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Producer Wire

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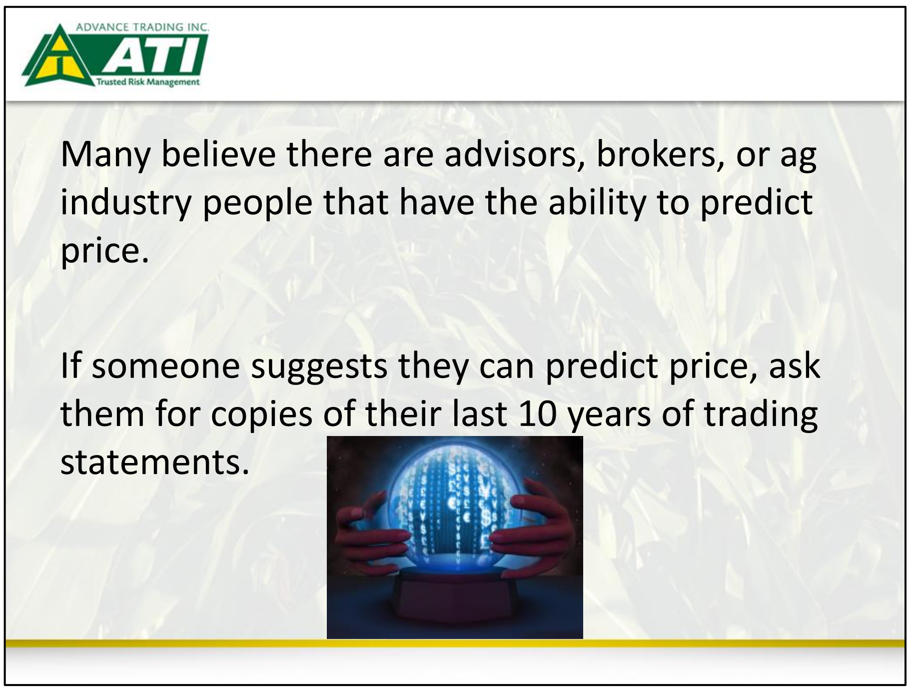
Marketing During Increased Price Volatility: It's About Protecting, Not Predicting

As reflected by the sharp increase in volatility in soybean futures on Wednesday, the wide array of factors that simultaneously affect the markets makes predicting day-to-day price movement impossible. Turning market uncertainty into opportunity is a primary objective of a disciplined risk management strategy that is designed to defend your balance sheet. Your *Advance Trading* advisor stands ready to assist in the execution of a customized marketing plan for your operation.



LIVESTOCK

Kansas cash cattle prices were up $2.65 cwt from last week at $158.56/cwt. At the current price, a feedyard that was not hedging lost $224.24 to $239.06 per head depending on how the feed was purchased. Projections indicate a loss for un-hedged producers.. (Read more...)

EGGS/POULTRY

Egg prices were down 30.7 cents/dozen from last week at 233.3 cents/dozen but remained above estimated production costs.
Total production costs were up 1.1 cent/dozen from the week before at 80.1 cents/dozen. With this, producer margins were positive 153.3 cents/dozen.
(Read more...)

Highlights

A strategy that is built upon managing a position can turn market uncertainty into opportunity

A wide array of fundamental factors simultaneously affect the market daily, making price prediction impossible

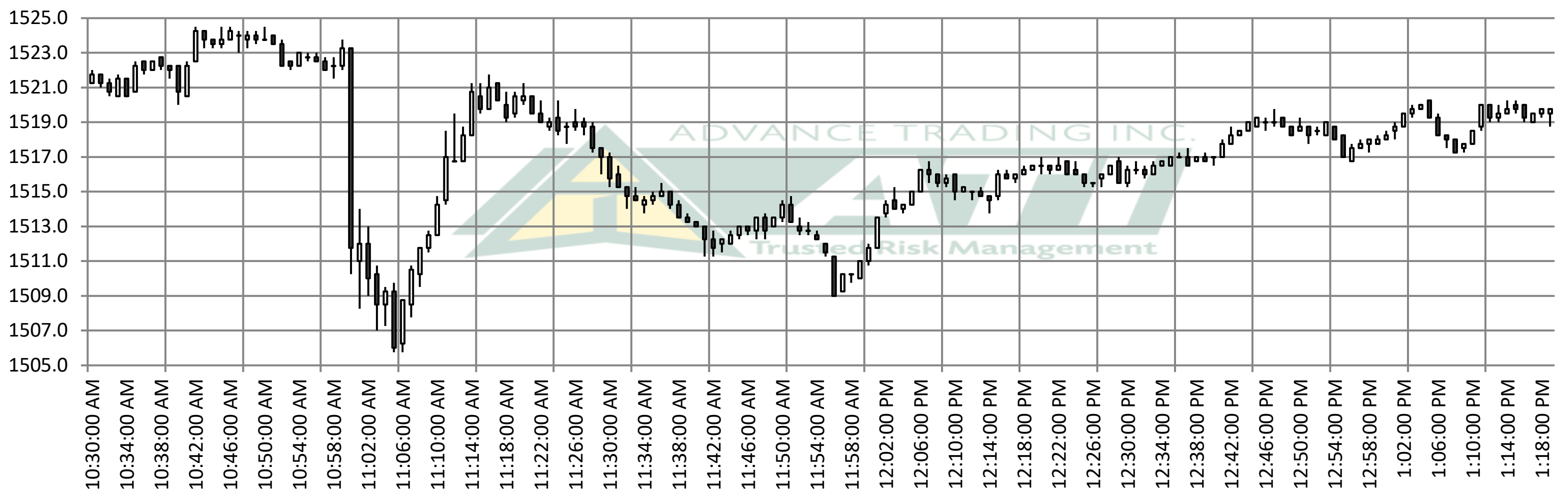
Egg prices were higher from the previous week but remain above estimated production costs

