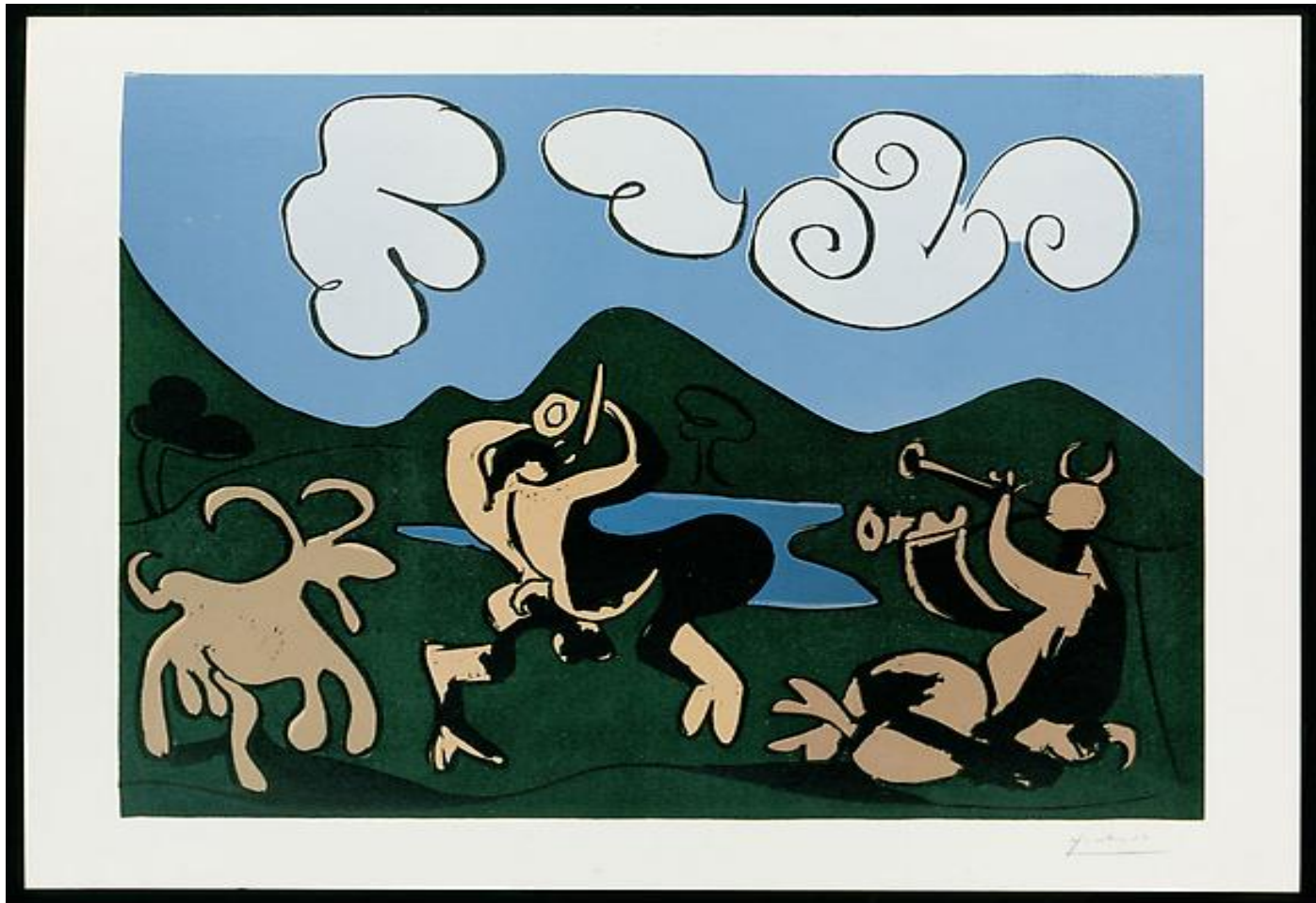


A – USDA/Government Reports (cont.)

