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# **Using Market News Information In the Private Sector**

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# **Informa Economics Background**

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- **Founded in 1977 as Sparks Commodities, renamed Sparks Companies in the 1980s**
- **Grew to become one of the largest and most respected agricultural consulting companies in North America.**
- **Acquired in 2003 by what is now T.F. Informa, plc., a British publishing company**

# Types of Work Informa Produces

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- **Fundamental market analysis for all major commodities**
- **Risk management consulting: helping companies build systems to measure and manage price risk.**
- **Other business consulting activities: feasibility studies, plant location work, economic development, multi-client studies, economic analysis of proposed legislation, etc.**

# Types of Data Employed

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- **Livestock work--better than 95% of all the data used comes from USDA**
- **Big user of high frequency Market News price data and lower frequency NASS production data**
- **In-house electronic database has existed since early 1990s. This allows analysts (and clients) unprecedented access to thousands of AMS and NASS data series**

# **Advantages of USDA Information**

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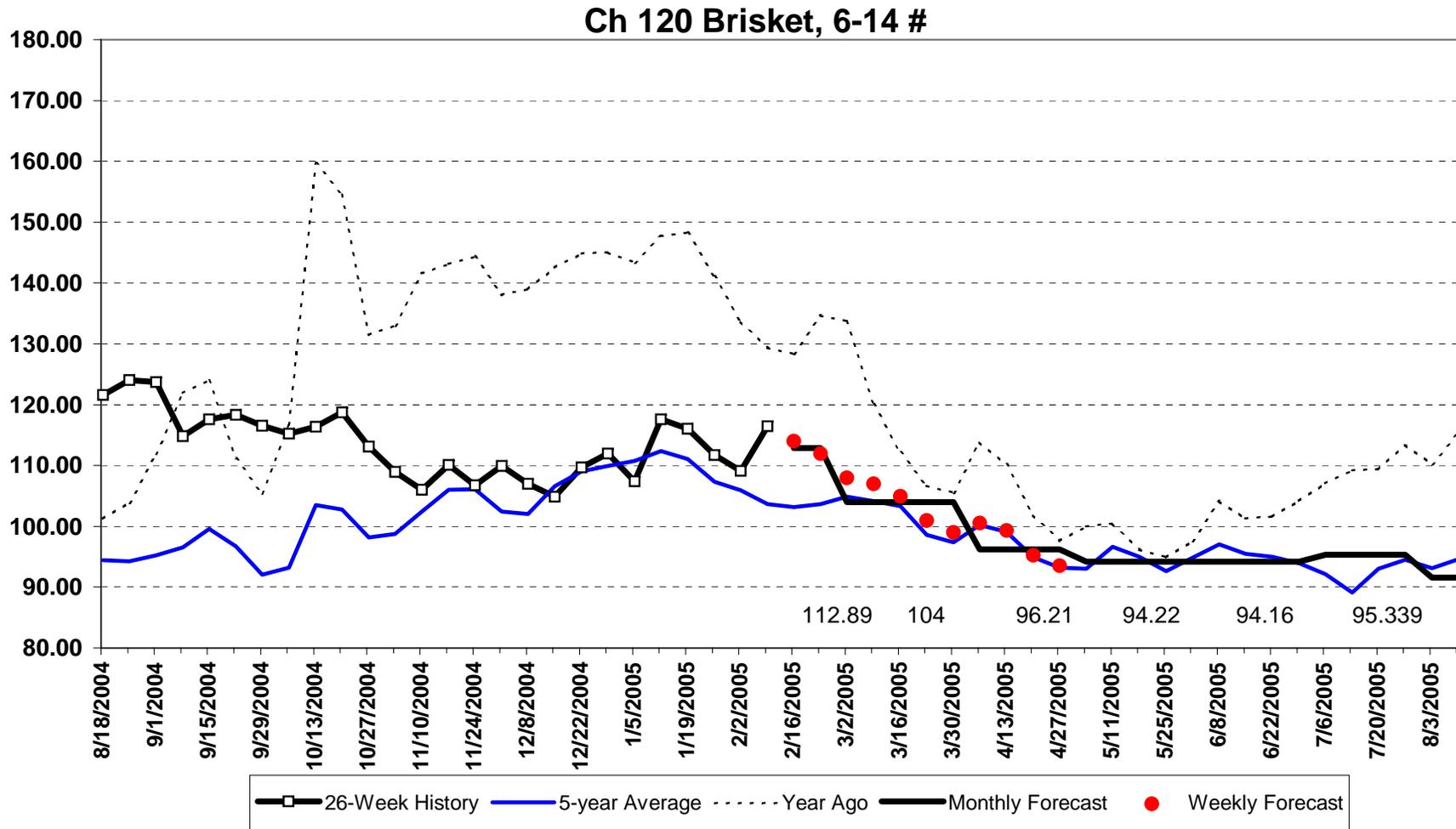
- **The only data source available that we feel is largely unbiased. Users are often suspect of price information produced by private providers.**
- **Consistency and relevance. Data series are adjusted to reflect changes in the marketplace,**
- **Market News reporters have always been very accessible and willing to explain the data collection process.**

