

Producer Wire

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Effective Risk Management Strategy: Keep it Simple

As January begins to wind down, weather in South America remain on the front burner. Weather markets are unpredictable and price change can happen very fast. Effective risk management in an uncertain environment entails developing and implementing a strategy that provides price protection, yet also enables participation in market movements. Regular communication with your *Advance Trading* advisor is prudent in serving as a reminder of the importance of consistency in following your risk management plan.



Any strategy/risk management plan should be simple enough that it can be explained and understood in a typical conversation.



Highlights

South America weather takes center stage

One of the attractive features of options is the flexibility provided

Broiler egg sets during the latest reported week were below last year's level

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Kansas cash cattle prices were down \$0.97 cwt from last week at \$171.76 projected a loss of \$448.15 to \$490.61 per head depending on how the feed was purchased. Projections indicate a loss for un-hedged producers.



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EGGS/POULTRY

Egg prices were down 21.7 cents from last week at 159.0 cents/dozen and were above estimated production costs. Total production costs were down 0.8 cents/dozen from the week before at 65.9 cents/dozen. With this, producer margins were positive 93.1 cents/dozen.



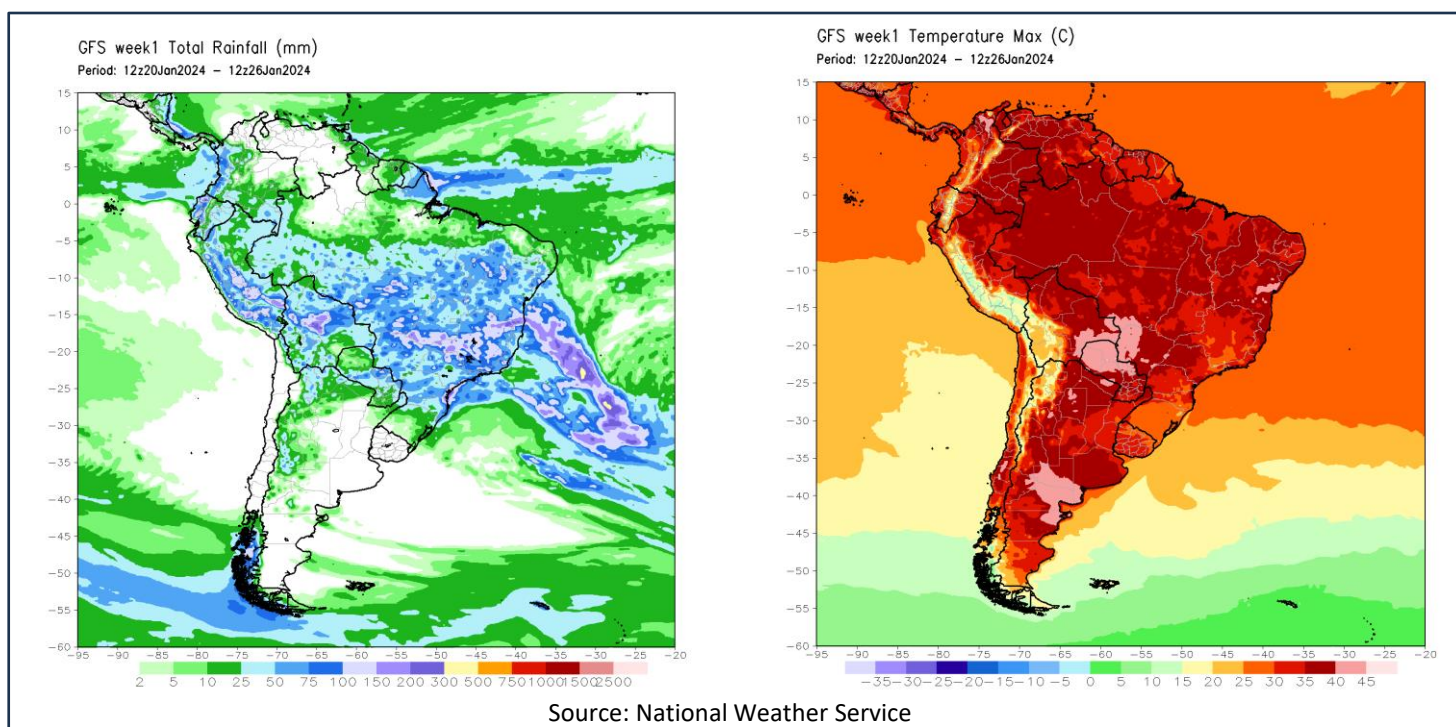
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Ethanol grind:
1,054,000 barrel/day for week ending Jan. 12—down 0.8% vs. last week but up 4.6% vs. 2023