■ 2010-2011 Corn Production
 ◆ 2010-2011 Corn Yield

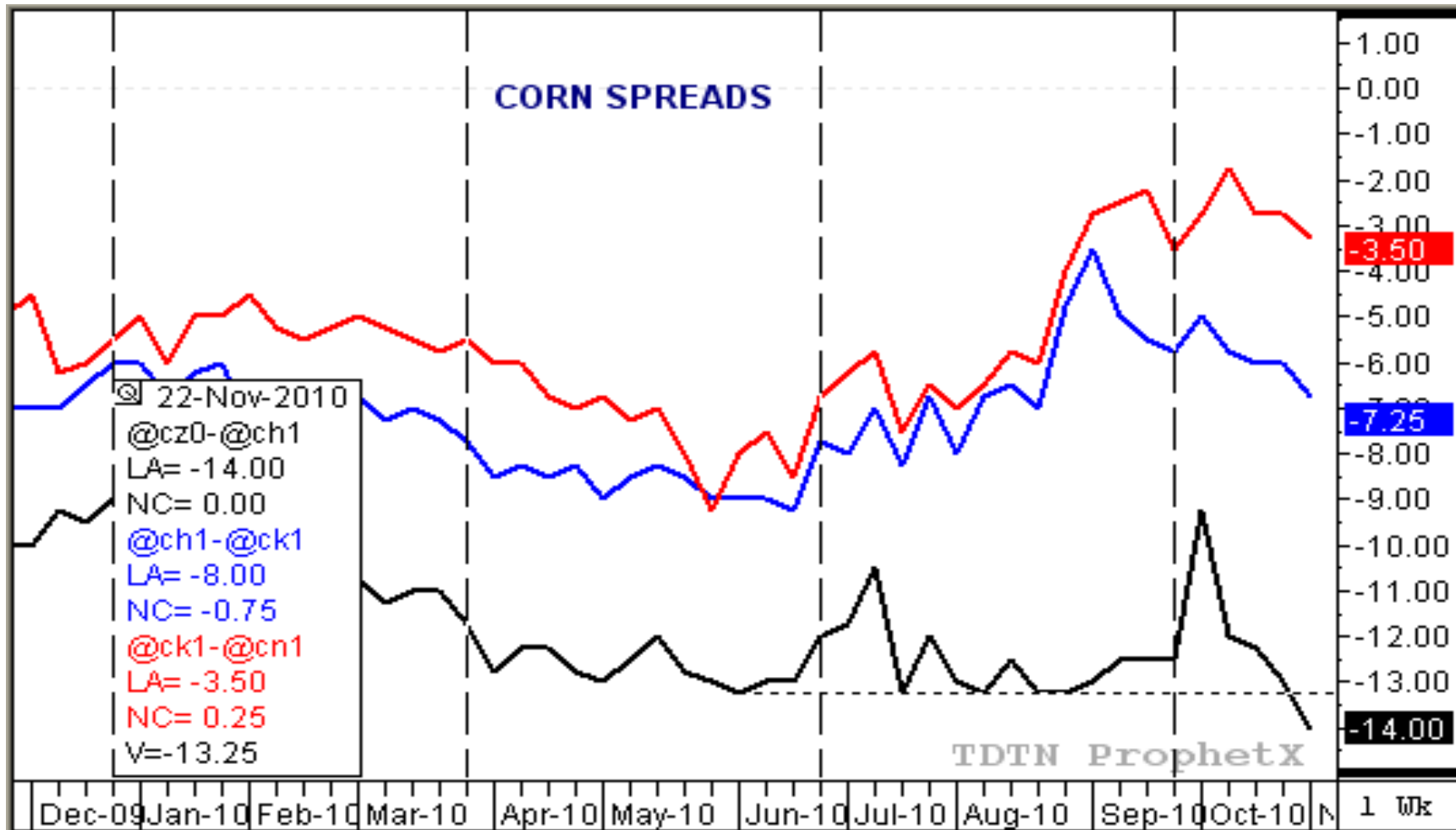


B – “Looking Out My Back Door”



- Like Picasso, that can give us a skewed sense of reality

C – What does the market have to say



Second Law of Marketing

- **Don't rely on government numbers to do your marketing**
- **Your view of reality can be distorted by your own situation**

- **Marketing Rule #2: Let the market dictate your actions.**

The Pain and Angst of Marketing, and then more Pain

- **Has anyone here had to make a margin call on a “hedge” position?**
- **Q: When does one normally “lift” the hedge (offset the position)?**
- **A – At harvest (producer) or as the supply is purchased (end user)**
- **B – In a panic, just before the market turns back around**
- **C – When your banker tells you to**

Everyone's Favorite: Options!