Ethanol grind: 1,000,000 barrel/day for week end Feb. 3—dn 2.7% v. last week but up 0.6% v. 2022

Wednesday's volatile soybean market is confirmation that predicting day-to-day price movement is impossible

What occurred in the soybean market on Wednesday is a textbook example of the risk in attempting to predict price. The much-anticipated USDA monthly Supply/Demand report was set for release at 11:00 am CST. At 10:40 am CST, March 2023 soybean futures were trading at $15.20 and nudged up to $15.23 just prior to the release of the report. When the USDA at 11:00 am pegged U.S. ending stocks of beans at 225 mbu—nearly 7% above the average trade guess of 211 mbu—March futures promptly plummeted nearly $0.15. By 11:05, the contract had fallen another nickel to $15.06. Prices then whipsawed higher, rebounding to $15.20 within a few minutes. By the end of trading at 1:20 pm, March futures closed at $15.19 ¾—essentially unchanged from where they were before the report. After the dust had settled, a natural question to ask is 'what happened'?

SOYBEANS March 2023



The short answer is it's impossible to say. It's worth noting there were some warning signs for weaker domestic U.S. soybean demand prior to the release of the report. For example, the pace of soybean crush has slowed recently and justified the USDA's decision to reduce usage by 15 mbu. A case could be made, then, that the immediate sell-off may have been linked to ideas of increasing stock levels of U.S. beans. At the same time, the pre-report consensus was that the ongoing drought in Argentina would lead to a significant reduction in this month's production estimate. The USDA concurred with that notion, lowering its production estimate 4.5 MMT compared to January to 41.0 MMT. Many believe, however, that production could fall well short of the updated USDA forecast—perhaps below 35.0 MMT. Thus, the rebound may have been fueled by that thought. Or, perhaps, it was a combination of these factors (and others that are not yet apparent). This serves as an important reminder of a key risk management principle: **The wide array of factors that simultaneously affect the markets makes predicting day-to-day price movement impossible, much less projecting long-term trend.** Accepting and embracing this principle is a critical step in developing and implementing a risk management strategy that is designed to defend your balance sheet. A strategy that is built upon discipline in managing a position—as opposed to price prediction—can turn market uncertainty into opportunity. Your *Advance Trading* advisor stands ready to assist in the execution of a customized marketing plan for your operation.

LIVESTOCK

The average cash price for 750-pound feeder cattle was up $2.75/cwt from the week before at $187.00/cwt. Expected corn costs were down $0.13 from the week before at $7.54 /bushel. At these levels, we pencil a breakeven price of $169.78/cwt, up $1.05/cwt from the week before. With cash cattle in June projected to be $159.32/cwt, a feedyard could expect a loss of $130.79 per head.

The Iowa/So. Minnesota weekly average price was up $2.39/cwt from the week before to $54.98/cwt. At this price, our calculations indicate a typical Iowa hog producer with un-hedged hogs lost from $18.06 to $26.25 per head, depending on how the feed was purchased. A sow bred today would farrow a pig in June and with estimated corn costs at $6.68/bushel and soybean meal at $496.50/ton, expected production costs are $64.14/cwt to raise the pig to a live market weight in December. With cash hogs projected to be $76.20/cwt, a pork producer would have a profit of $30.14 per animal.

Broiler egg sets during the latest reported week were above last year's levels. Egg sets during the week ending 01/28/23 were up 0.1% from the week before. Egg sets were up 0.4% from a year ago and average egg set over the last four weeks is up 0.7% from last year. Egg sets were above the 5-year average for this time of year. Last week's egg set was 2.5% more than the average set for this time for 2018 through 2022 and over the last four weeks, egg sets have averaged 2.4% above the five-year average. Chick placements were up 1.9% from year ago levels. Placements during the latest week were up 1.3% from last week and placements over the last four weeks were up 1.2%.

Chicken prices were up $0.01 per bird from last week remaining higher than estimated production costs. Income from both whole broilers and further processed birds was $5.33 per bird. Our estimates indicate feed, growout costs and processing for an average integrator were unchanged from last week at $3.97 per bird. With this, estimated returns were up $0.01 from the week before at $1.36 per bird.

Ethanol grind: 1,000,000 barrels/day for the week ending Feb. 3—down 2.7% versus last week but up 0.6% v. 2022. Stocks were 24.417 mb, down 0.025 mb from the prior week, and down 0.382 mb versus last year.

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