

WATER STREET SMARTS

September 21, 2010

Helping Farmers Navigate Choppy Waters

Market Advisor Sam Hudson of Water Street Solutions answers questions from Brownfield's Ken Anderson on today's markets.

Q. Let's talk about the run-up we've seen in the grain and soybean markets over the last few weeks, and what you're telling farmers as far as how they should respond to this.

A. Market activity is stemming from the USDA's reported reduction in yield. Acres were cut in June which was the catalyst that got everything started. The corn market has been the headliner on that. We're hearing from farmers a lot of confusion, a lot of skepticism and a lot of frustration because they're not really sure where they need to be. They don't understand where they're at right now and the marketing thing just kind of looms over their heads, causing these frustrations.

There are many opinions about what the markets can do, but it's what you do with that information that counts. We are strongly optimistic about these markets. The way demand is right now, we do not believe the yield is out there. Even areas we thought were going to have the best production such as Minnesota are experiencing yields well below expectations. If that's the case, you have to consider that yield last year was advertised at 164.7. We are skeptical about the accuracy of that number. Some reductions were made to old crop carryouts, but currently 162.5 is only 2.2 bushels below our figure from last year. It's going to be hard to see yields even that close to last year.

For the next report coming in October, I think we need to plan on a number closer to 160. Longer-term, we could see this number as low as 154. Now that's admittedly on the low end, but the reality is that the five-year average is 157.3. Taking this into consideration, you could easily have a 6 in front of corn. If we experience planting problems next spring, an acreage battle, or similar issues on top of that, you could even move to 7.

Q. Not knowing which way it's going to go, what do you advise growers to do?

A. With a new client or even a current one, the most important thing we want to start out with is to know their risks. We need to provide education based on that risk and what it means to their unique operation. Creating a marketing strategy is really important. After talking with many growers about prices, price levels are seemingly good right now but we do not expect them to be so good in the future.

Understanding your position is important and typically the most *neglected* part because everyone focuses on marketing. We recommend starting with a complete financial analysis. Then we evaluate to recommend the proper crop insurance product and coverage. The final step is to combine the marketing plan and the crop insurance using appropriate hedging and risk management strategies.

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Q. So Water Street Solutions really takes a look at the whole enterprise before you go ahead and make recommendations to people.

A. Absolutely. We make important decisions after understanding where a grower stands and determining the best strategy for each individual operation. We work with bankers to set up hedge lines if we're going to use hedge strategies.

Another unique experience growers will gain with Water Street Solutions is education. We value helping the farmer understand their position and why we are recommending a particular strategy as opposed to telling them what to do. We provide the education so that we can minimize their fears.

All opinions expressed in this commentary are solely those of Water Street Advisory. Trading commodity futures and options involves significant risk. Please always consider these risks and evaluate your suitability based on your financial condition.