- **Q: Which of these statements regarding options on futures is true?**
- **A – The increase in market volatility (size and speed of price changes in the market) has made options much more expensive**
- **B – Almost 90% of all options expire worthless**
- **C – Floor prices combined with weak basis levels make option strategies almost obsolete**
- **D – All of the above**

Third Law of Marketing

- **Margin calls can be the death of even the best marketing strategy.**
 - **Interesting market psychology point: Markets tend to turn the day after most hedgers reach their breaking points.**
- **Futures markets seemingly have lost role of transferring price risk.**
- **Despite increased volatility leading to increased premiums, options may still be best tool for offsetting margin risk.**
- **Marketing Rule #3: Manage margin risks!**

Market Structure

- **Every market has a structure**
 - **Trend of the futures market**
 - ▶ **Flow of noncommercial money**
 - **Trend of the futures spreads**
 - ▶ **Markets view of supply and demand**
- **In other words, market structure reflects**
Marketing Rules #1 and #2
- **By understanding the structure of a market, one can hope to be in a better strategy situation, allowing us to use**
Marketing Rule #3

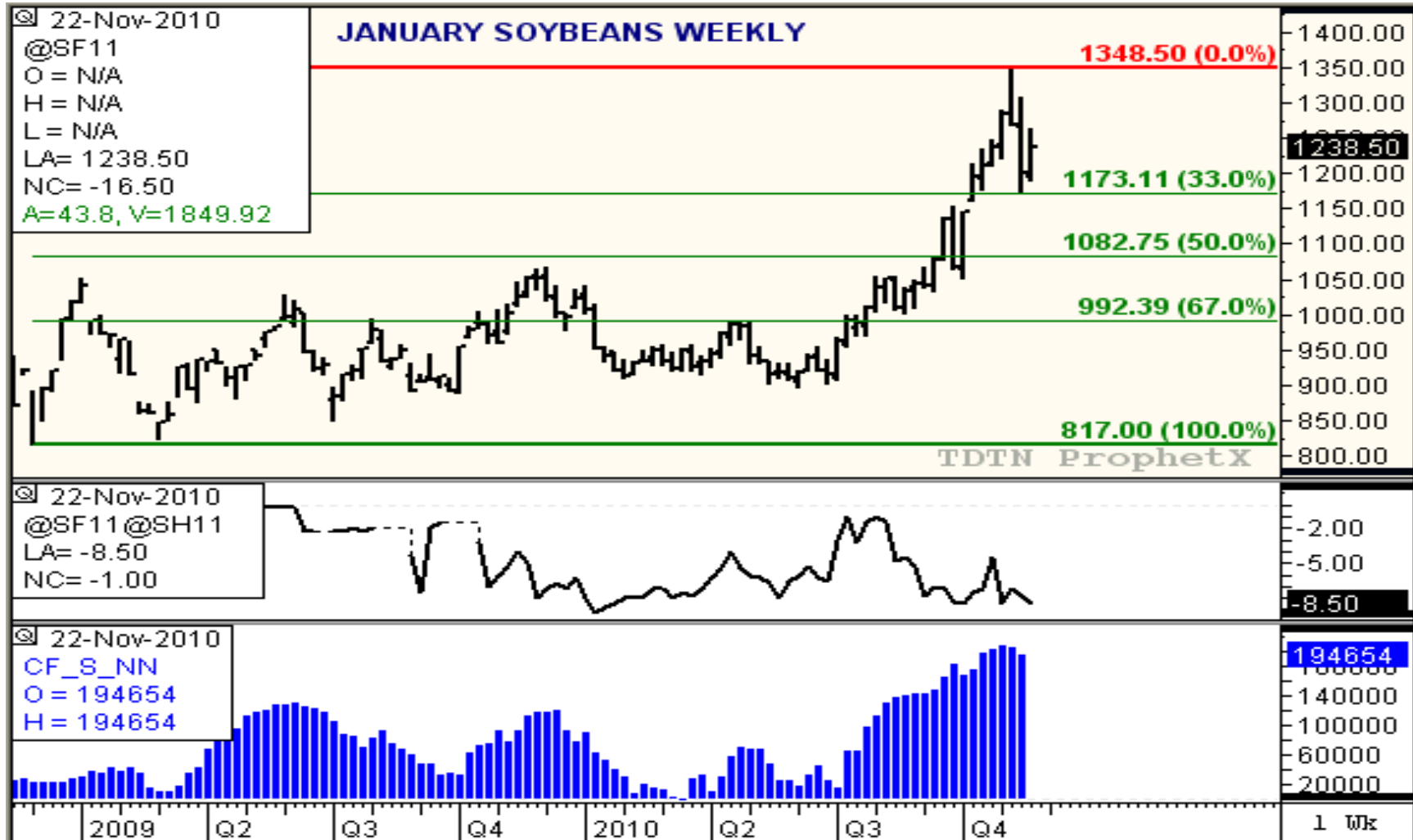
Market Types

Market Type	NONCOMMERCIAL	COMMERCIAL	STRATEGY
Type 1	Bullish	Bullish	Long cash
Type 2	Bullish	Neutral	Long put options/incremental cash sales
Type 3	Bullish	Bearish	Increased cash sales/long futures
Type 4	Neutral	Bullish	Long cash/long put options
Type 5	Neutral	Neutral	A variety of option strategies
Type 6	Neutral	Bearish	Increasing cash sales/long put options
Type 7	Bearish	Bullish	Rare. Short futures
Type 8	Bearish	Neutral	Short futures/long put options
Type 9	Bearish	Bearish	Short cash

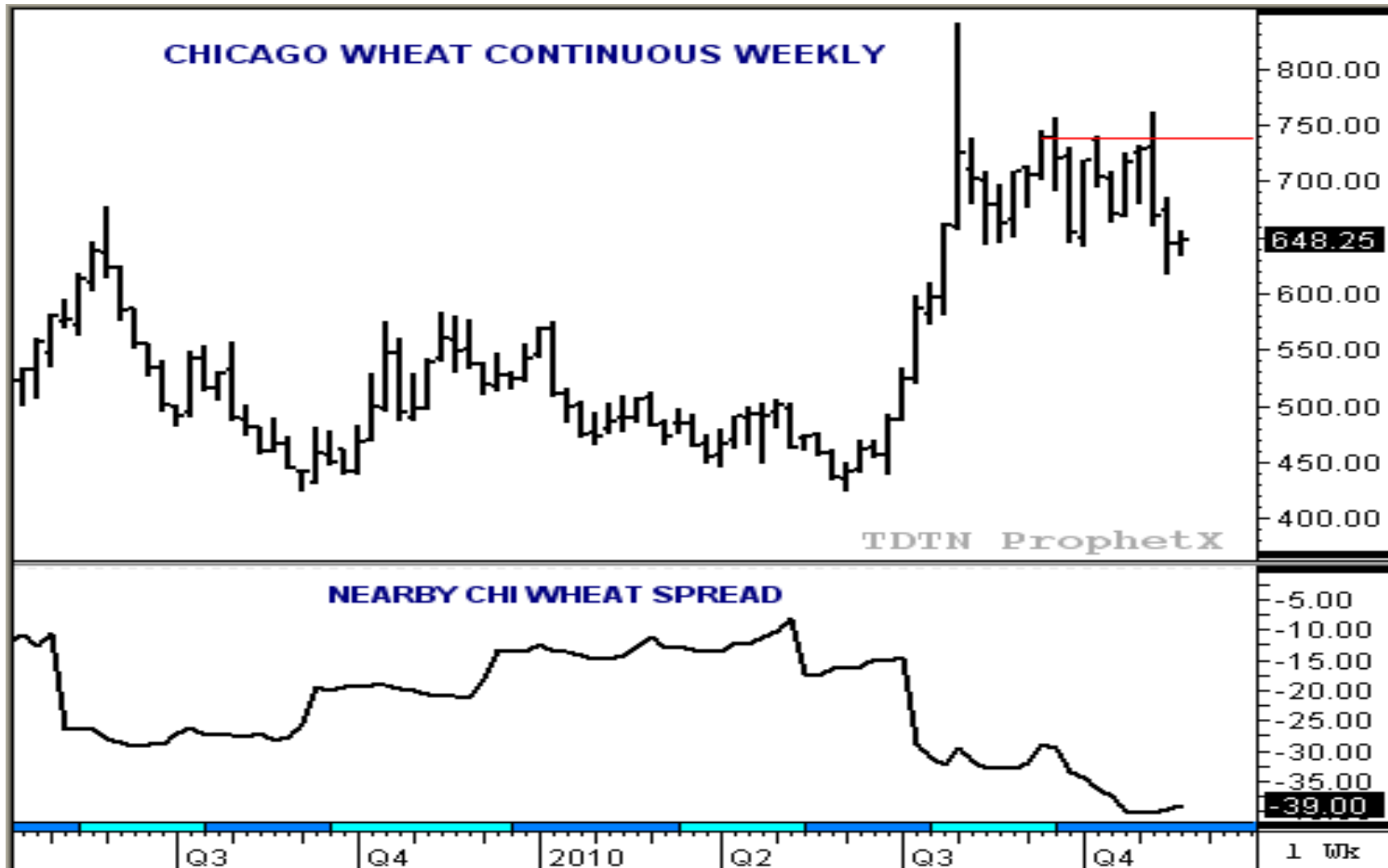
Corn: Market Type?



