



# DTN 6 Factor Market Strategies

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## Introduction

- Where do you rate yourself as a marketer?
  
- There are two sides to every market
  - Noncommercial
  - Commercial
  
- What is the market structure telling you?
  - Noncommercial net-futures position
  - Commercial – supply and demand
  - Trend – short-term and long-term
  - Historic Price Probability
  - Seasonal Index
  - Volatility

# MARKET STRUCTURE

## ■ **Two Sides to Every Market**

### ● **Trend**

#### ▶ **Reflects noncommercial position**

» **Commodity funds**

» **Hedge funds**

» **Index funds a system to themselves**

### ● **Futures spreads**

#### ▶ **Indicates market's view of underlying supply and demand**

» **Carry (contango) = Bearish fundamentals**

» **Inverse (backwardation) = Bullish fundamentals**

# MARKET STRUCTURE

## ■ Other factors to consider

### ● Historic Price Probability

- ▶ The percentage of time a given market trades in a certain price range.

### ● Seasonal Index

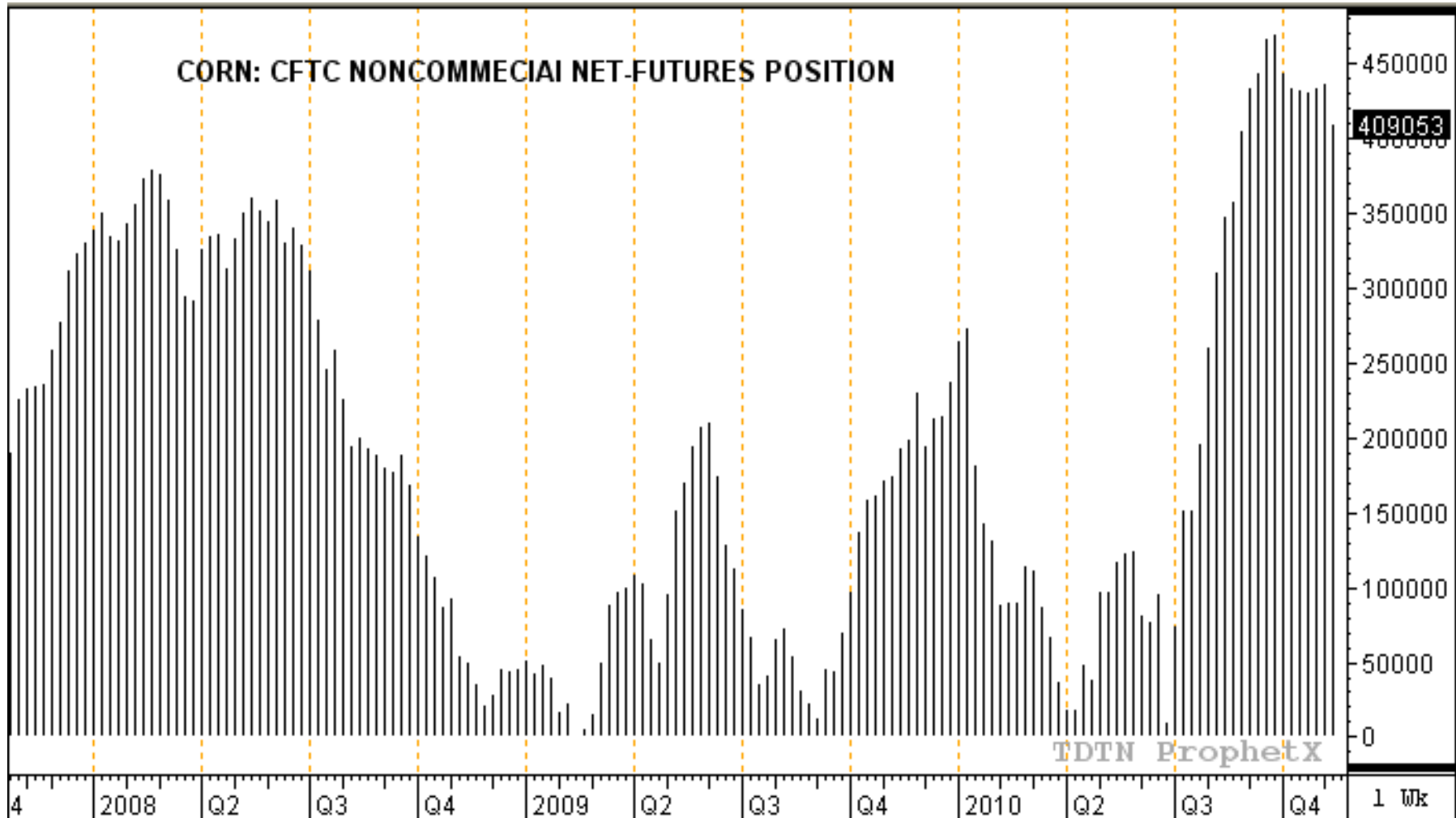
- ▶ The trend of the front-month futures contract as it relates to the 5-year seasonal tendency.

