

Managing Volatility: The Experience in the US

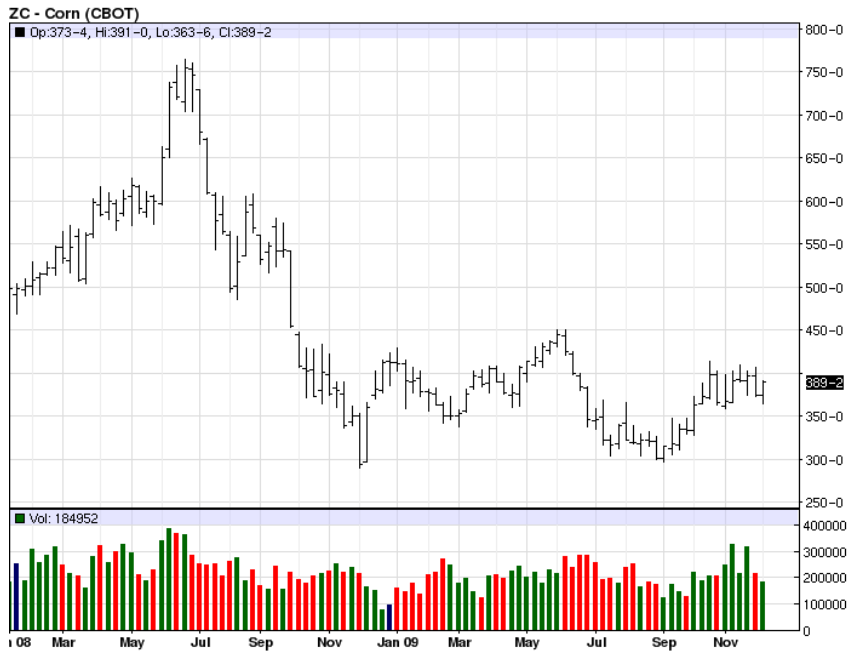
Joe Glauber

Chief Economist, USDA

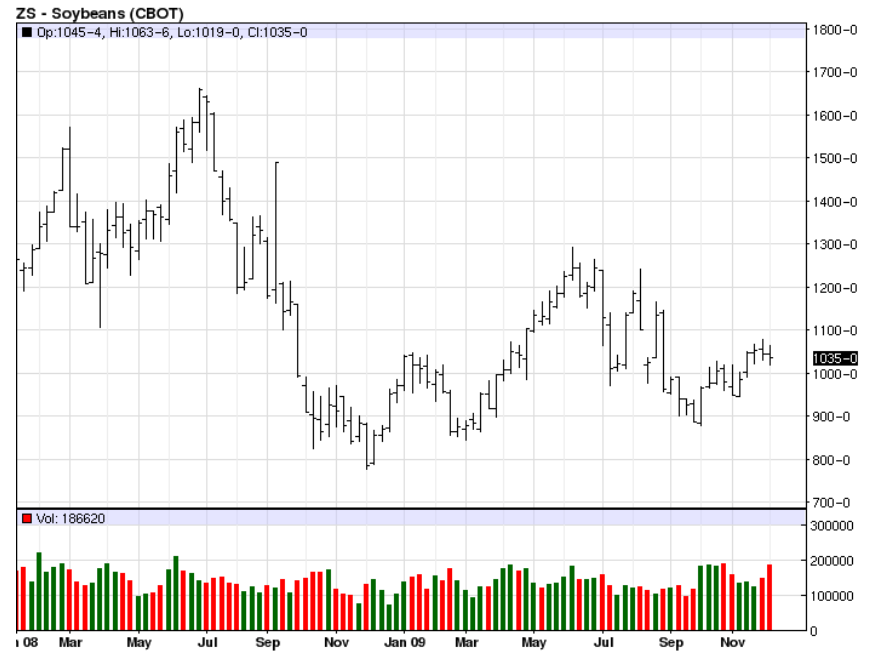
IATRC

December 13-15, 2009

Volatility



DEC 2009 Corn



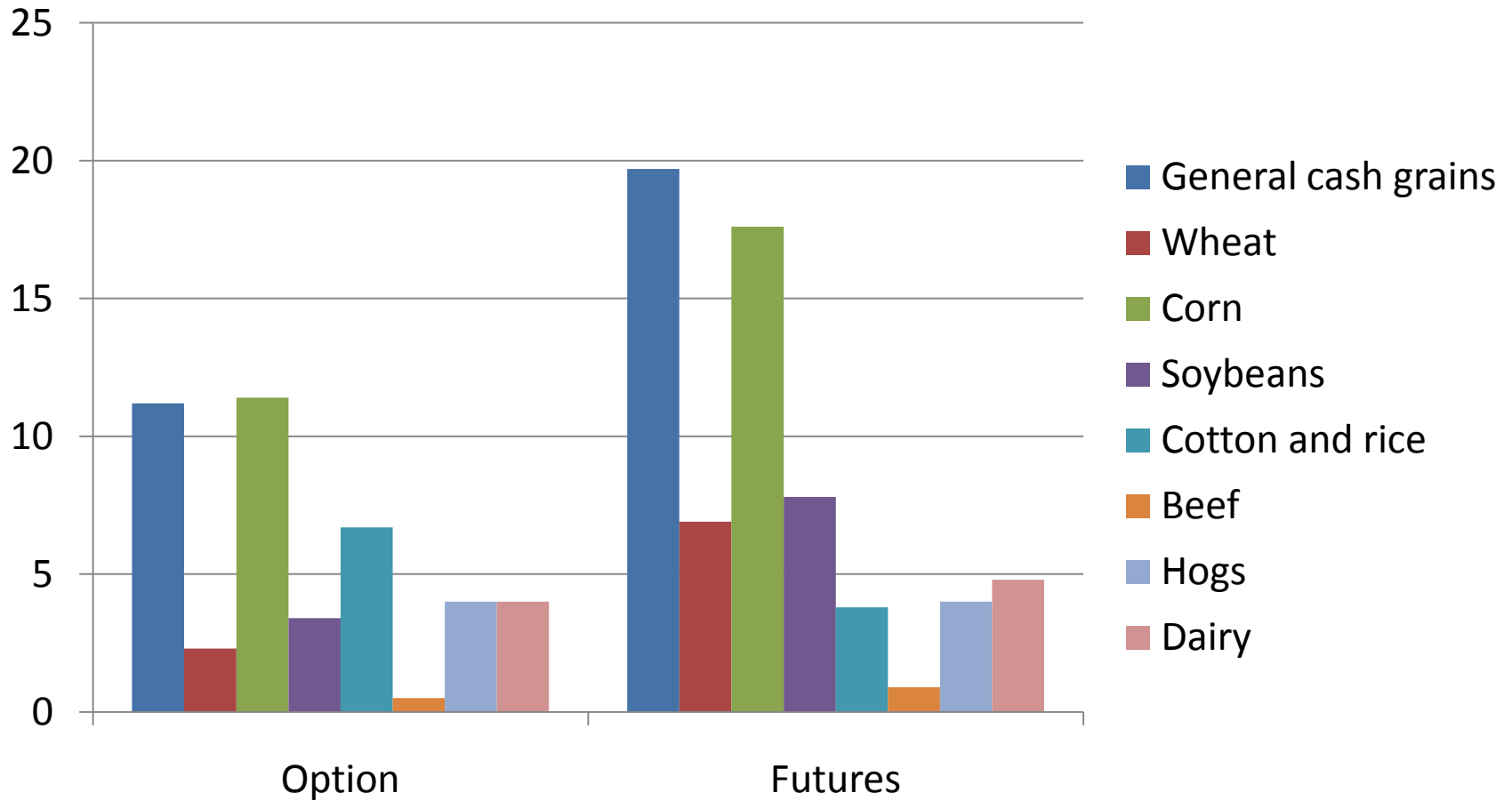
JAN 2010 Soybeans

Use of Risk Management Tools

- Futures and options
- Cash forward contracts
- Production contracts
- Marketing contracts
- Credit
- Non-farm income/savings
- Government programs
 - Price/income support programs
 - Crop insurance
 - Federal marketing orders

