Managing Price Risk

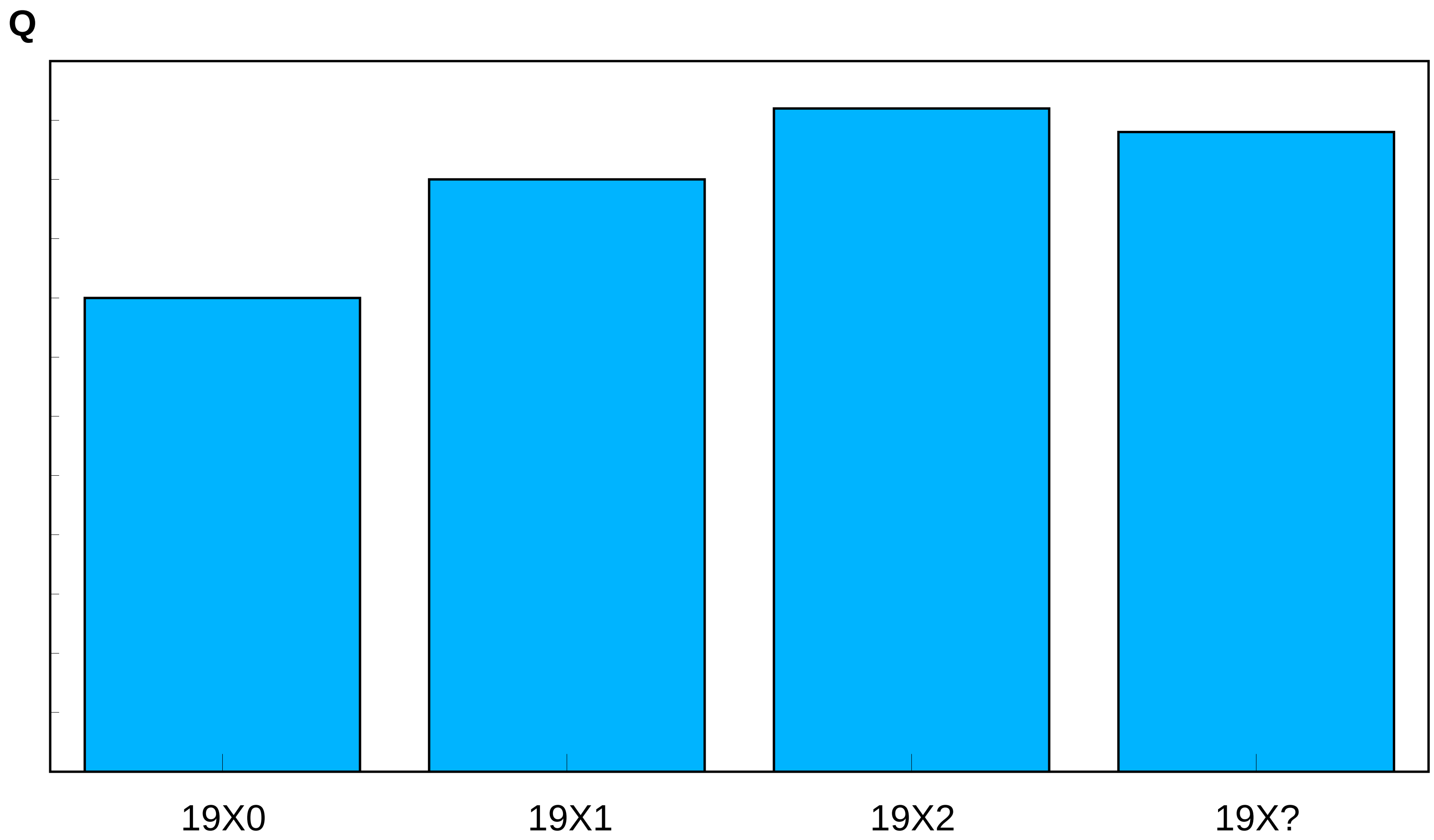
A joint project of the Cooperative
Extension Service, Farm Credit and
Chicago Mercantile Exchange

Risk Is:

Chance of unfavorable or undesirable outcomes such as:

- Poor yields
- Low prices
- High input costs

Buyer Demand



Scenario Analysis

Market description	Price
1. Drought -- widespread	$4.00
2. Drought -- local	$2.30
3. Normal -- local	$3.95
4. Normal -- widespread	$2.25

Price Factors

1. Commodity
2. Time of delivery
3. Market
4. Price

Scenario Analysis

Market description	Price
1. Fed cattle down/feed up sharply.	$65
2. Fed cattle/feed stable; normal weather	$75
3. Feed down/fed cattle up	$85