Soybeans: Market Type?



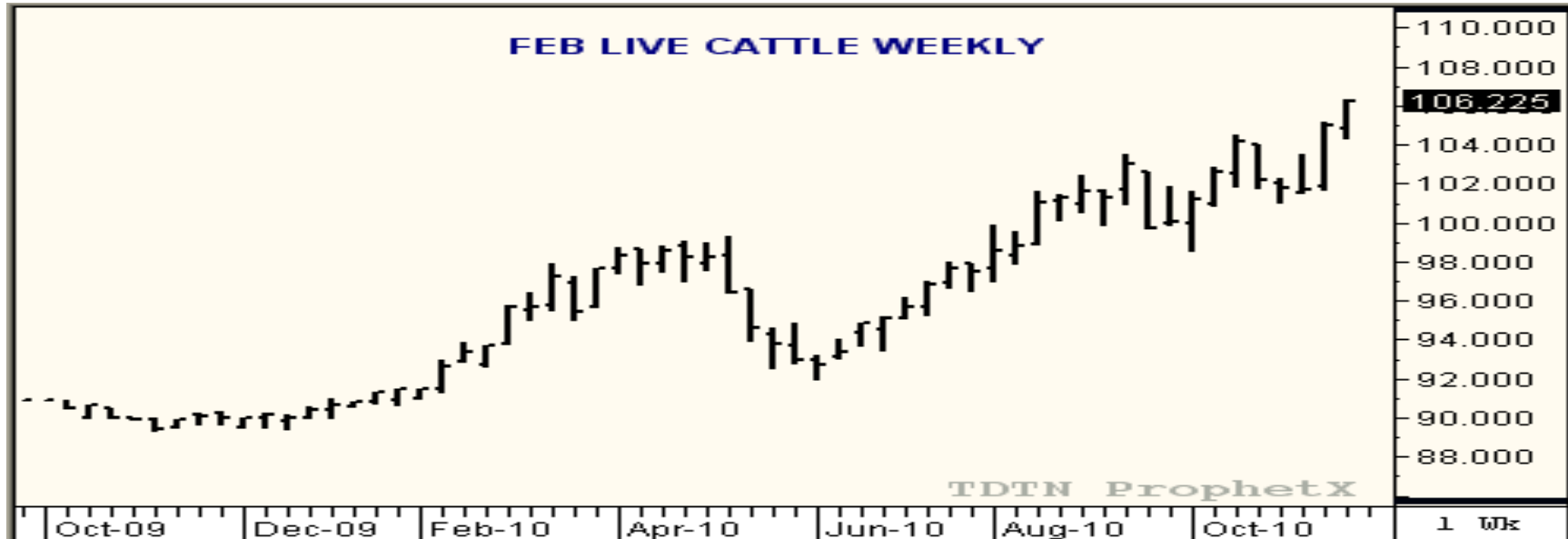
Wheat: Market Type?