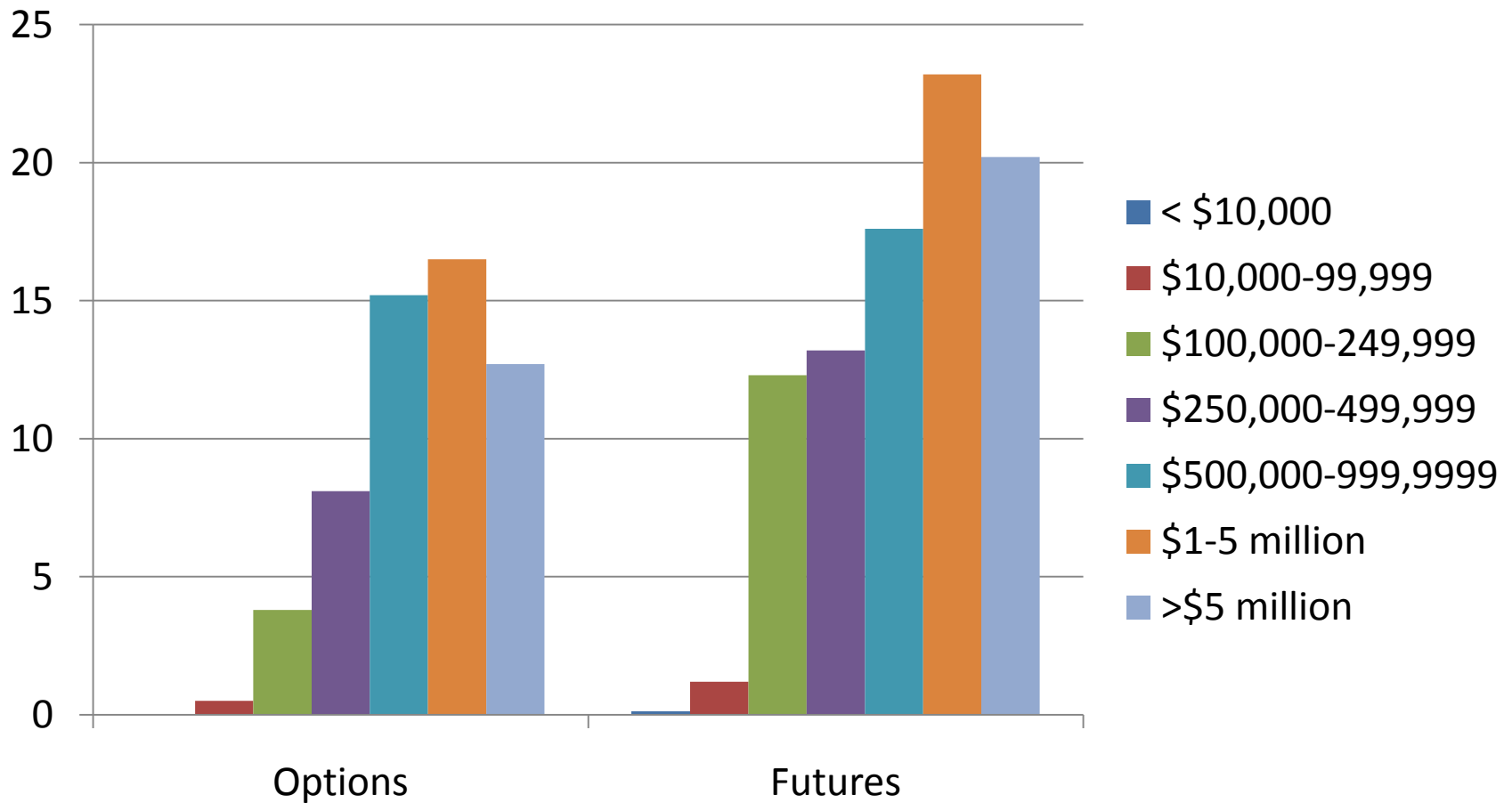
Use of Futures and Options by Farm

percent of farms

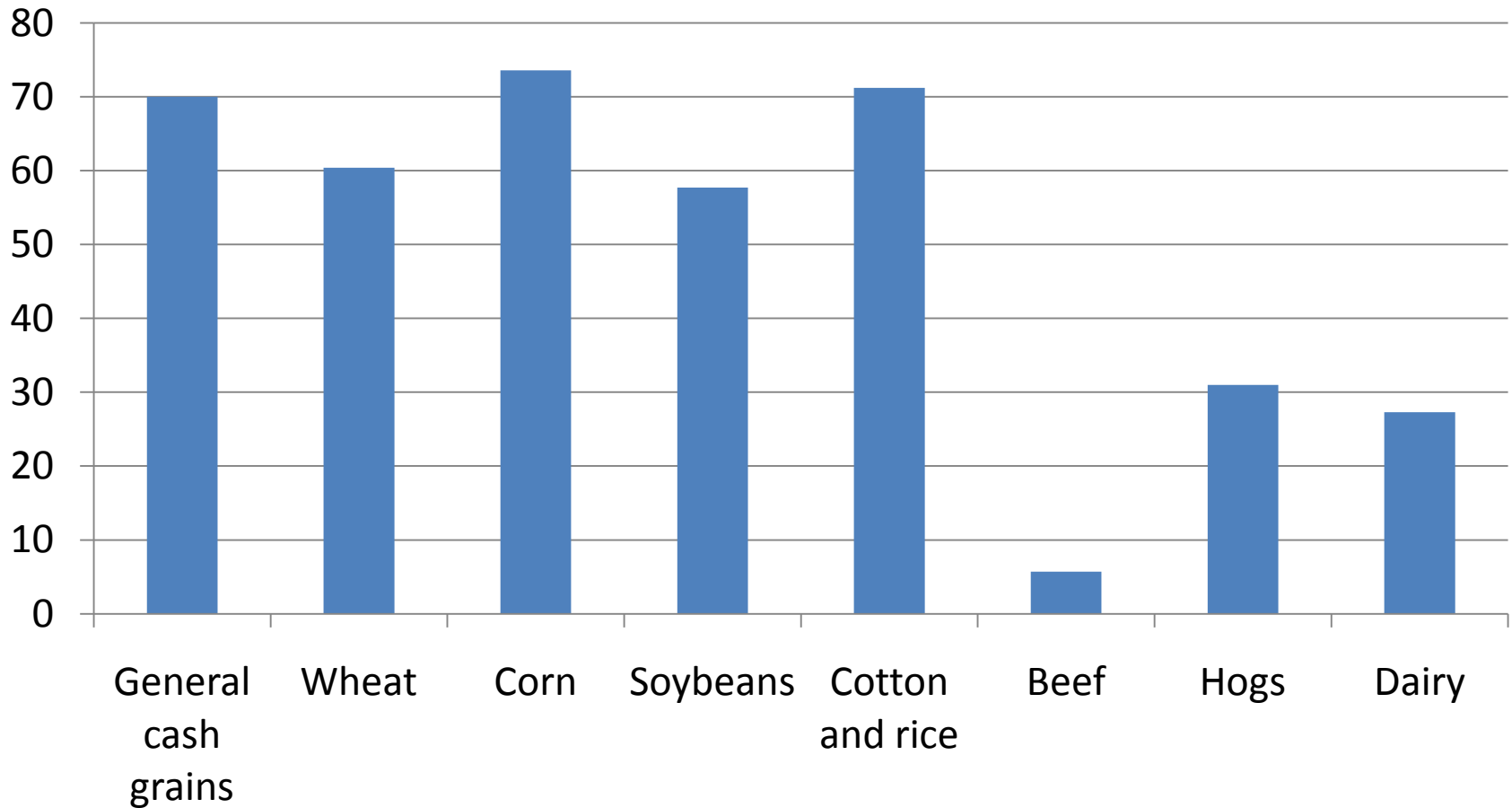


Use of Futures and Options by Farm

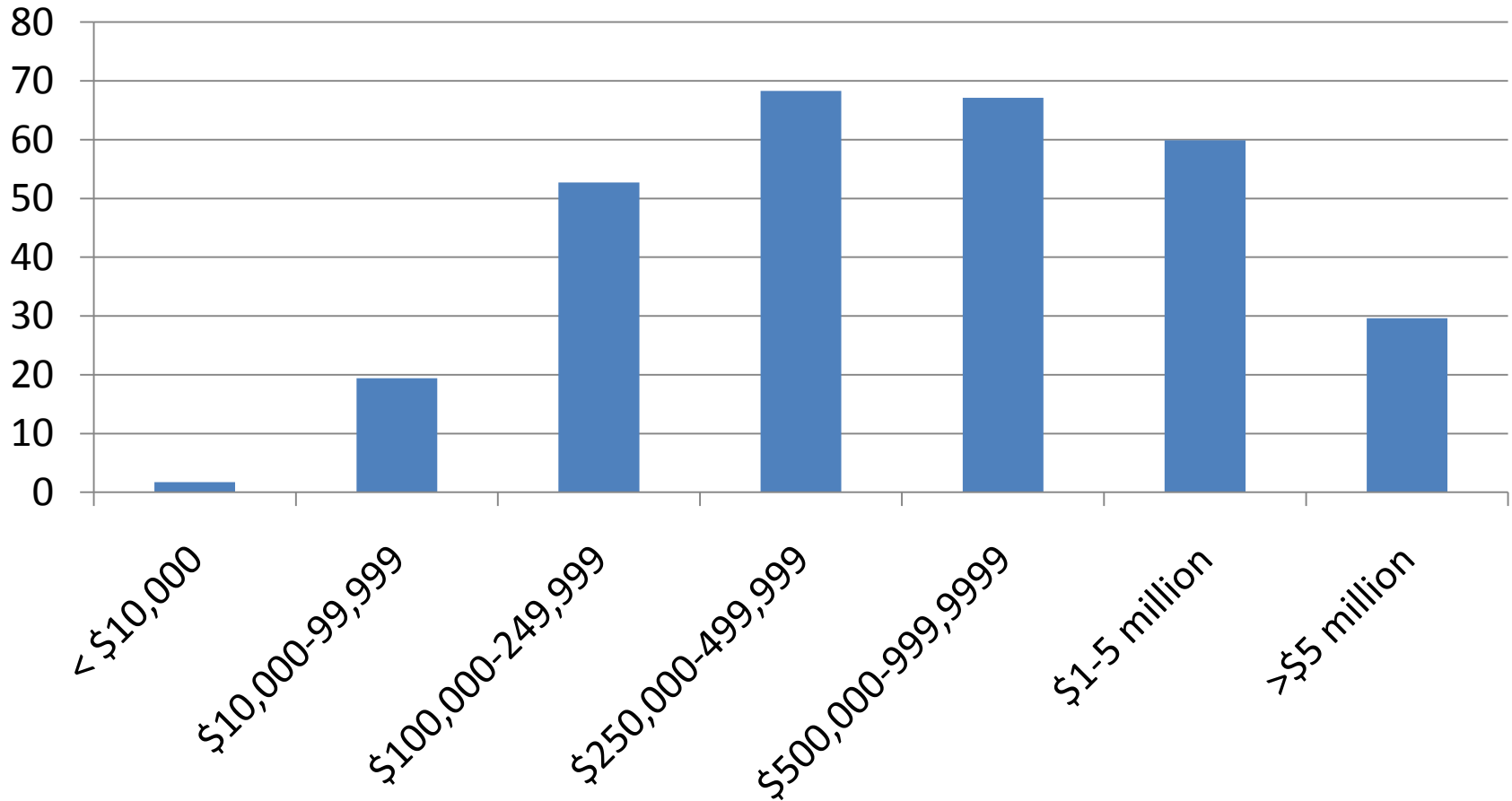
