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H1N1 matters! The impact on the pork complex is real with some estimates pegging China and Russia export cessation between \$15 and \$20 million per week. Perhaps more tangible is the front-end market impact: CME's May Lean Hogs contract finished at \$69.00 on Friday, April 24; ten days later the contract closed business below \$56 – a \$13/cwt difference - the equivalent of about \$25/head. Meanwhile, additional factors also matter in other markets: commodities were neither buffered from H1N1 nor protected from their own overarching concerns within the markets.

The grain markets initially responded negatively due to worries about fallout from potential pandemic and global economic slowdown. That proved to be short-lived; grains bounced back with vengeance due to overriding concerns about planting progress and worldwide supply. For example, the same ten-day period witnessed July soybeans close at \$10.34 on April 24, move all the way down to \$9.82 and then rebound on the way to surpassing \$11. Same story within the corn pits: the July contract initially retested support around \$3.75 but then jumped to higher levels and just four days later was retrying previously established resistance at \$4.15.

No one needs a reminder about the importance and enduring influence of the current financial crisis – it's the predominant issue of 2009 and ever-present in our minds. As such, the potential for a pandemic arrives at an especially critical time – any type of hiccup and/or unfriendly GDP catalyst could prove to be especially problematic for global economic recovery. The World Health Organization referred to the outbreak as a "public health emergency of international concern". And estimates are wide-ranging with respect to the pending economic outcome if H1N1 gets a foothold. Thus, the sharp reaction from traders in the commodity pits.

Influenza aside, avid debate continues among economists about what's ultimately around the corner. The real concern, though, is founded in the treading through current uncertainty. Per that condition, January's Monthly Market Profile noted that players within the commodity markets should prepare themselves for turbulence: "Careful decision-making and risk management has never been more critical – a wrong decision on any given week could prove very costly!" Financial management in the real-time doesn't afford much room for the long-term outlook given the volatile and uncertain markets of late.

Along those lines, my students often question the real-life or practical importance of studying futures markets and/or risk management strategies. ("Is this really important...do I really need to know this?") Broader concerns about the economy coupled with recent developments in recent weeks surrounding swine flu underscore the enduring importance of tackling the potential for unknowns head-on. After all, risk management allows both buyers and sellers to offset major or minor shifts in market conditions depending upon one's strategy. We never know when unknowns or unknown-unknowns (unk unks) are going to appear.

The initial reaction in prices following reports of "swine flu" and subsequent reversal over on the grain side comes on the heels of last year's run-up and sudden plunge in commodity prices. That overall condition, volatility and uncertainty, is driving various companies to do more hedging as noted in the following excerpt (Hedging Now Second Nature for Food Groups, *Financial Times*, August 18, 2008):

Good commodity risk management is consequently becoming an essential part of remaining profitable...Although food companies have long employed 'procurement' people with logistical skills in sourcing commodities, they are now looking for people with experience in trading commodities...Meanwhile, consumer industry bankers say investment banks are putting money in commodities teams that give food and consumer goods companies advice on how to hedge their risk exposure. When corn prices rose or fell 5 cents per bushel per

day, companies could afford not to be hedged because the price movements were not big enough to lower profits. But now that they are swinging by 30-40 cents a day, and prices have soared - which means they account for a bigger proportion of total sales - companies are being hit with considerably higher additional costs.”

And much of the current uncertainty stems from an inherently global economy where agricultural products are especially trade dependent. Single events now possess the potential to ripple worldwide due to market connectedness and thus impact arbitrage on a global basis.

That said, risk management is often facilitated through futures and options markets which exist to fulfill two distinct roles: 1.) risk transfer, and 2.) price discovery. However, the previous excerpt highlights much of the current controversy surrounding the role of futures markets – namely, some argue that various forces within the futures markets are artificially causing amplified price swings.

The argument goes as follows: there’s a positive feedback cycle at work in the markets – price swings attract speculative capital which cause further price swings and so on. In other words, speculative forces are detrimentally contributing to volatility versus absorbing risk exposure among hedgers. Therein enters much of the controversy surrounding long-only index funds; some argue this becomes a self-perpetuating problem: first, index funds invest in commodities thereby driving prices higher and creating volatility...subsequently, large food companies and corporate banks assume significant positions which inherently drives index fund investment even further.

That controversy is another topic for another issue. It’s essential to address, though: overview and understanding of price volatility, risk management and functioning of futures markets has never been more important! That’s especially true when considering the events of late, the outlook for continued global economic uncertainty, currency fluctuations, and politics within agriculture’s heavy dependence upon international trade.