### ● Volatility

- ▶ Indicates how the implied volatility of option contracts compares to the 2-year average.

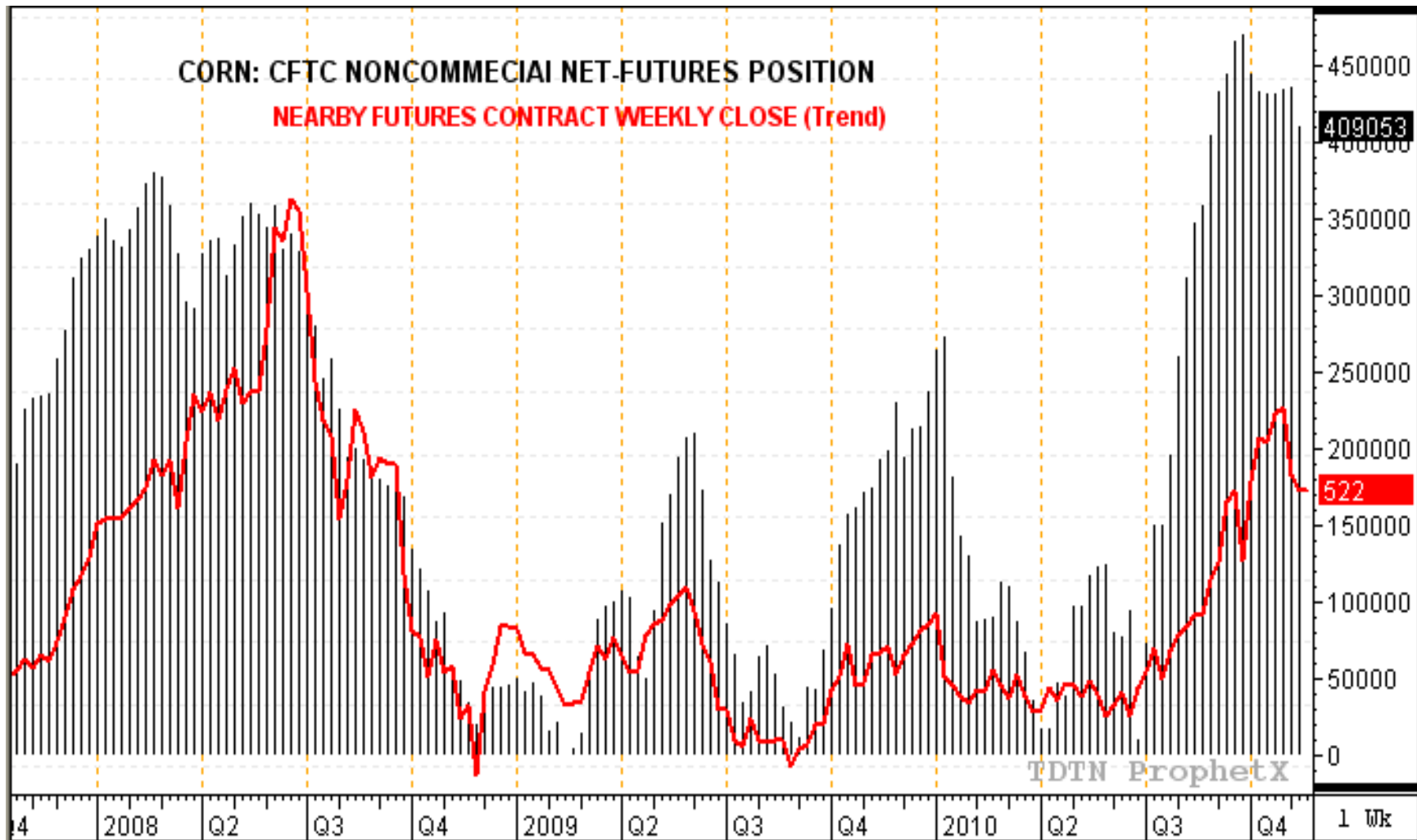
# NONCOMMERCIAL ACTIVITY

Have not held a net-short futures position since late 2005 in corn



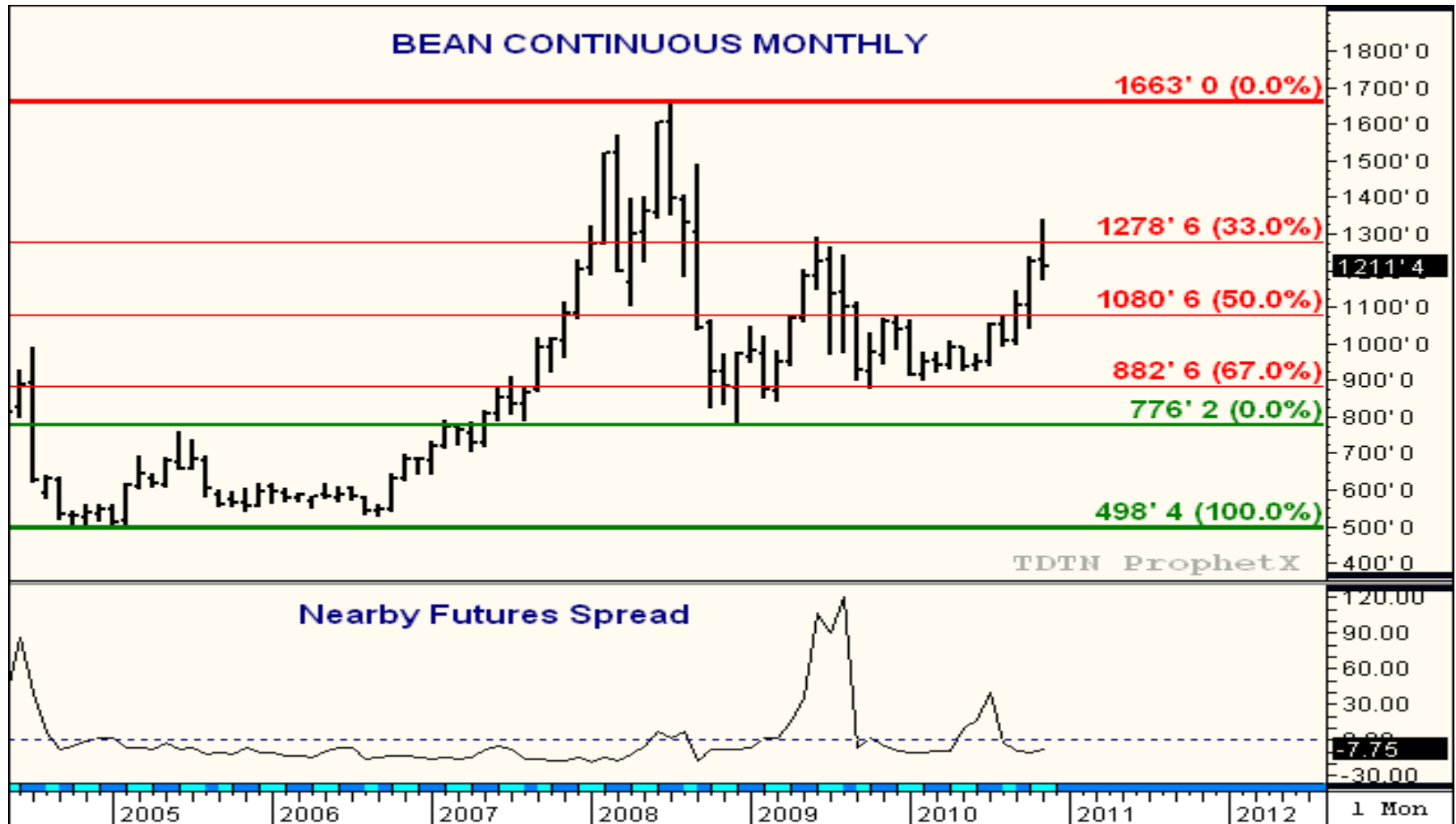
# TREND=NONCOMMERCIAL ACTIVITY

Trend tracks noncommercial activity



# COMMERCIAL OUTLOOK

The carry in spreads reflects true supply and demand picture



## COMMERCIAL OUTLOOK

### Separating fact from opinion

- **U.S. ending stocks by marketing year for soybeans**
  - **2008-2009**
    - ▶ **High of 210 mb February 2009, final came in at 138 mb.**
  - **2009-2010**
    - ▶ **High of 270 mb November 2009, final was 151 mb.**
  - **2010-2011**
    - ▶ **High of 360 mb June 2010, final will be?**



