

# Risk Management Tools

Managing Volatility In The Grain Markets

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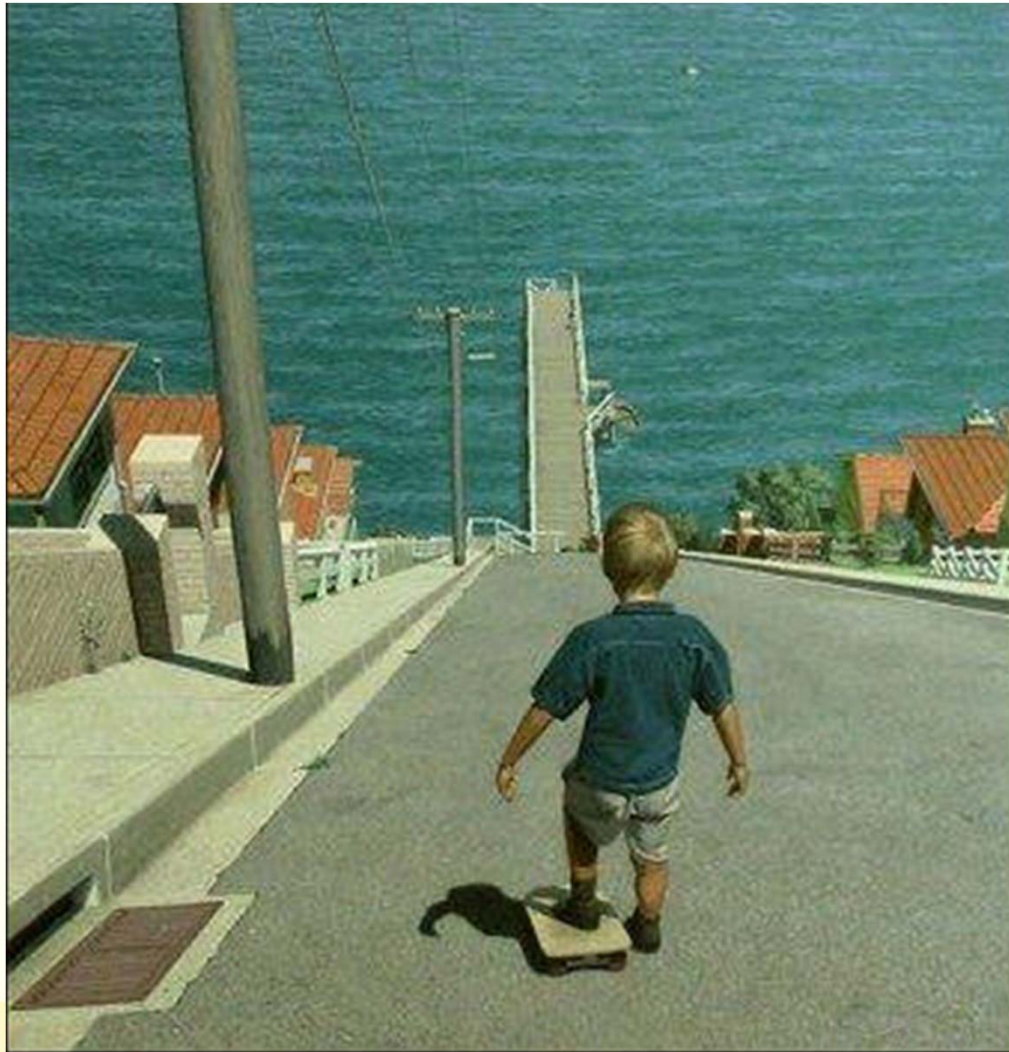
# Risk Management Needs

- Prices
- Yields
  - Typical Production Cycle Problems
- Natural Disasters
- Enterprise Revenue
  - Yields and Prices
- Whole Farm Revenue
- Your Family and Lender