Weather in South America keeps attention of the market

As January begins to wind down, weather in South America remain on the front burner. Nearly ideal conditions have been present over the past 30 days in Argentina as early corn pollination occurs. Looking ahead, however, hot and dry conditions are forecast for the remainder of the month across key production areas. Despite the excellent conditions to date, adverse weather during pollination can still take a toll on yields. A different concern is surfacing in Brazil, where soybean harvest has begun in the largest producing state of Mato Grosso. January is generally the peak of the rainy season in the region and above normal precipitation is forecast over the next 14 days in Mato Grosso; prolonged periods of wetness and high temperatures can result in moldy and shriveled soybeans.

One-week precipitation and maximum temperature forecast: South America (Jan. 20 – Jan 26, 2024)



In the wake of these trends, March corn and soybean futures were able to stabilize on Thursday and Friday. As a student of the market, however, you know that weather markets are unpredictable and price change can happen very fast. **In this uncertain environment, a pricing alternative does not need to be complex to be effective.** Ideally, a strategy/risk management plan should be simple enough that it can be explained and understood in a typical conversation. *One of the attractive features of utilizing options is the flexibility provided.* For example, the purchase of a put option not only provides a price floor for production but also enables participation in upside price movements after the position is established. In addition, a put option does not commit the producer to deliver the production that is being protected. This can be particularly beneficial for crops in a year when poor weather results in a significant shortfall in output relative to expectations, e.g. 2012.

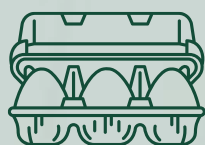
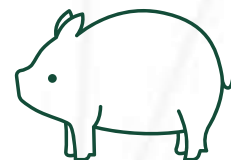
Effective risk management entails developing and implementing a strategy that provides price protection, yet also enables participation in market movements.

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The average cash price for 750-pound feeder cattle was up \$9.50 from the week before at \$232.50/cwt. Expected corn costs were down \$0.07 from the week before at \$5.93/bushel. At these levels, we pencil a breakeven price of \$188.65/cwt, up \$5.63 /cwt from the week before. With cash cattle in June projected to be \$175.13 /cwt, a feedyard could expect a loss of \$168.99 per head.

The Iowa/So. Minnesota weekly average price was up \$0.04/cwt from the week before to \$33.93/cwt. At this price, our calculations indicate a typical Iowa hog producer with un-hedged hogs projected a loss of \$52.46 to \$64.22 per head, depending on how the feed was purchased. A sow bred today would farrow a pig in May and with estimated corn costs down \$0.10 at \$4.39/bushel and soybean meal cost down \$7.30 to \$367.10/ton, expected production costs are \$52.47/cwt to raise the pig to a live market weight in November. With cash hogs projected to be \$69.49/cwt, a pork producer would have a profit of \$42.55/cwt.



Broiler egg sets during the latest reported week were below last year's levels. Egg sets during the week ending 01/06/24 were down 0.8% from the week before. Egg sets were down 1.4% from a year ago and average egg set over the last four weeks is down 0.6% from last year. Egg sets were above the 5-year average for this time of year. Last week's egg set was 0.6% more than the average set for this time for 2019 through 2023 and over the last four weeks, egg sets have averaged 1.5% above the five-year average. Chick placements were down 0.4% from year ago levels. Placements during the latest week were up 2.1% from last week and placements over the last four weeks were down 0.6%.

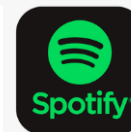
Chicken prices were up \$0.04 from last week remaining higher than estimated production costs. Income from both whole broilers and further processed birds was \$5.70 per bird. Our estimates indicate feed, growout costs and processing for an average integrator were down \$0.02 from last week at \$3.53 per bird. With this, estimated returns were up \$0.07 from the week before at \$2.17 per bird.



Ethanol grind: 1,054,000 barrels/day for the week ending Jan. 12—down 0.8% vs. last week but up 4.6% versus 2023. Stocks were 25.695 mb, up 1.324 mb from the prior week and up 2.293 mb versus last year.

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