# COMMERCIAL OUTLOOK 2010-2011

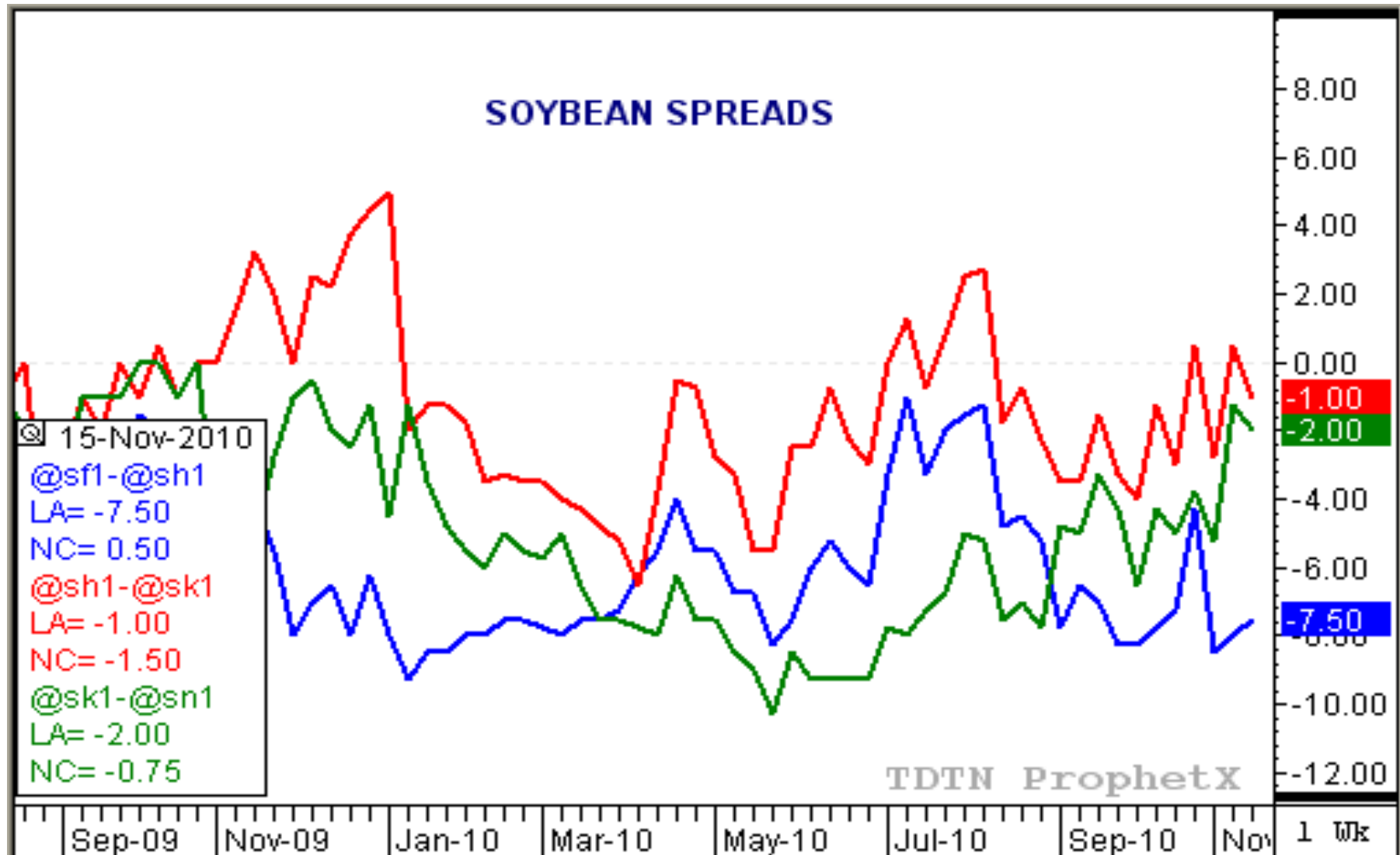
## How much lower can we go?