# Applications Utilizing Market Data

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- **Forecasting models**: Used to provide a historical perspective and uncover co-relationships.
- **Benchmarking**: Purchasing indices built from historical price data are useful for companies evaluating efficiency of their purchasing staff.
- **Volume Analysis**: Using data to judge inventory levels and assist in market timing decisions.
- **Demand Analysis**: Combining price and quantity data permits inferences about demand.

# Sample Forecasting Application



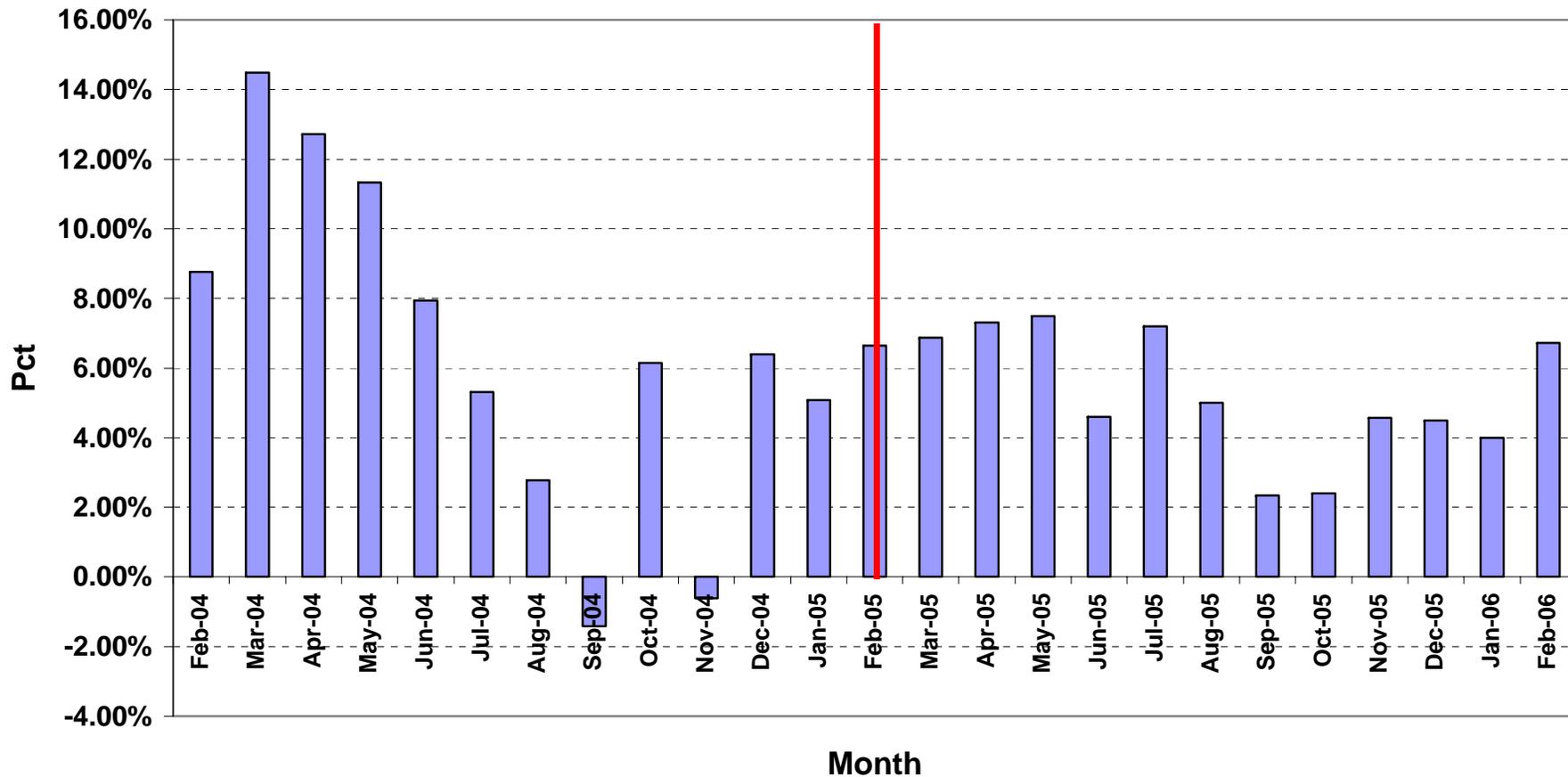
# Sample Volume Application

This report is generated daily to compare production and sales of beef clods. Client will enter market looking to purchase when sales as a percent of production falls to low levels.