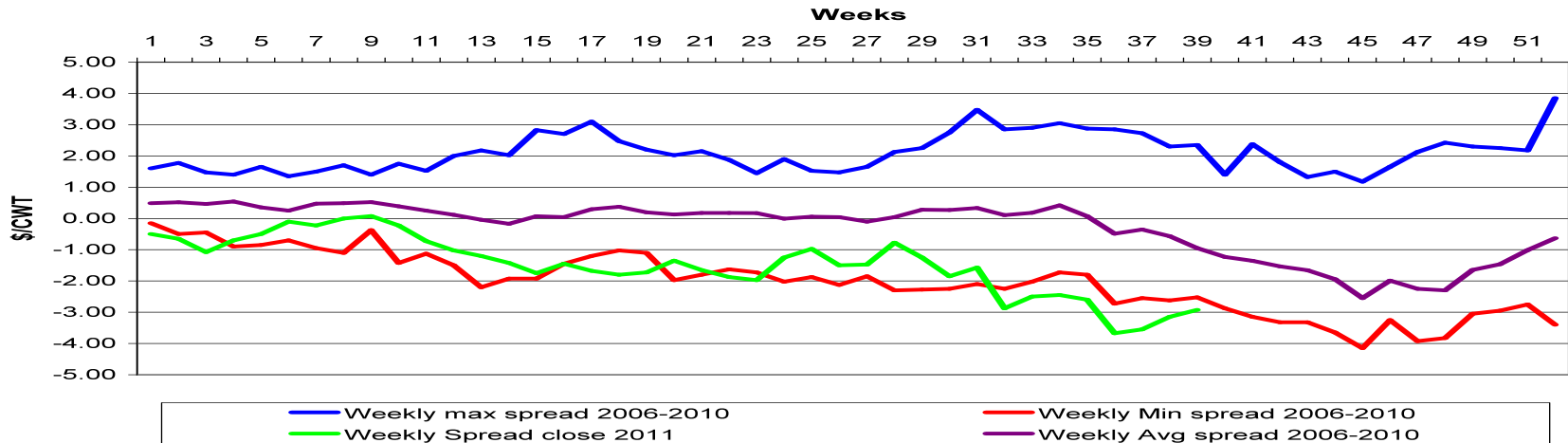
Cotton: Market Type?