US Supply/Demand Estimates 11/09

Million Bushels

Crop Year	-----Corn-----			-----Soybeans-----			-----Wheat-----		
	09-10	10-11	10-11	09-10	10-11	10-11	09-10	10-11	10-11
Report Date	11/09	10/08	11/09	11/09	10/08	11/09	11/09	10/08	11/09
Carryin	1,673	1,708	1,708	138	151	151	657	976	976
Production	13,110	12,664	12,540	3,359	3,408	3,375	2,218	2,224	2,208
Imports	8	10	10	15	10	10	119	100	110
Tot Supply	14,792	14,382	14,257	3,512	3,569	3,536	2,993	3,299	3,294
Feed	5,159	5,400	5,300				150	180	180
Crush/mill*	1,340	1,350	1,350	1,752	1,665	1,665	917	940	940
Ethanol Prod.	4,568	4,700	4,800						
Seed/other	30	30	30	108	120	117	69	76	76
Exports	1,987	2,000	1,950	1,501	1,520	1,570	881	1,250	1,250
Total Use	13,084	13,480	13,430	3,361	3,305	3,351	2,018	2,446	2,446
Carryout	1,708	902	827	151	265	185	976	853	848
Stocks/Use Ra	13.1%	6.7%	6.2%	4.5%	8.0%	5.5%	48.4%	34.9%	34.7%
Avg Price	\$3.55	\$5.00	\$5.20	\$9.59	\$10.75	\$11.45	\$4.87	\$5.50	\$5.50

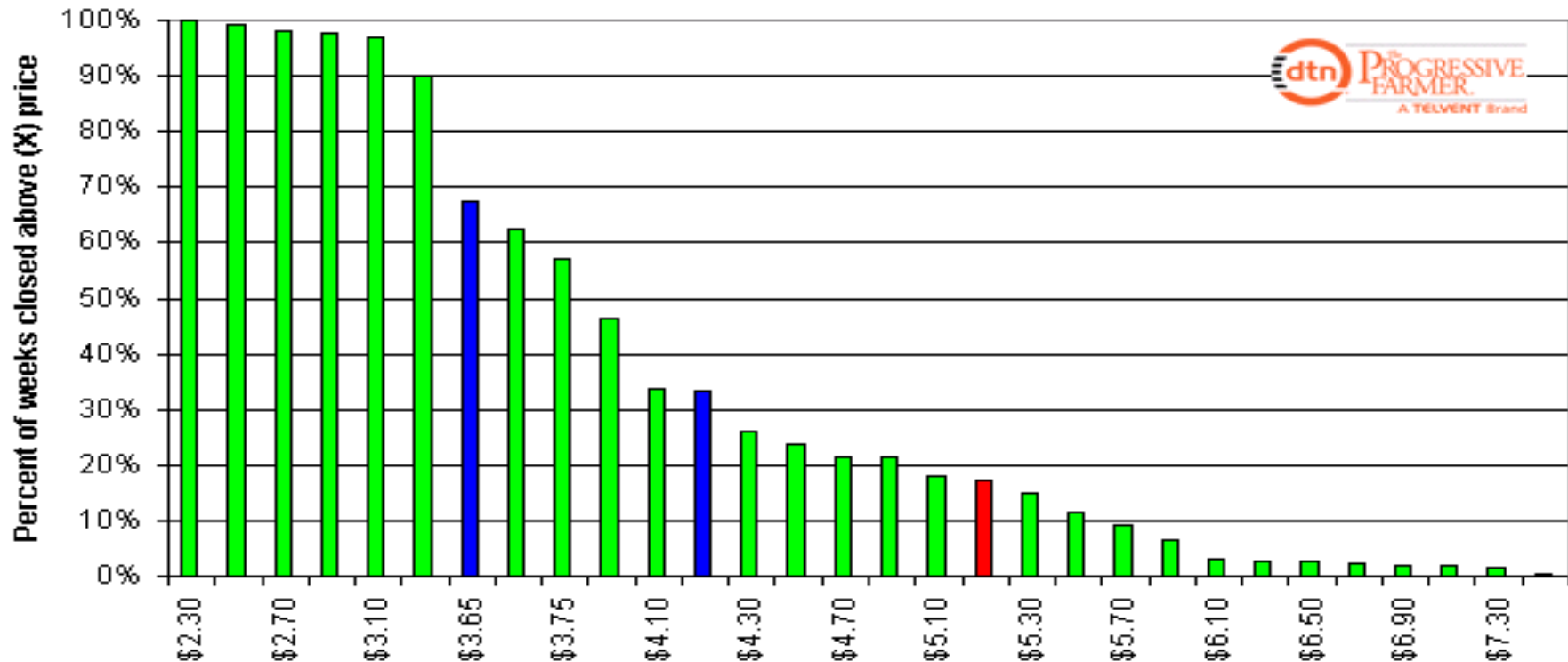
# What Are Spreads Telling Us?