# Tools to Manage Risks

- Government Programs
  - NAP, CAT, LIP, LFP, ELAP, ACRE, SURE
- Production Practices
  - Rotations, Alternative Crops
- Insurance
  - Rain/Hail
  - Policies by Commodity/Enterprise
    - Crops and Livestock
  - Group/Region
  - Whole farm
- Marketing
  - Futures, Options, Cash contracts, Basis Contracts

# What Does Risk Look Like



**I would never take that ride!!**

- Production**
- Marketing**
- Financial**
- Institutional**
- Human Resource**

**Are You a Risk Taker?**

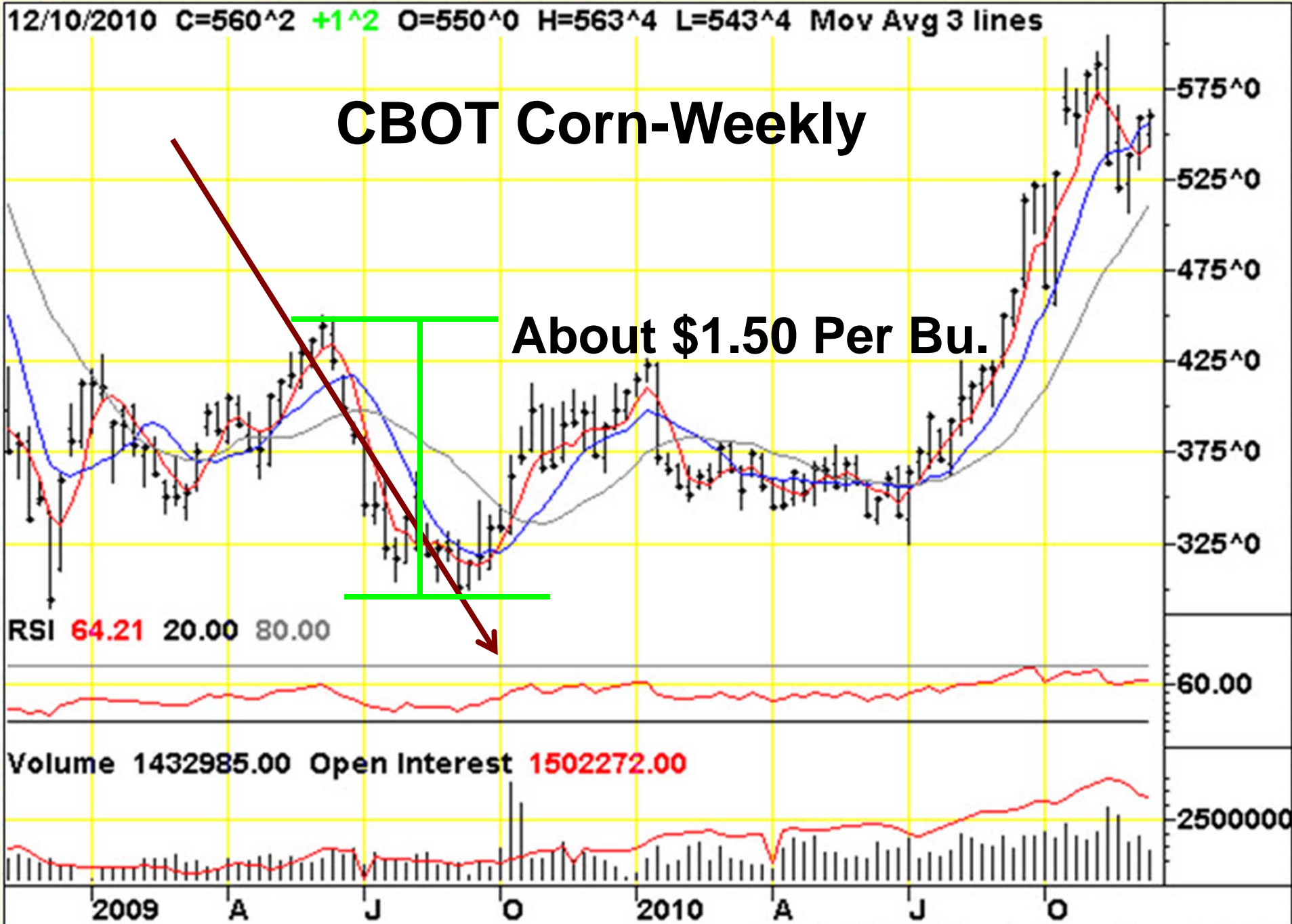
12/10/2010 C=560<sup>^2</sup> +1<sup>^2</sup> O=550<sup>^0</sup> H=563<sup>^4</sup> L=543<sup>^4</sup> Mov Avg 3 lines