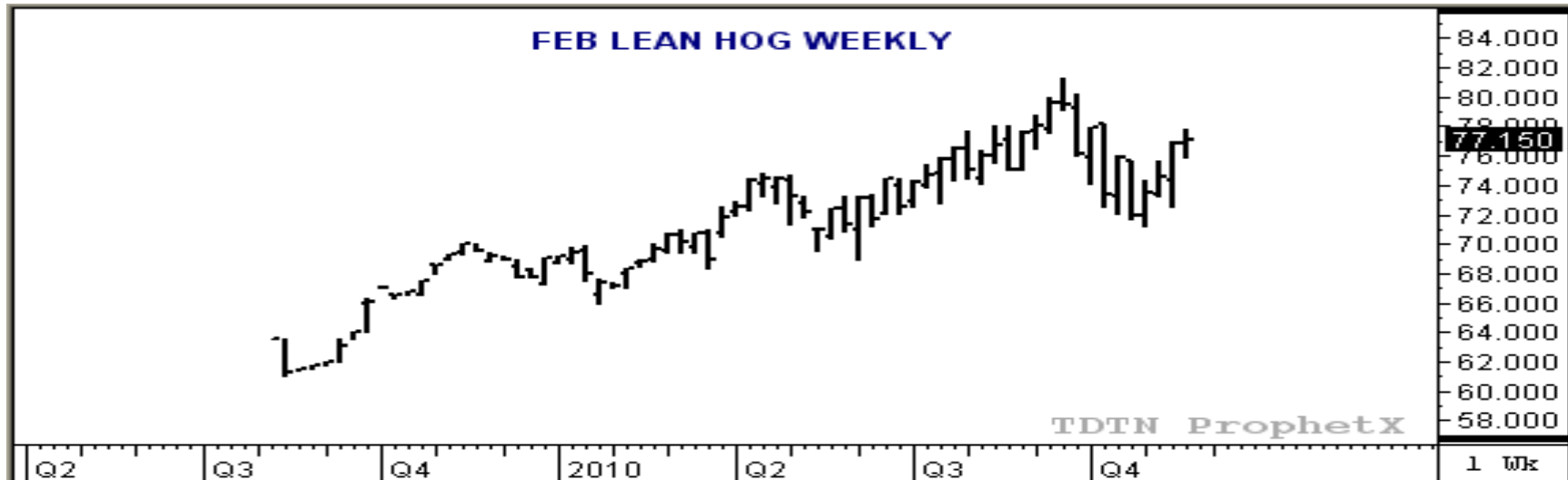
Live Cattle: Market Type?



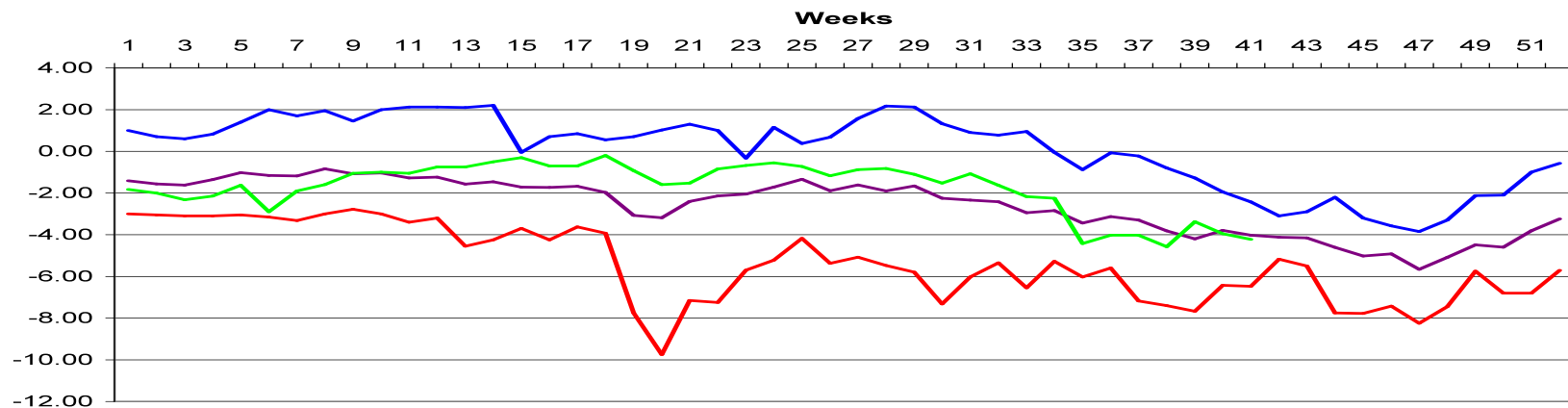
LIVE CATTLE FEB - APRIL SPREAD



Lean Hogs: Market Type?



Lean Hogs: Feb - Apr Spread



— Weekly max spread 2006-2010	— Weekly min spread 2006-2010
— Weekly avg spread 2006-2010	— Weekly close 2011 spread

CONCLUSION

- **The dynamics of futures markets have changed, placing more emphasis on trend analysis.**
- **Increased volatility is not going to change any time soon.**
- **Basing marketing decisions on government numbers increases the risk rather than decreases.**
- **To make better marketing decisions one has to know what type of market exists.**



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Thank you