# HISTORIC PRICE PROBABILITY

**PROBABILITY:** The December contract is in the upper 17 percent of the price distribution range since the 2006-2007 marketing year.

**CORN PRICE DISTRIBUTION RANGE SINCE 2006-2007 MARKETING YEAR**

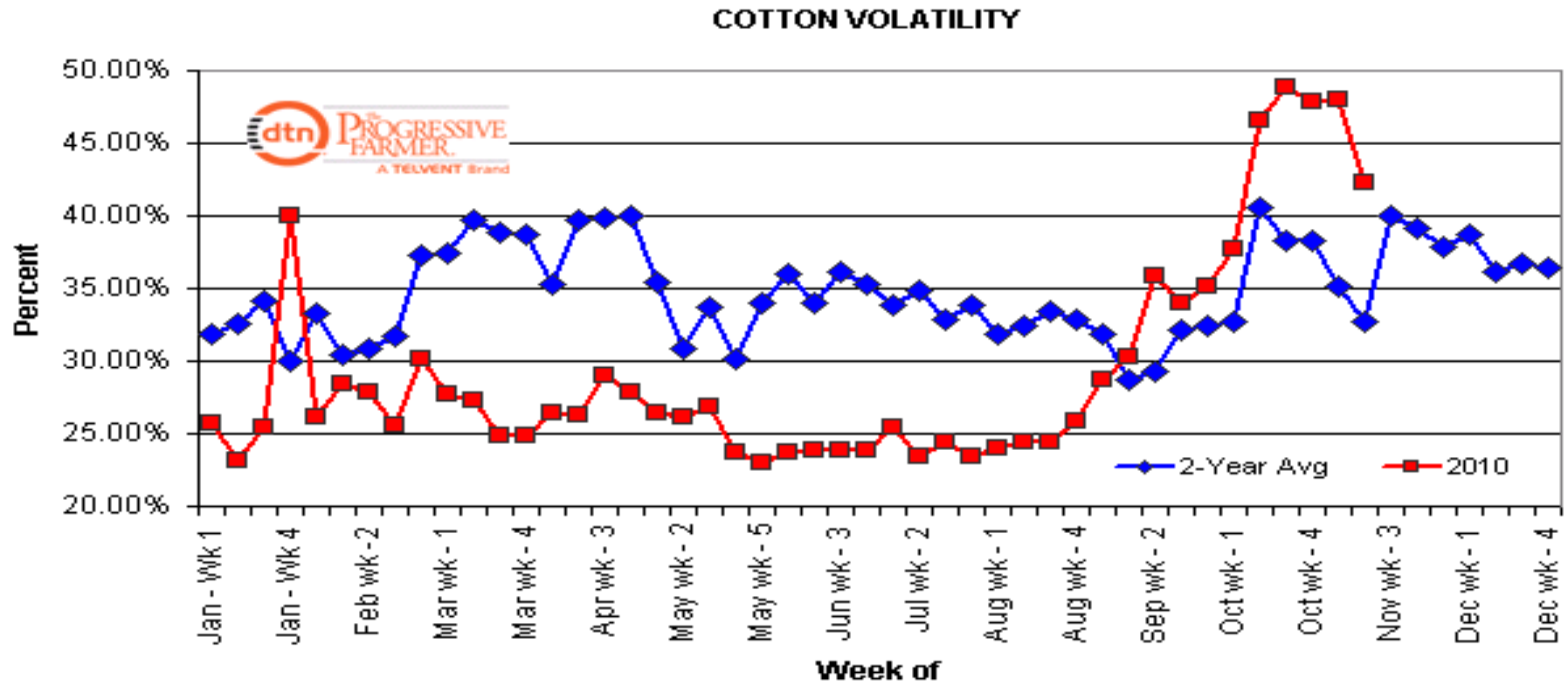


**This chart illustrates the percentage of time futures trade below given price levels. The red line indicates the front-month futures contract. The blue lines mark the upper and lower 33 percent levels, or in other words the price levels the front-month futures contract closed at or below/above only 33 percent of the time on a weekly basis.**