	Mon 01/31	Tue 02/1	Wed 02/2	Thu 02/3	Fri 02/4	Sat 02/5	Weekly Total	Mon 02/7	Tue 02/8	Wed 02/9	Thu 02/10	Fri 02/11	Sat 02/12	Weekly Total
Ch Clods	1.10	6.26	2.55	2.28	10.73			2.74	0.86	2.13	6.44	0.79		
Se Clods	0.82	3.91	2.08	2.91	1.97			0.86	0.91	0.91	2.35	0.78		
Ch XT Clods	5.57	8.85	13.60	20.04	4.95			1.08	2.49	7.47	4.38	3.87		
Se XT Clods	1.42	15.82	9.83	4.13	7.76			1.52	3.87	2.84	2.00	2.11		
Total Clod Sales	14.9	44.0	37.0	38.5	32.5		167.0	12.7	15.31	21.25	22.35	14.67		86.3
Kill	96000	95000	94000	95000	88000	3000	471,000	95000	93000	94000	93000	90427	1974	467,400
Clod Production	102.3	101.2	100.1	101.2	93.7	3.2	501.7	101.2	99.1	100.1	99.1	96.3	2.1	497.9
Daily Sales as % of Production	14.6%	43.5%	37.0%	38.0%	34.6%		33.3%	12.6%	15.5%	21.2%	22.6%	15.2%	0.0%	17.3%
Last 5 days	24.9%	25.5%	27.1%	28.3%	33.5%	38.1%		31.9%	29.5%	27.7%	26.4%	17.4%	18.5%	
Accumulative	23.6%	25.2%	26.1%	27.0%	27.4%	27.4%		27.4%	28.9%	28.1%	27.5%	27.2%	27.0%	