percent of farms



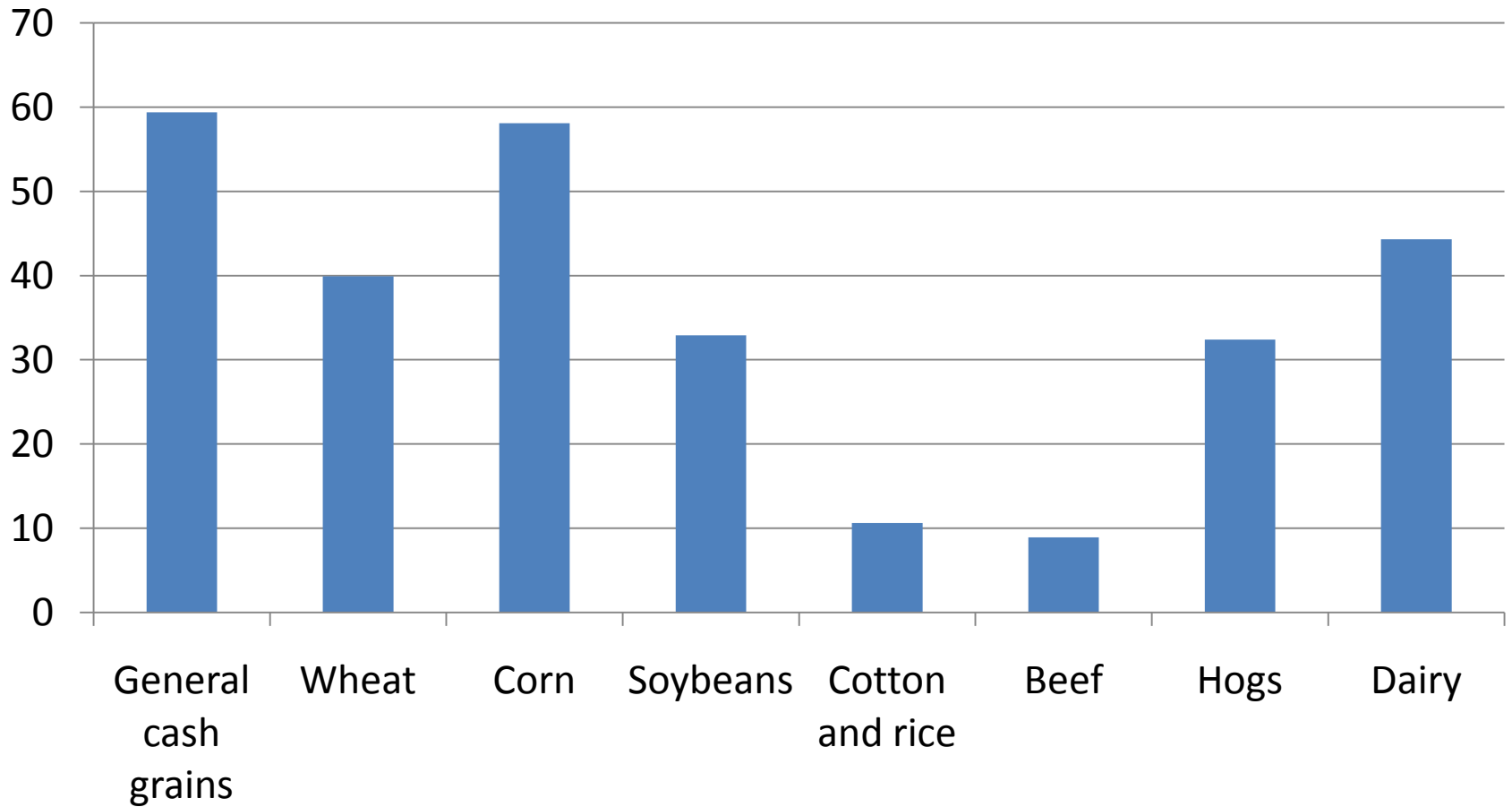
Percent enrolled in crop insurance



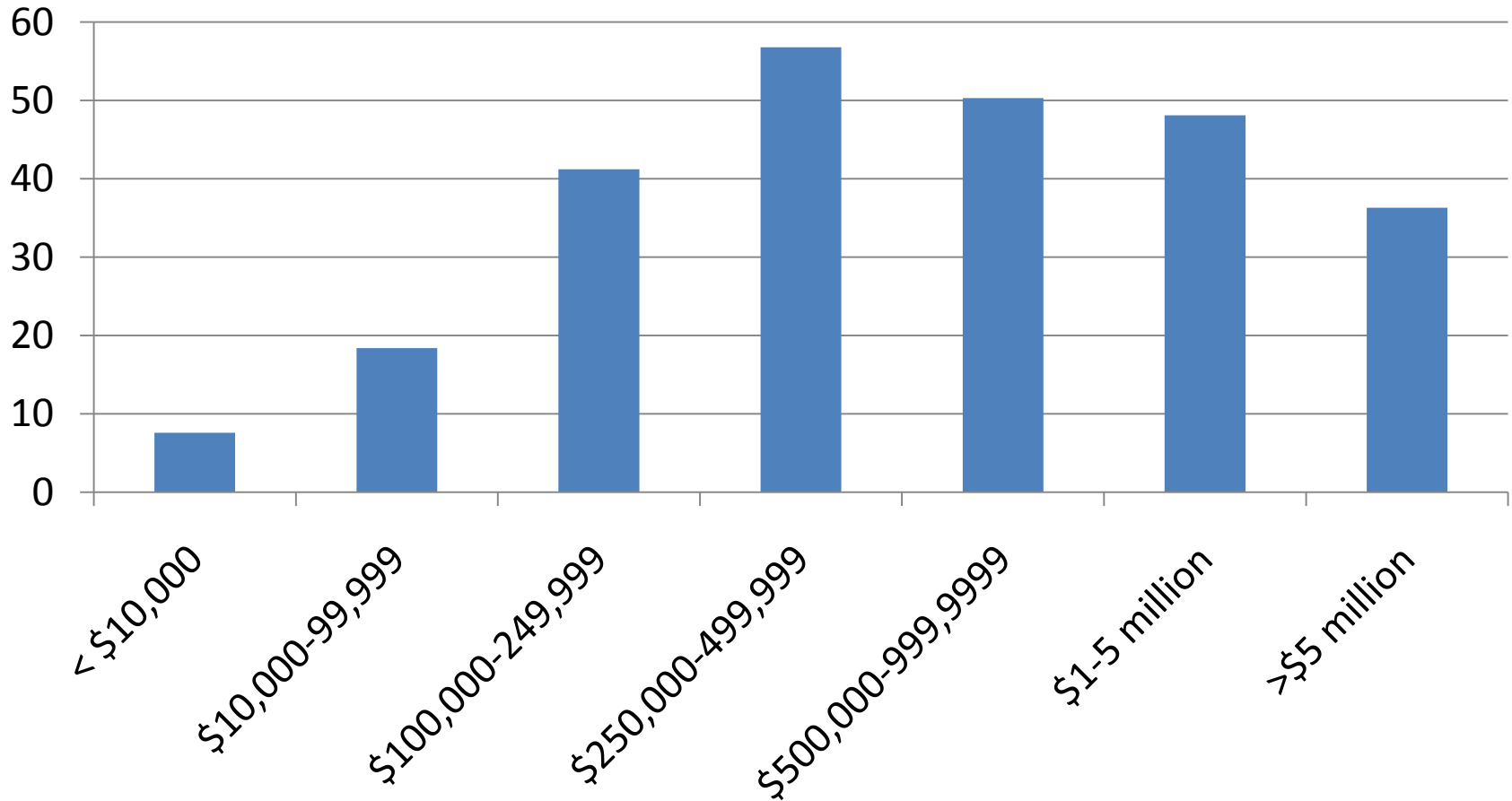
Percent enrolled in crop insurance



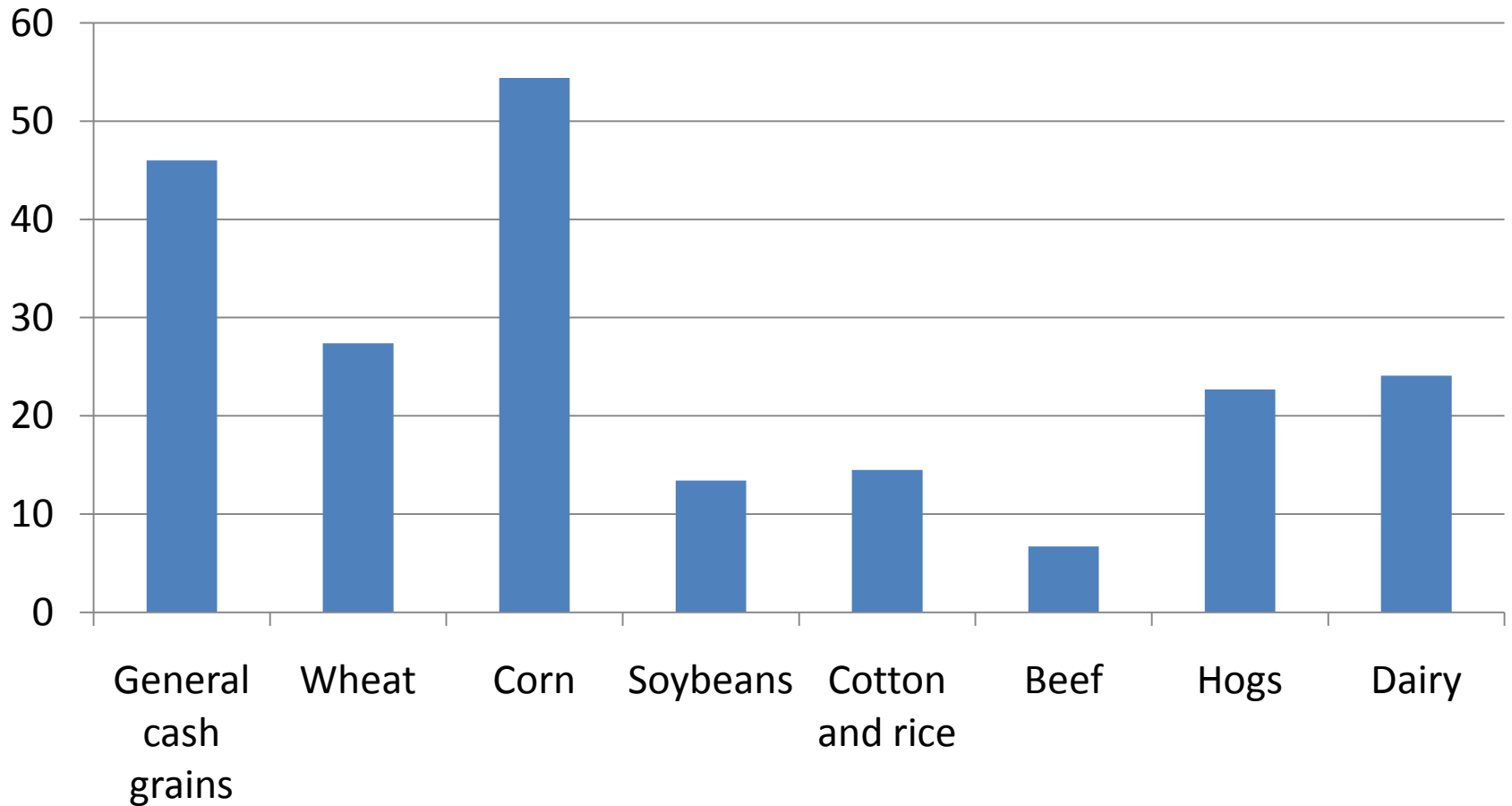