# OPTION VOLATILITY

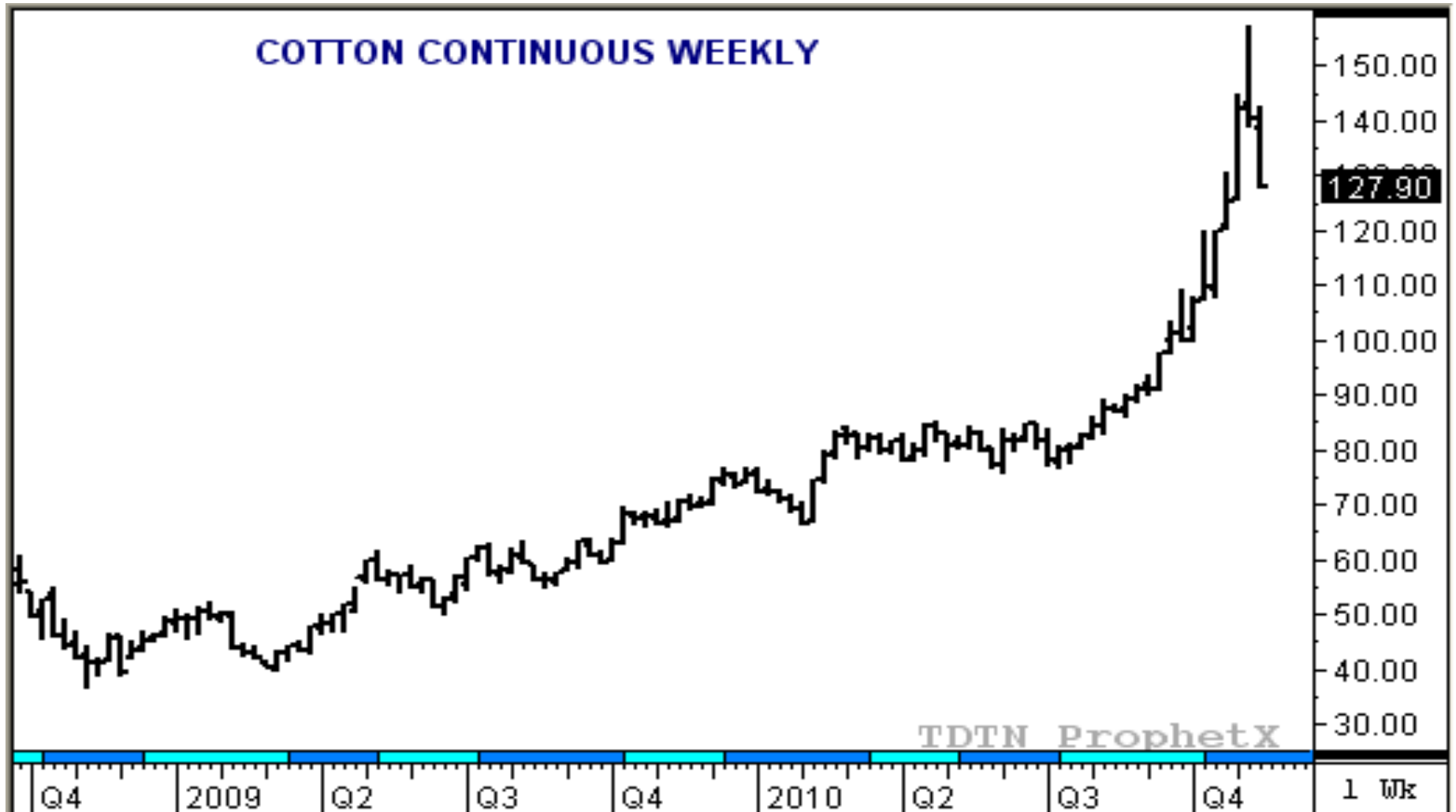
## Higher Volatility Means Costlier Premiums