Fixed-Price Contract

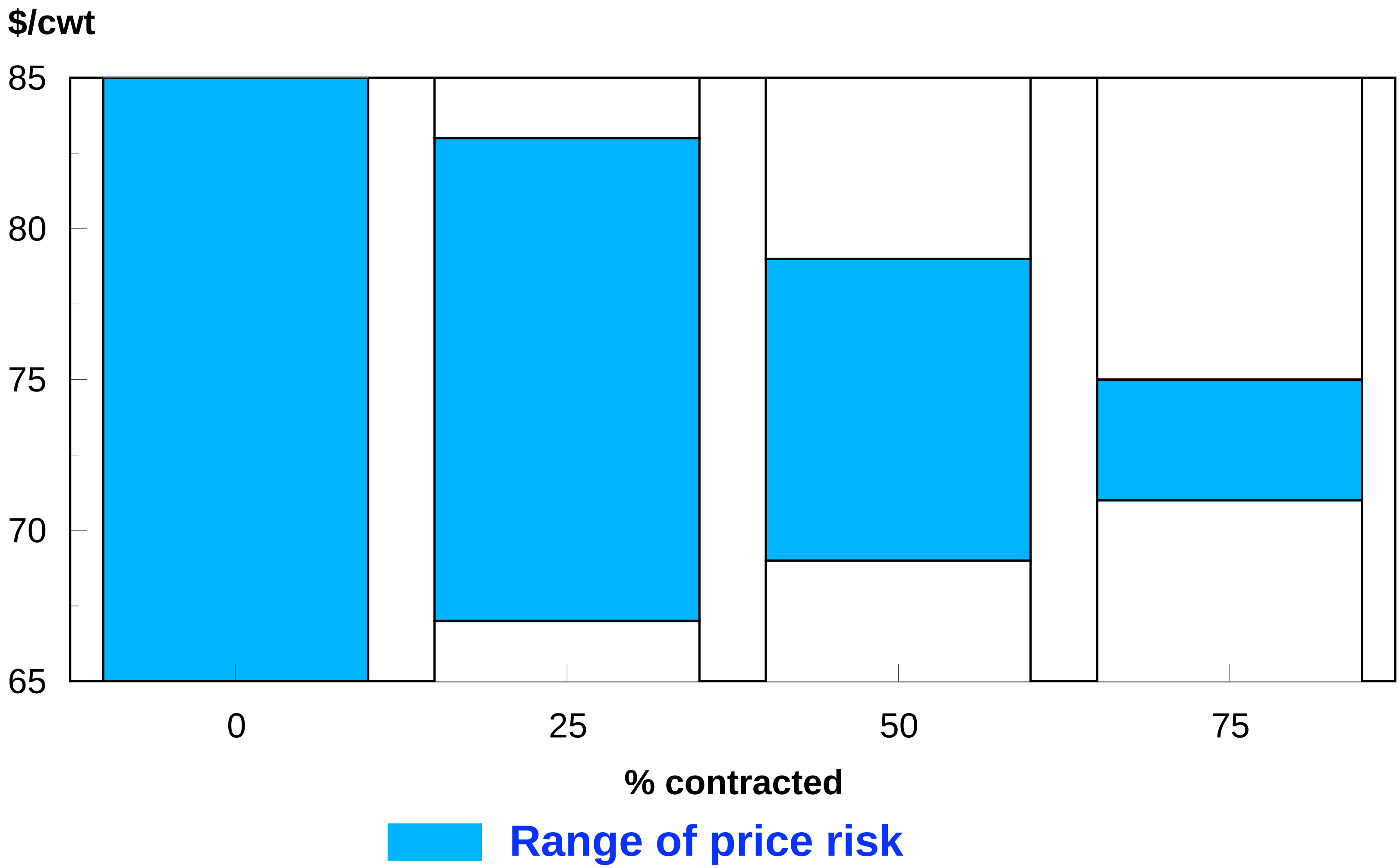
Mutual commitment:

- Producer delivers specified amount of commodity on a specific date.
- Buyer pays a prearranged price

50% Crop Forward Contracted

		Scenario	
	1	2	3
		($/cwt.)	
Contract price	$73	$73	$73
Cash price	65	75	85
Avg. price	69	74	79

Levels of Price Risk



Cost of Forward Contracting

Managers sacrifice the chance of higher prices.

Net Profit

Price	$75
Minus cost	-70
Profit	5
$/cwt. x 300 cwt. $1500	