Percent with on-farm storage



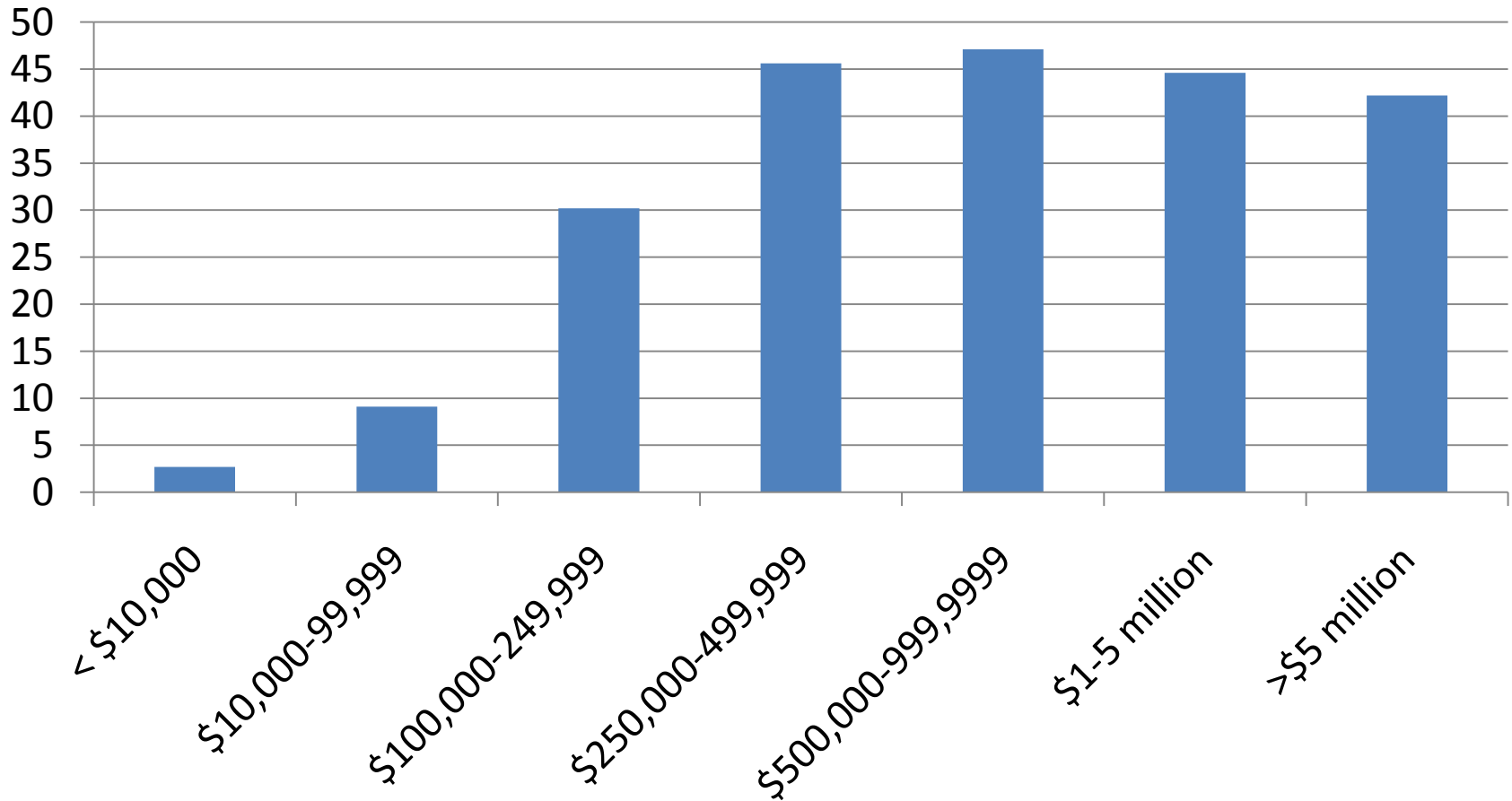
Percent with on farm storage



Percent locking in price of inputs



Percent locking in input prices

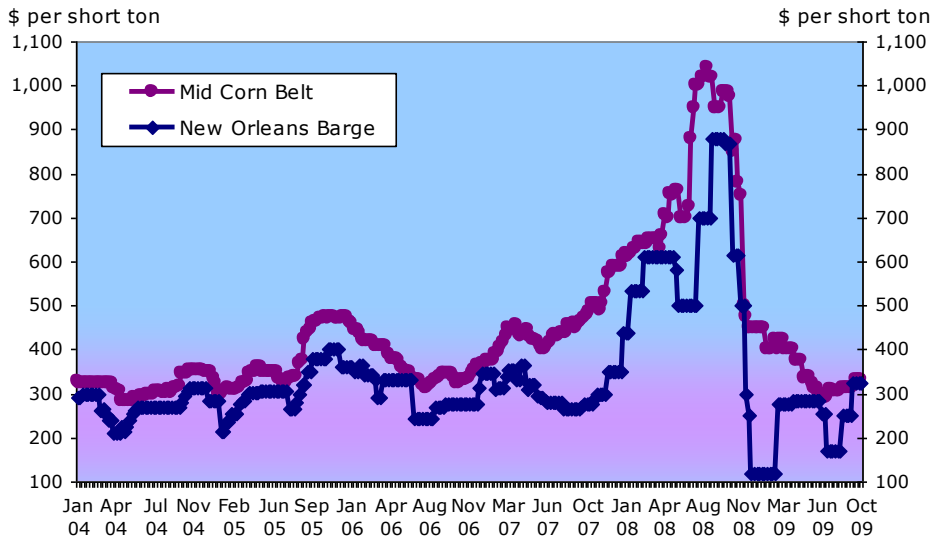


