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Market Journal Toolbox

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Producers often rely on cash market sales without the use of forward contracting, futures hedging and other risk management tools for several reasons. Some producers perceive that the use of hedging lowers their net price or increases price variability on average. Others view hedging as a risky price enhancement mechanism that is reliant on being able to successfully forecast futures prices. Selling crops or livestock that have not yet been raised, paying margin calls and dealing with brokers are all viewed as risk-inducing activities for some farmers and ranchers. Many producers indicate their use of forward contracting and hedging is limited most by their understanding of the market institutions, contracts and logistics of these risk management techniques.

Interestingly, Schroeder et al. found that over 70 percent of producers attending an extension conference cited risk reduction as their primary marketing goal. However, less than 20 percent of those same producers used forward contracts, futures hedging or options hedging to lower their risk. Significant economic literature exists that shows practices like futures hedging reduce variability of prices (Berck; Bond and Thompson; Kahl; McKinnon; Schroeder and Hayenga; Zulauf et al.). These studies also confirmed the traditionally expected negative correlation between risk and return, citing that on average, hedging also results in lower prices. Perhaps producers inherently know this and historically have been willing to take on price risk by not hedging in order to receive higher returns. However, there are several reasons why producers may seek to lower their price risk exposure at the expense of returns in the future, and therefore need additional understanding of how to apply risk management practices to their operation.

One consideration producers need to keep in mind when deciding whether or not they will manage price risk is the variability experienced in the market in recent years. Variability in agricultural commodity prices is reflected in recent changes in the futures market. Daily price limits have been expanded in recent years. For example, the daily price
Market Journal Toolbox is comprised of 16 classes taught by UNL educators covering a variety of marketing and risk management tools. Topics discussed include basis trends, seasonality, cash contracting, futures and options hedging, insurance products, government farm programs, new generation contracts and much more. This educational program is unique in that it explicitly identifies which risks each tool manages and how the tools can be used together. Market Journal Toolbox viewers then develop a comprehensive marketing plan based on the need for minimizing production, price and basis risks.

Market Journal Toolbox is a five DVD package with a bonus resource CD. The resource CD contains the PowerPoint slides for each section, a short summary of each section and a glossary of marketing and risk management terms. The CD also includes a tool selector, which assists producers in selecting the necessary combinations of tools to fit the needs of their operation, and a user’s survey that allows them to determine and rate their understanding of the material presented in each section.

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References


