

Risk And Opportunities For Profit

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Risk can not be separated from farming without removing the opportunities for profit.

Agricultural prices will be more volatile over the next 5 years than in the past 5 years. Volatility means sudden and dramatic shifts in prices. These shifts can be a source of gain or loss, depending on your marketing strategy.

The 1995 "freedom to farm" bill encourages fully planted acreage which can result in record harvests. The exit of the federal government from the grain storage function as a market price stabilizer is at hand. The current melt down in Asian markets impacts our largest agriculture buyers of grain and pork.

Additionally, the US is no longer the sole world supplier of farm products. Australia, Argentina and Europe significantly affect the wheat supply. Brazil, China and India are major soybean competitors. China and South Africa are exporting more and more corn. Australia and Argentina continue to build their beef exporting capacity.

Current market factors

Consider the magnitude of the Asian market setback in the past twelve months. Morgan Stanley reports the following declines: Japan, 25%; Singapore, 25%; Hong Kong, 27%; Philippines, 55%; South Korea, 59%; Indonesia, 60%; Malaysia, 68%; Thailand, 75%.

A level of stabilization has not been achieved yet. 25% of the US export market faces slow downs because of the rise in the value of the dollar. Our exports' cost per unit are rising. Cheap imports will depress prices and lower profits in sectors that compete with Asian industries.

The current USDA supply/demand report is bearish for corn and wheat, and neutral for beans. They forecast more carry-out corn and increased world wheat supply.

Beans did not change from the previous report. There was increased plantings of early season beans in South America. These soybeans will come to market during the end of April. As the South American's try to capture preharvest premiums, US bean prices could be pressured earlier than normal this spring.

The world market works both ways. The weakened condition of several oil consuming economies could present favorable opportunities to forward price energy needs. Lower input cost for fuel and heat would help offset reduced revenue from exports.

Avoiding the crush

As we talk with our accountants about year end bookkeeping it is a good time to consider the sources of risk in our enterprises.

"Maintaining liquidity or cash flow should be the primary objective" says Leroy Louwagie of Professional Marketing Associates. Consider your ability to meet cash flow needs in an orderly fashion as you review your operation and

your debt position.

Another consideration is, does your operation have "depth"? Are others being groomed by sharing in management decisions? Remember your operation has been designed to fit your management style. The lack of next generation management experience can force farm liquidation at distress sale prices.

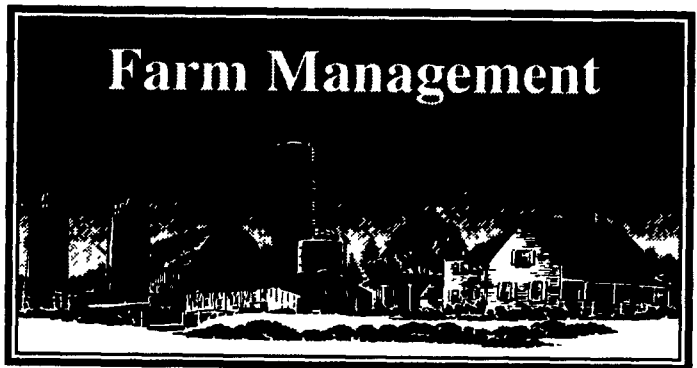
The winter months are an ideal time to update your marketing plan. Gathering market information is the base of a successful effort. Several sources are available. Subscription services, the internet, magazines and trade papers all offer detailed information. "The use of enterprise accounting and financial analysis can point to areas in an enterprise that are not adding to the bottom line.", states Dennis Ginder, Lancaster County Farm Management Agent.

What do you want to protect in your business? Variable cost of production, total cost of production, normal profits or unusual profits are possible goals. One of the most important considerations of a marketing plan is your own comfort level.

Based on your production history, decide what percentage of expected production you feel comfortable in pricing at various stages of growth. Be sure to include your personality in the calculations. There are no strict formulas for when a particular percent of production should be priced. If pricing 50% of expected production in April causes ulcers, but you can sleep having 20% priced in April, it is obvious which strategy should be considered.

Your brain is the best fertilizer

There are 5 natural breaks where expected production could



Farm Management

be priced. Prior to planting, immediately following planting, 3 months from harvest, 2 months from harvest and 1 month from harvest.

After you have determined your comfort level for any of these stages, calculate the price you feel is needed. Write down these entry points. Based on your analysis of the fundamentals in the market decide where you will lock in a price for the expected

production. These entry points are a "trigger" for executing forward pricing opportunities.

Now that your marketing plan is complete and written, give a copy to your banker and your broker. The banker needs to be aware of possible margin calls in your hedging account. Now that you have a locked in price for your crop you can lobby for a more favorable interest rate also. The broker will be able to alert you to

Ayrshire Consignments Needed

BOONVILLE, NY - The New York Ayrshire Club will be sponsoring its 30th annual Empire State Spring Sale on May 2.

Consignments are now needed for this sale of purebred Ayrshire cattle. Anyone wishing to consign should send registration papers and, or pedigree sheets to United Ag Services 12 N. Park Street, Seneca Falls, NY 13148 Fax (315) 568-2752.

Sought are animals of all ages especially show quality cattle.

This sale has a history of being an excellent market for both buyers and sellers alike. In order to allow for timely printing of the catalogue, consign-

ments should be in by March 10.

The sale will be managed by Mark Kent of Sennett Sales Inc. and held at the fairgrounds in Cobleskill, N.Y. on May 2 at noon.

Any one having any questions may contact any of the following sale committee members: Jim Patsos Jr. (315) 568-2470; Carl Foland, (518) 872-2747; Jack Bell, (315) 287-1219; Mike Russell (518) 846-7420; or Charles Cerosaletti, (607) 287-5325.

The club will also be looking for consignments for its Fall Production Sale, scheduled for Oct. 3 at the same site.

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