Performance issues

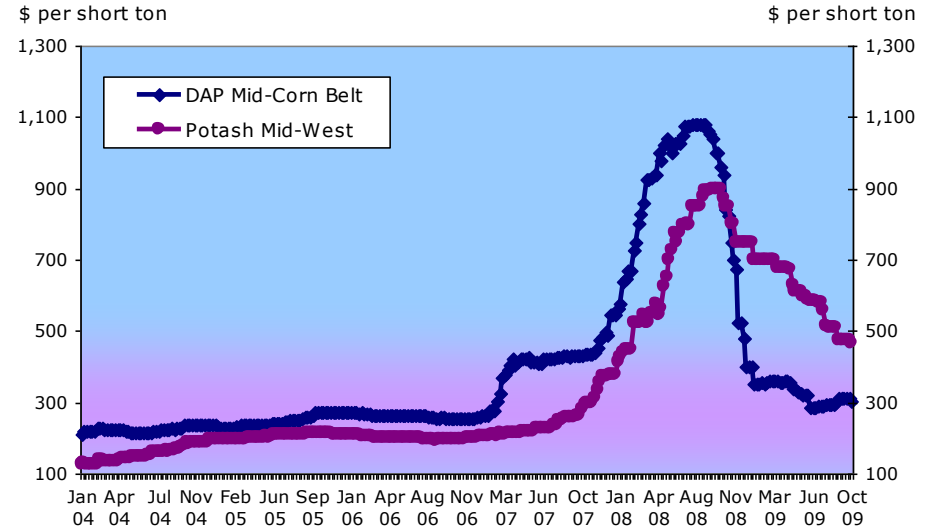
- Contract non-performance/defaults
- Margin calls
 - Shift of risks from elevators to producers
 - Cash forward contracts => basis contract
- Liquidity
