

Crop Production

The good and the bad of speculation

By P.J. GRIEKSPoor

WHEN most people hear “derivative,” they think about the iffy financial instruments blamed for the near-collapse of the U.S. financial system in 2008.

Most also hear “speculators,” and think of traders out to make short-term profits at the risk of the long-term good.

There are, however, also derivatives in the agricultural trading world. So, did they play a role in the market collapse? And is investment buying by index funds responsible for artificial run-ups in prices of ag commodities? Does the volatility they bring to the commodities market hurt the buyers who are in the market to hedge their risk in the buying and selling of real, physical bushels of grain? And is the proposed rule by the Commodity Futures Trading Commission, or CFTC, to make ag swaps equivalent to their counterparts in the rest of the market a good idea?

Those were the questions the writers attending the 58th spring convention of the North American Agricultural Journalists posed to a panel of experts during the group’s annual meeting in Washington, D.C., in early April.

Panelists included David Lehman, managing director of the commodity research and product development center with CME Group; Michael Masters, founder and chairman of the board of Better Markets Inc.; and Todd Kemp, director of marketing

Key Points

- Most people associate derivatives with market crashes.
- Ag derivatives are a different animal from those involved in the recent meltdown.
- There has been concern expressed about the definition of who is a swap dealer.

and treasurer of the National Feed and Grain Association.

Predictably, the panelists had somewhat differing views of the danger (or benefit) that derivatives and hedge funds play in the markets.

Ag futures trading in live cattle, lean hogs, feeder cattle, corn, wheat, soybeans, soybean meal, soybean oil, rice and oats have been around since 1870.

Lehman said that futures trading on the Chicago Board of Trade and the Kansas City Board of Trade set the benchmark for world market prices of corn, soybeans, wheat, soybean meal, soybean oil, oats and rice.

He said that speculators in the market are actually a good thing because they provide the liquidity that “hedgers,” those who deal in the physical delivery of grain and livestock, need.

He agreed that today’s volatile prices have hit records, but pointed out that if they were adjusted for inflation from the previous highs in the 1970s — which also came at a time of instability in the Middle



DAVID LEHMAN



MICHAEL MASTERS

East and a huge run-up in oil prices — they would be far, far higher.

Ag derivatives are a small part of the market, only about 10% of the futures and options contract size, he said, while oil, energy and credit derivatives are six times the size of the Chicago Mercantile Exchange market.

Lehman argued that balance is good, and that the net long positions of noncommercial and index traders balance the short positions of hedgers, and those are good things.

On the question of limitations, he said they have existed since 1936, and the real question is not if, but how much, they should be raised.

Masters, however, painted a very different picture. He said that the balance of long and short positions is simply a reflection of money moving into the market, and that a more realistic picture is the balance between hedgers and speculators. In the 1990s, before deregulation, hedgers were 70% of traders and speculators were 30%. Today that is reversed, he said, with 70% being speculators and 30% hedgers.

“Index funds don’t buy on supply and demand, but as an asset class,” he said.



TODD KEMP

“Yes, there is a balance. When new money comes into market, it will always find the other side. The real question is at what price.”

He said that his organization advocates limits of 30% of spot interest.

“There are plenty of academic studies to show that speculation impacts prices, and that index funds in the commodities markets are disruptive,” he said.

Kemp, a native of Pretty Prairie, is director of marketing and treasurer of the National Feed and Grain Association.

He said “speculator” is not the dirty word some people think it is.

“We need speculators,” he said.

His concern with the CFTC rule-making, he said, is in the definition of swap dealer. He said he sees a lot of grain elevators meeting the definition based on options contracts, and he would like to see ag contracts exempted from the regulatory structure.

Lehman agreed that ag got swept into the net when Congress moved to tighten regulations after the 2008 market collapse, which was fueled largely by credit-default swaps traded over the counter.

