Stay the course or play the market? A growing dilemma

Geoff Geddes | *The Word Warrior*

As Kenny Rogers sang in *The Gambler*, "you got to know when to hold'em, know when to fold'em." He was talking about poker, but farmers are dealt a similar dilemma every crop year:

Should they play to the markets with their seeding decisions or stick with their agronomic plans? In an industry where you can't afford to be wrong, what is the right move?

"The answer tends to be a combination of the two options," says David Derwin, commodity portfolio manager with PI Financial in Winnipeg. "While there are a lot of good farm production reasons to choose certain crops, you have to look at where the markets are too."

Flexibility is often a stretch

With crops like canola and wheat that offer a number of marketing tools, Derwin feels growers can be somewhat flexible in their approach, whereas more "tool deprived" options like pulses may require a more rigid plan.

Though agronomists might be less prone to "rolling the dice", they're also realistic.

"As an agronomist, my job is to design and develop a sustainable, diverse cropping system with rotations that enhance productivity and hopefully increase profitability," says Dr. Brian Beres, research scientist – agronomy with Agriculture and Agri-Food Canada.

Like many aspects of farming, however, there's a catch.

Bottom line is top of mind

"Producers today are often forced to think short-term to get by rather than long-term for growth and sustainability," says Beres. "Consequently, you often see tight rotations of wheat and canola as the latter is a high value crop that performs well even in low diversity situations. Farmers see the bottom line and are beholden to it, only to have disease build up as a result."

Citing his recent study, Beres found that more diversity in a crop rotation helps maintain and increase profitability, so "the two can go hand in hand".

Whatever the reason, those taking the short term approach should be mindful that "playing to the market" is a misnomer, as doing it successfully is hard work.

"All play and no work" doesn't work

"You have to pay more attention to what prices are doing," says Derwin. "If they go up and then you get busy and they go down, you're left asking where that last $0.50/bushel of canola went."

It's not enough to just follow market movements; you must be prepared to do something about them.

"That could mean proactively dealing with an elevator and booking something for the fall or having a trading account where you can use options and futures instead of just delivery contracts," says Derwin. "I have growers who've opened accounts and done nothing with them yet, but when the time is right, they're ready to go."

A growing concern

In making market-based decisions, it's not just a matter of knowing when to go; it's also about knowing what to grow.

"Canola and hard red spring wheat look pretty good right now, while pulses are not as strong due to issues with import tariffs," says Derwin.

In Beres' view, rather than switching or dropping crop phases altogether, switching within a given crop may provide benefit while maintaining diversity.

"You can maintain your core crops yet still have flexibility. A good example is wheat, where a farmer concerned about making money with CWRS traditionally could consider six or seven other market classes of wheat that might be more profitable at the moment."

Even producers like Kent Erickson, who maintains an eight-year rotation on his farm near Irma, Alberta, aren't averse to some tweaking now and then.

Tweaking and tinkering

"Pea prices are low now and if people react to the market by growing fewer peas, you might see prices rise," says Erickson. "At the same time, maybe canola drops because of tariff problems. I tend to stick to my plan for the most part and tinker a bit along the way. If you don't have all your eggs in one basket, it levels out your cash flow and you're not so worried about one market versus another."

Even so, Erickson sees a growing challenge with "changing on the fly".

"Farmers are pricing earlier and doing more forward pricing, which limits what they can grow. Committing early means that whatever crop is strong right now will dictate some acreage numbers for the spring and make it harder to play to the market."

Still, Derwin sees more people educating themselves about the market and being open to tinkering.

"If you stick to old-fashioned hedging, there's no reason the majority of growers can't have that available to them. You might keep a particular saw in the shed that you only use once a year, but you're really glad to have it when needed."

Although he estimates that 5-10 per cent of growers in Canada currently use options and futures compared to 35 per cent in the U.S., Derwin sees that slowly changing.

Compounding interest

"There's a growing interest in marketing topics at conferences and seminars these days. As the next generation of farmers comes armed with knowledge from university or continuing education, that interest will only increase."

Ultimately, Derwin says it's less about playing to the market and more about making sound business decisions.

"If markets change, it doesn't mean revamping your entire seeding plan, but you also can't have everything written in stone. One year it might be price that dictates what you do, and the next it's more about agronomic factors; the two have to work together."

Like a good poker player, producers are advised to have a solid basic strategy, yet be adaptable to the ebb and flow of the game. And of course, they shouldn't get so caught up in this dilemma that they forget to focus on their fields. After all, "there'll be time enough for countin' when the dealing's done".