- Speculation

Wholesale fertilizer prices

Ammonia Prices

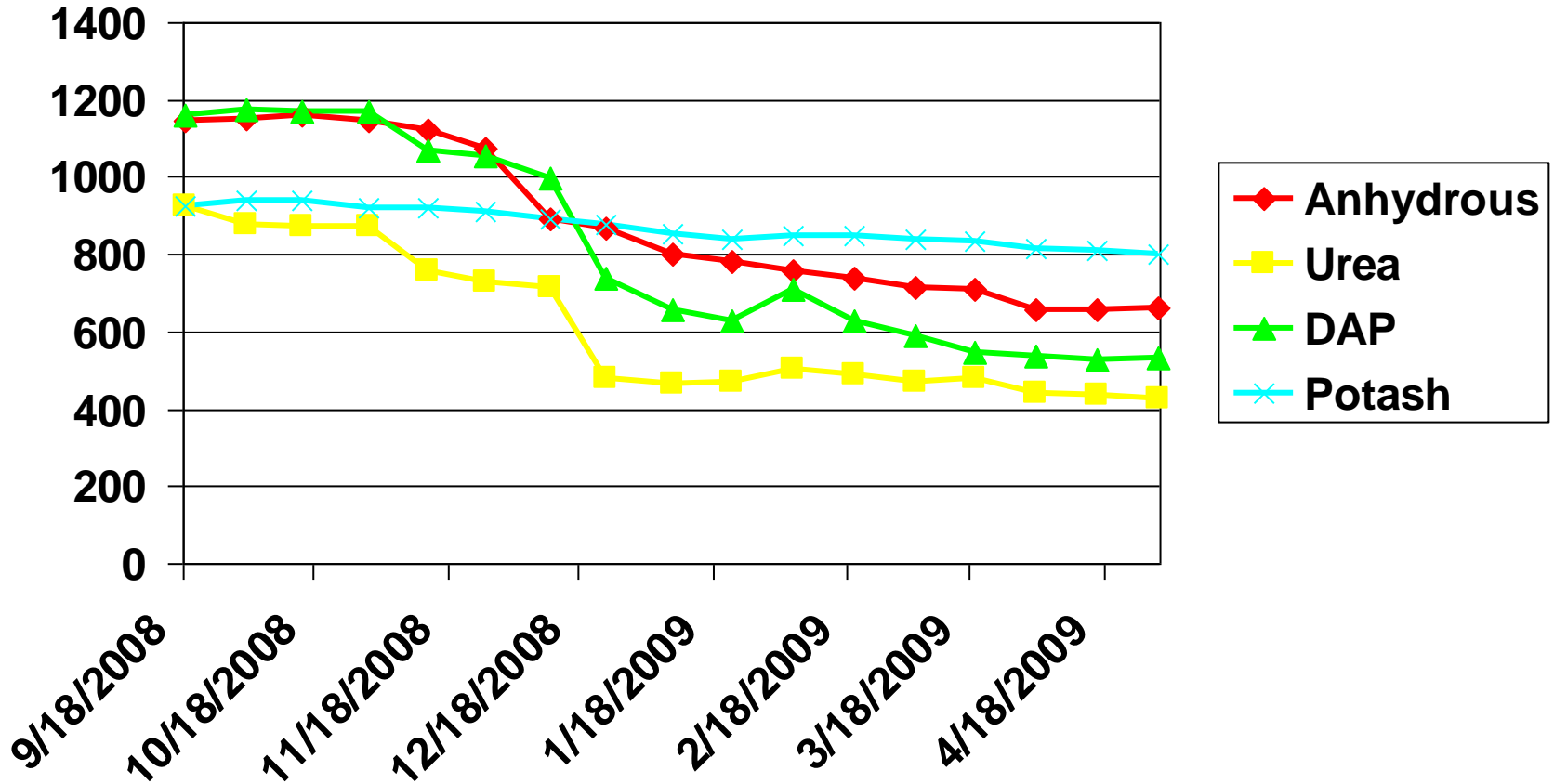


DAP and Potash Prices



Source: Green Markets

Illinois Fertilizer Prices



Concerns over Speculation

- Growth of hedge fund activity; financialization of commodity markets => asset class
- Growth of open interest/volume 2005-07
- Collapse of markets in July 2008
- Congressional interest in changing position limits
- Importance of speculation (Working)
- Little empirical support (Irwin et al.)

Conclusions

- Volatility likely to remain high
- Changing way producers/processors dealing with risks
- Scrutiny of markets/market performance