

Grain Marketing: Getting Back to the Fundamentals

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Executive Summary

Fundamental Analysis

- Assessment of price based on supply and demand factors
- Anticipating the “market clearing” or “equilibrium” price
- Most popular analytical tool is the balance sheet
- Balance sheet is constructed for a marketing year and is an accounting of potential supply, consumption and year-ending stocks

Balance Sheet for Corn

- Forecasts start a year before harvest and are continually updated for two years
- Goal is to systematically and objectively evaluate potential crop size and consumption
- Supply and consumption forecasts result in a forecast of year-ending stocks that is a measure of relative abundance or shortage of the crop
- The ratio of year ending stocks to total annual consumption is used to forecast marketing year average price based on historical relationships
- Stocks-to-use ratio is a short-cut method to represent the complexity of the interaction of supply, consumption and price

Forecasting Corn Supply

- Anticipate planted and harvested acreage based on recent patterns and current prices
- Anticipate average yield based on historical trends and weather and crop condition information as it becomes available
- Incorporate USDA acreage and yield forecasts as they become available

Forecasting Corn Consumption

- Forecast food and industrial use based on trends
- Forecast exports based on world production prospects, economic conditions, exchange rates and trade policies
- Forecast feed and residual use based on trends and current livestock inventories
- Update all forecasts with reports of actual use as they become available

Forecasting Average Price

- Expected US average marketing year price is a function of projected stocks-to-use ratio
- Translate US price projection into an Illinois price projection

- Compare price projection (value) to average marketing year price implied by futures