“There has never been a default in the history of the physical exchange markets,” he said. “The problem was in the OTC trades.”

Attract native bees for pollination boost

By EDITH MUNRO

WITH more than 120,000 acres of crops depending on bees for pollination — including squash, melons, blueberries, cherries and apples — Michigan’s fruit and vegetable farmers have good reason to add concerns about honeybee availability to their list of worries.

Fortunately, Michigan also benefits from a huge diversity of native bees that can contribute to the pollination effort.

“Growers who want to reduce the risk of poor pollination should think in terms of Integrated Crop Pollination [ICP],” says Rufus Isaacs, berry crops entomologist at Michigan State University. “Just as growers think about IRM for pest management, we need to think about pollination in terms of multiple tactics to get the job done. The more you can diversify your pollinators, the more reliable you’re making it for the grower.”

Farmers don’t have to convert wholesale from honeybees to native bees, Isaacs emphasizes.

“You can start small, get some benefits, and build on whatever works on your farm,” he says. “Adding tactics to support native bees would help especially in those springs when it’s really cold and not good weather conditions for honeybees. Farms with plenty of native bees should have better pollination and more consistent yield.”

Native bees’ needs are fairly simple:

Key Points

- Some native bee species like nesting boxes.
- Native bees need a place to nest and flowers for feeding outside of target crop.
- Adopt pest management techniques to maintain bee populations.

a place to nest, additional flowers for feeding once the target crop has finished blooming, and an approach to pesticide management that allows them to survive.

For some species like blue orchard bees, it may help to provide nesting boxes. For other ground-dwelling natives, shallow or minimal tillage can preserve nests. “Most farms have some land that’s not suitable for growing fruit,” says Isaacs. “Think about parts of the farm where you could establish some habitat for bees. It could be as simple as not mowing all your ditches every year.”

CRP wants native bees

For growers with highly erodible land, there can be an added benefit from promoting native pollinators. Under the 2008 Farm Bill, encouraging native pollinators is now a ranking criterion that can mean higher payments per acre for new Conservation Reserve Program contracts.

While the best approach on pesticides is to check labels for bee-safe choices, growers can also reduce pesticide effects

by carefully timing applications to avoid bee exposure. Isaacs notes, in particular, that the new class of insect growth regulating pesticides is effective against codling moths in apples, and cranberry fruit worms in cranberries and blueberries, but offers a high margin of safety for bees.

How effective are native bees?

One MSU study of farms with a diversity of crops found native bees doing some 80% of the pollination.

“It’s a spectrum of performance,” says Isaacs. “If you’re a small-market gardener with a diverse farm, then you’re much less dependent on honeybees. In a highly intensive monoculture crop that blooms for just three weeks in the spring, you’re much more dependent, but you can still adopt some practices to increase the level of native bees.

Bee for bee, the natives do better on pollination than honeybees, and that can mean better yields, especially in cooler springs that honeybees don’t like. Examples include bumblebees, which are well-known as pollinators of blueberries and tree fruit, and blue orchard bees, which have performed well in studies with cherries.”

“Every landscape has native bees in it, and they will respond to growers’ efforts,” Isaacs says.

With more than 4,000 species of native bees in North America, one challenge has been the wide variety of bee management issues based on the region, terrain, farm



size and crops. Fortunately, regional and crop-specific information on managing natives is becoming more readily available.

Growers should consider a visit to their local USDA Natural Resources Conservation Service office, since NRCS has grant money available to help farmers institute native pollinator programs.

They can find extensive information on several websites, including the Native Pollinators in Agriculture Work Group (www.agpollinators.org), the Pollinators Partnership (www.pollinator.org) and the Xerces Society (www.xerces.org/Pollinator), where a click on the map will bring up specific lists of appropriate pollinator-friendly plants by state.

USDA publications are also available at www.nrcs.usda.gov/technical/ECS/data_base/technotes.html.

Munro writes from Des Moines, Iowa.

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