# CBOT Corn-Weekly

About \$1.50 Per Bu.

RSI 64.21 20.00 80.00

Volume 1432985.00 Open Interest 1502272.00



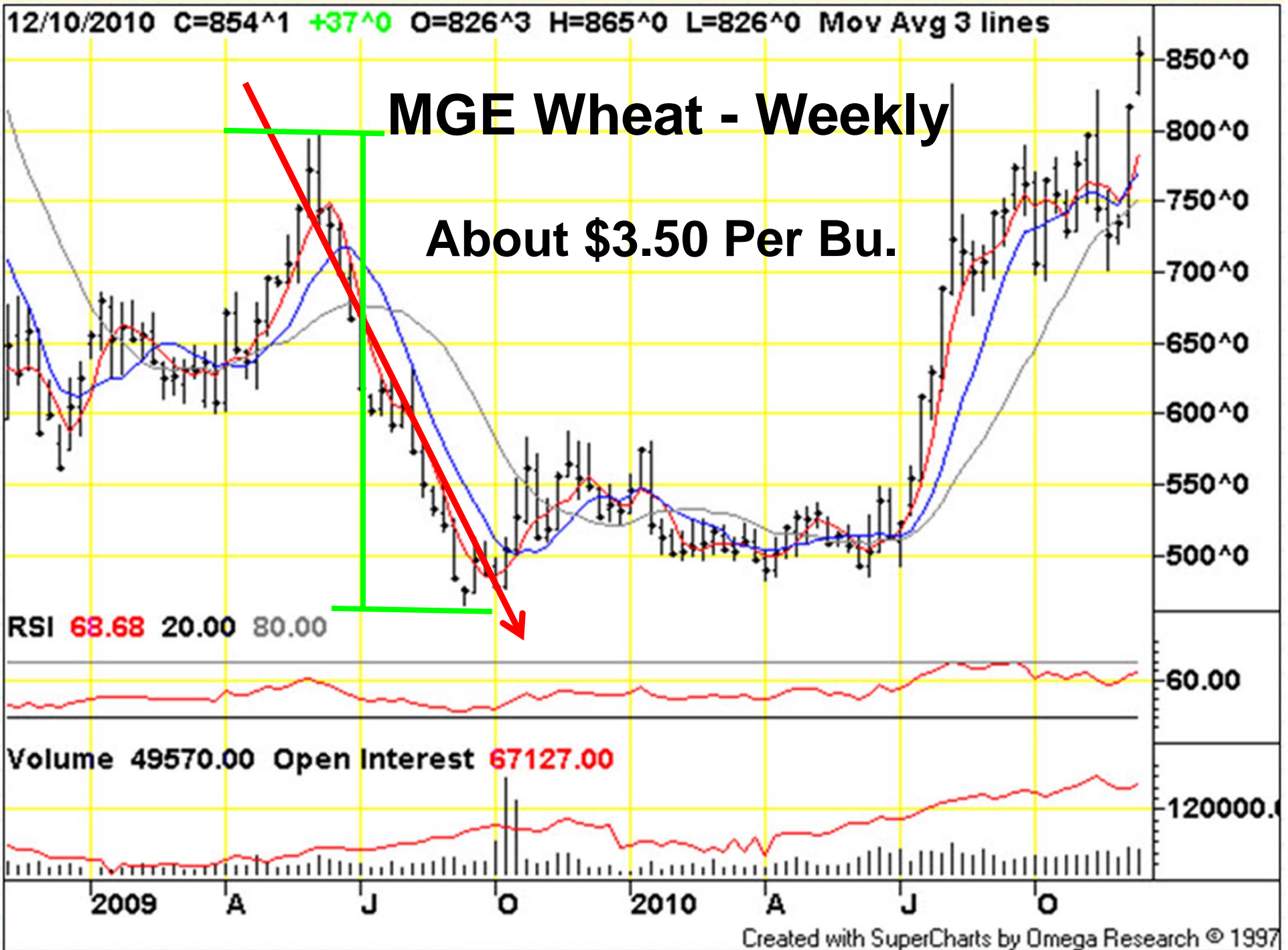
12/10/2010 C=854^1 +37^0 O=826^3 H=865^0 L=826^0 Mov Avg 3 lines