**VOLATILITY:** Implied volatility for the March contract finished the week at 42.3 %.



# VOLATILITY

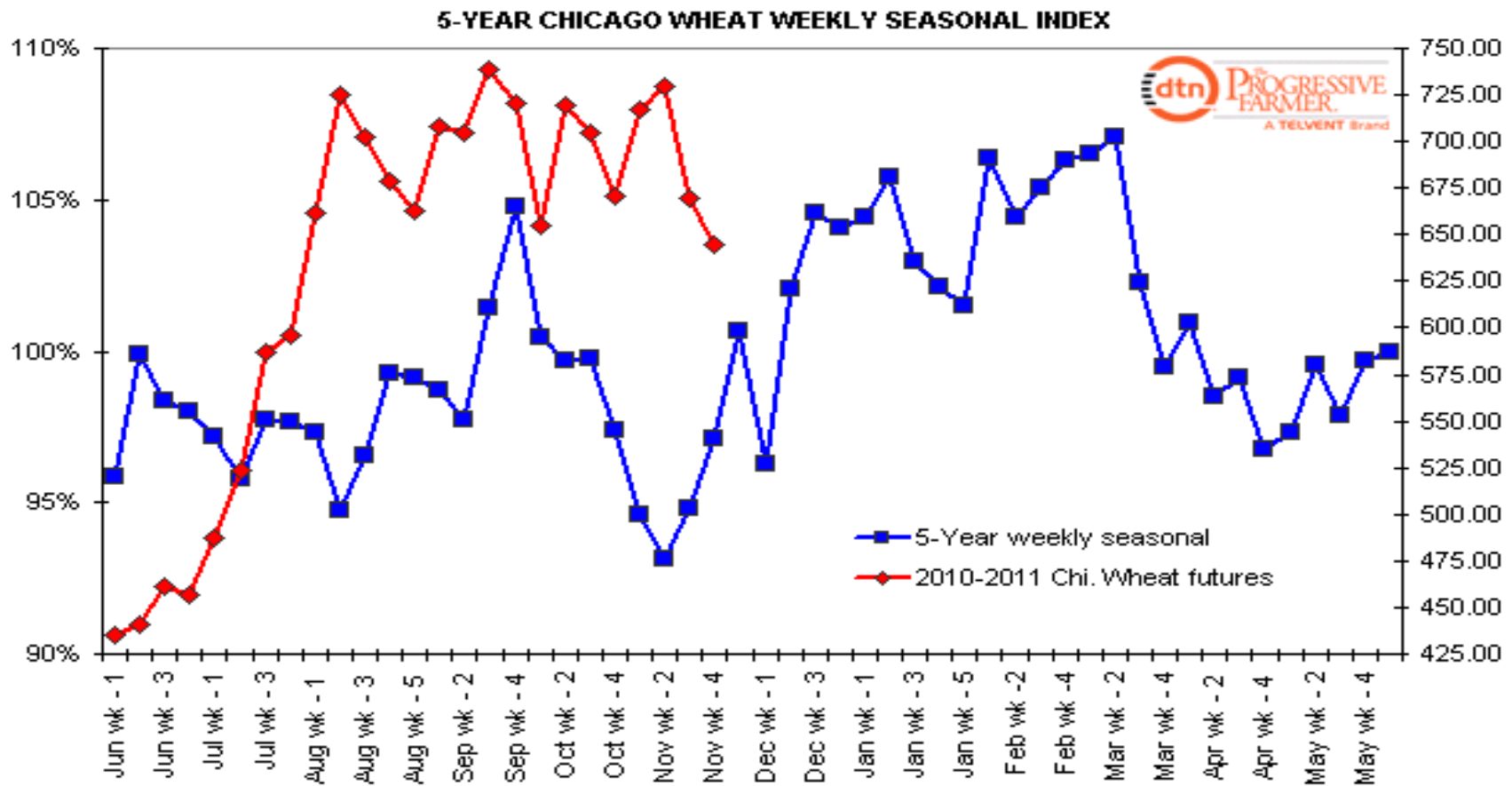
Increased volatility leads to wide price swings



# SEASONAL INDEX

## Has become less reliable

**SEASONAL:** The Chicago market tends to move higher through December.



**This is shows the trend of the front-month futures contract (red line) as it relates to the 5-year seasonal tendency (blue line).**

# CONCLUSION

- **Investment money is here to stay**
  - Noncommercial traders near largest net-longs on record
  - Trend is largely affected by noncommercial activity
  - Volatility will remain high with commodities becoming more of an investment tool and headlines leading to volatile swings
  
- **Spreads remain a true gauge of supply and demand**
  - Watch action in spreads for commercial outlook instead of headlines and hyperbole
  - Longer-term bullish outlook in beans and corn
  - Less bearish outlook for wheat
  
- **Analysts aren't fortune tellers**
  - Predicting market prices is a fool's errand
  - Rather than attempt the impossible, we base our recommendations on two things -- determine the structure of the market and the appropriate strategy for dealing with that structure.
  - 14-day free trials are available
  
- **Conclusion: By determining the structure of the market in 15 different commodities, DTN aims to place producers in the best possible position to take advantage of pricing and buying opportunities both short-term and longer-term.**



**Questions?**

**For more information:**

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**Thank you**