Marketing

Mindful Markets

Apply analyst information to your situation before making marketing decisions

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Now that the New Year has arrived, analysts are bound to come out of the woodwork to offer their opinions on what will happen to commodity prices in 2018. With so many opinions to choose from, which analyst should you heed? None of them, says Mike North of Platteville, Wis.-based Commodity Risk Management Group.

“Nobody has a crystal ball,” North says. “While we can talk to producers plainly about what all of the information says, what they should always be doing before they listen to anybody else is looking at the market and making a decision about how that price relates to their own situation.”

Commodity analysts, like weather forecasters, can keep their job after making an inaccurate prediction. But producers must recognize if they bet the farm on someone else’s erroneous outlook, they could lose their operation. That makes prudent commodity marketing essential.

“In the midst of all the noise, there needs to be this internal presence where producers have to market subjectively for their own situation,” he explains. He recommends doing some mental calculus and evaluating possible outcomes. “Say, ‘OK, if these guys are right, what does it mean to me? If they're wrong, what does it mean to me?’,” North advises.

Stay Skeptical. Not all analysts’ opinions should be treated equally, says Ray Grabanski, president of Fargo, N.D.-based Progressive Ag. Producers should weigh the track record of market analysts to know if their opinion should be highly regarded or not.

“You can tell a tree by its fruit,” says Grabanski, who cautions that price outlooks should change with evolving market conditions.

“I reserve the right to change my outlook as I gather more information,” he says. “Any good analyst has to be willing to change his opinion.”

Farmers should also follow prices independently of analysts using the futures market, North adds.

“Everyone has access to the same numbers, and they can all see what the real buyers and sellers and the market is telling them they think the price is going to be,” he says.

Keep Studying. Learn more about cause and effect in the marketplace, as well, Grabanski says.

“Print out market comments from analysts before a WASDE report, and then print them out after,” he recommends. “Then you can look at ‘OK, what happened and how did the commentary change? What was the market reaction, and how did [that commodity] trade for the couple of weeks afterward?’”

Look to marketing advisers who can boil down all kinds of market information and make it easier to understand and act on, North says.

“Everybody’s filtering the information,” he points out. “You never know where the best information lies. You really have to look at all of it.”

Sidebar: Is This The Bottom For Commodity Prices?

Many producers want to know whether commodity prices have finally bottomed out. Some analysts think the bottom is in on corn and wheat. To evaluate whether a price bottom has occurred, look for a few signs, says Ray Grabanski, president of Progressive Ag.

“Market bottoms occur when stocks are big and there’s been almost no market movement in a few months,” Grabanski explains.

Another telltale sign of a market bottom is an abundance of negative news. “All the news is bullish when we’re at the top and all the news is bearish when we’re at the bottom,” he says. “This winter, all the news will be negative corn and wheat.”

Although seasonal patterns in the market suggest prices will start to move higher, lack of farmer selling could keep prices trading within a range because farmers have bins shut tight, says DuWayne Bosse of Bolt Marketing.

Grabanski wouldn’t be surprised if it took a while for prices to rally. “Market tops usually last minutes,” he says. “Market bottoms last months.”