# MGE Wheat - Weekly

About \$3.50 Per Bu.

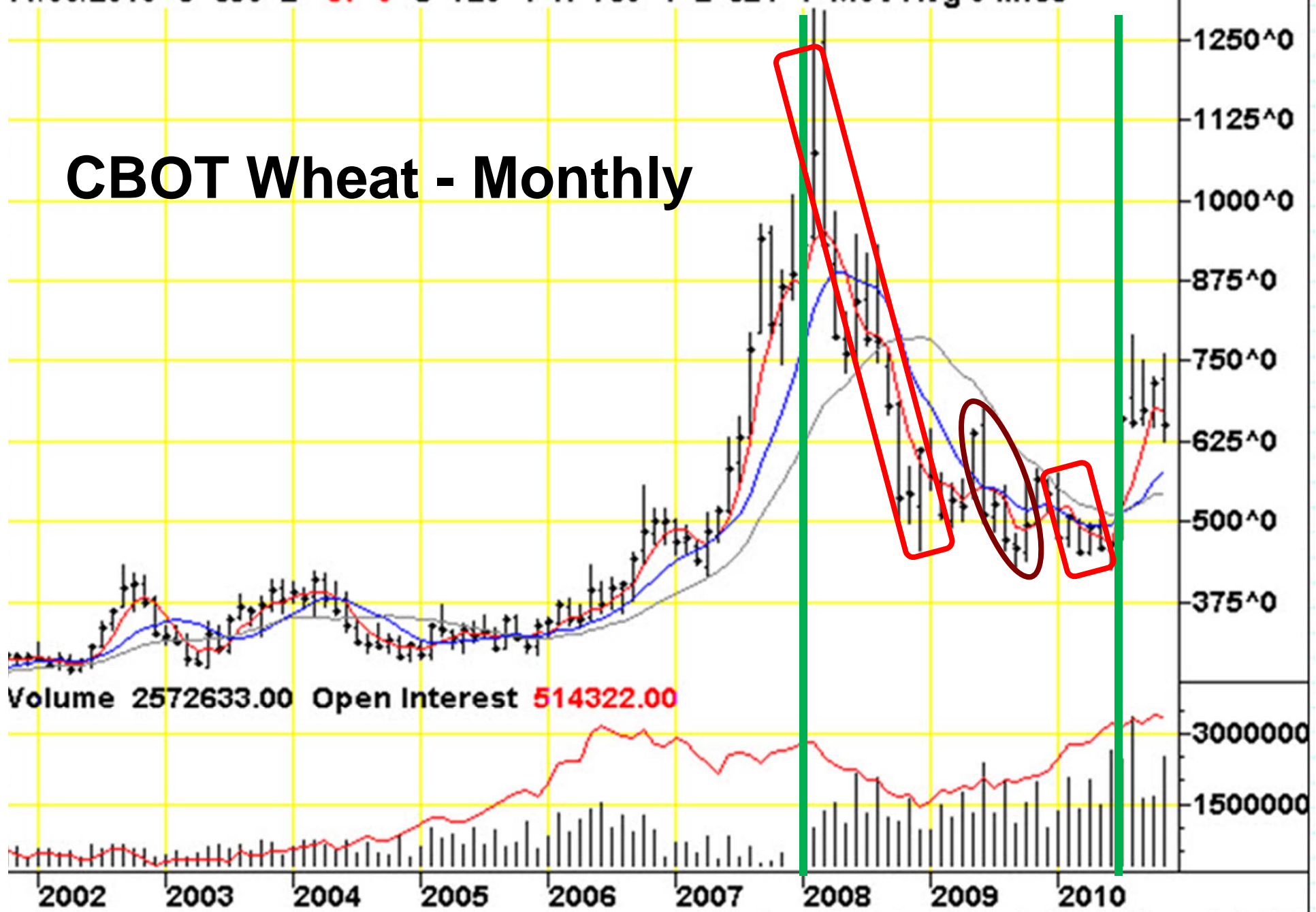
RSI 68.68 20.00 80.00

Volume 49570.00 Open Interest 67127.00



11/30/2010 C=650^2 -67^0 O=723^4 H=760^4 L=624^4 Mov Avg 3 lines

# CBOT Wheat - Monthly



Volume 2572633.00 Open Interest 514322.00

# Marketing and Risk Management

Marketing is not about our ability to affect the prices we receive.

Marketing is about our ability to take an attractive price when it is offered.



# We Do Take Unnecessary Risks??



# Characteristics of Good Managers

- Stay on top of each situation
  - Research and gather good information
  - Manage from an informed position
- Ability to act when an opportunity presents itself

# Comparative Analysis

- Combo Policy Plans, Futures, Options
  - Combinations of these risk protection tools
- Software by
  - Duane Griffith, Montana State University
  - Matt Diersen, South Dakota State University

# Three Time Periods/Points

- Sales closing dates for insurance products
  - Fall or Spring dates
- The period of time after the fall Sales closing date OR before spring Sales Closing and the end of the insurance period
- RMA Harvest Price is announced



EXTENSION



**South Dakota  
State University**

This program allows comparison of levels of price protection offered by futures contracts, options contracts and the new Combo Policy offered by RMA which has consolidated several previous insurance policies into one policy. All three products use similar information when calculating the net price offered (level of price protection) for each tool. Adjustments are made for the differences in the way futures, options and Combo Policy "plans" are implemented and the transactions cost incurred for each product.

To complete this analysis, use the tabs across the top of the screen, going from left to right, and complete requested information on each page. Please note that some information, such as the current futures price at purchase time or initial position and the expected futures price at sale or time when the initial position is offset appear on several pages. You do not have to enter one of these prices more than once. Changing a value that appears on one page changes that value everywhere it appears. This also allows you to change numbers in "What If" analysis to see how price protection levels vary and how different factors affect price/yield/revenue protection strategies.

Each individual page (tab) may have several data entry steps. Make sure you complete all that are necessary for the comparison you wish to make. The Summary Results tab allows changing key value previously entered

Data Entry Demo: For any cell with a blue background, you can move your mouse over the cell and left click and drag up or down to change the cell value. If your computer is relatively slow, this may not change the values very fast. You can also double click and type in a new number, but you must delete the existing number first.

Number	Multiplier Percent +/-	Results
1,000	100%	1,000

**Mouse Over to Activate Off/On**

**Click to Activate Off/On**



**Check Box to Display/Hide input, results or other information. Try it.**

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**USDA** United States Department of Agriculture  
National Institute of Food and Agriculture

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**Comparative Risk Management Analysis: Futures, Options, Combo Policy Plans**

Questions?