# Sample Long-Run Demand Analysis

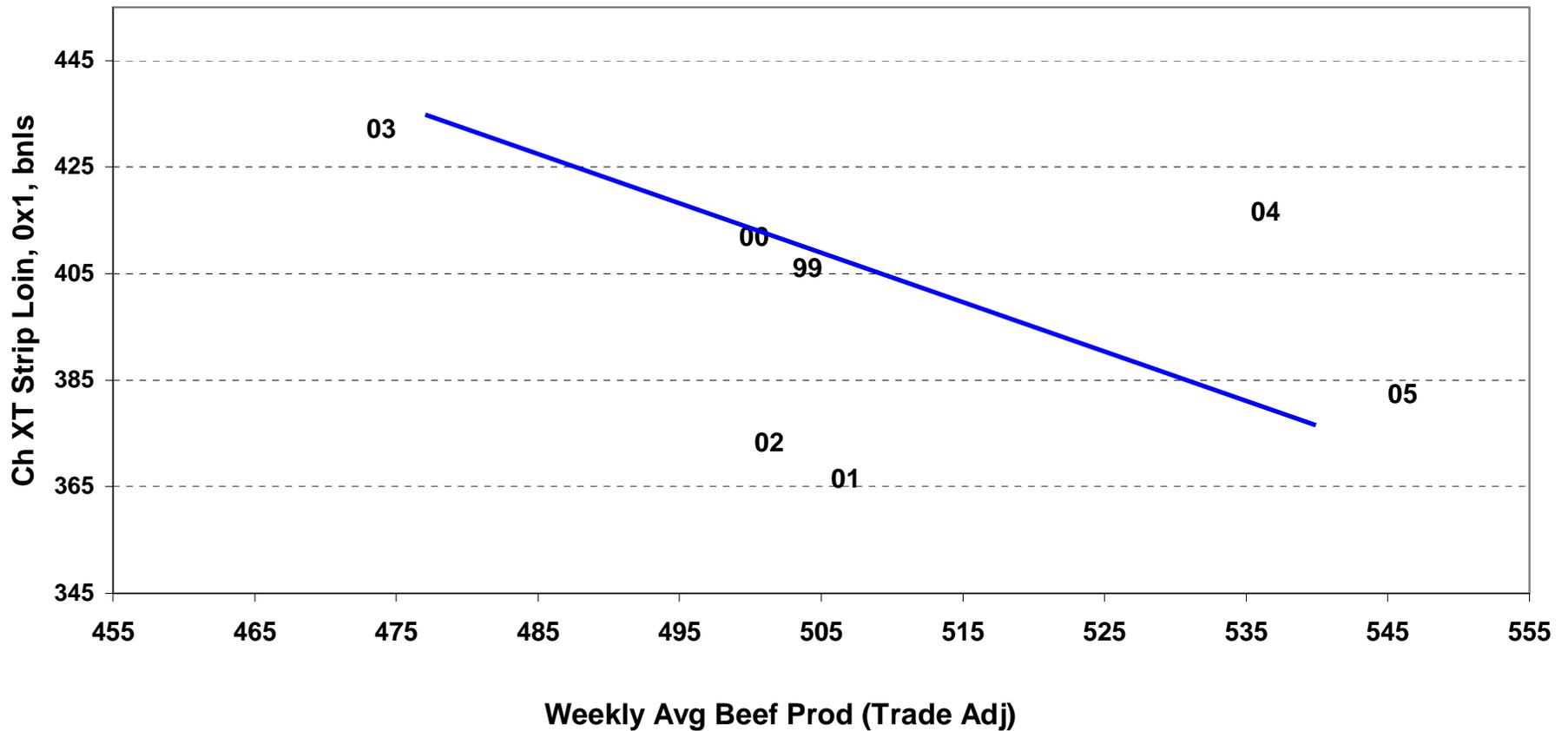
Ch XT Strip Loin, 0x1, bnls  
Demand Chg From 99-03 Avg



# Another Demand Application

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Weekly Avg Beef Prod (Trade Adj) vs. Ch XT Strip Loin, 0x1, bnls  
Monthly-Dec



# Web-Based Hedging Application

LVWebIntro - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Search Favorites

Address <http://www.informaecon.com/fip/LVWebIntro.asp> Go Links



**Welcome to our  
Futures Implied Prices**



2/14/2005 2:43:47 PM

**PLEASE LOG IN BELOW:**

User Name:

Password:

start Internet

Reuters BridgeStatio... Inbox - Microsoft Out... Presentation2 LVWebIntro - Microso... 3:01 PM

# Hedging Tool Example

Implied Pricing Table - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Home Search Favorites Refresh Print Mail Stop

Address <http://www.informaecon.com/fip/LVMain.asp> Go Links

*Informaecon.com*

## Futures Implied Pricing

### Skinned Ham Bone-In 23-27# Trim Spec 1 Avg

Confidence Limit

First year in the analysis  (enter 0 to use our recommendation of 1996 as the first year)

View Monthly data

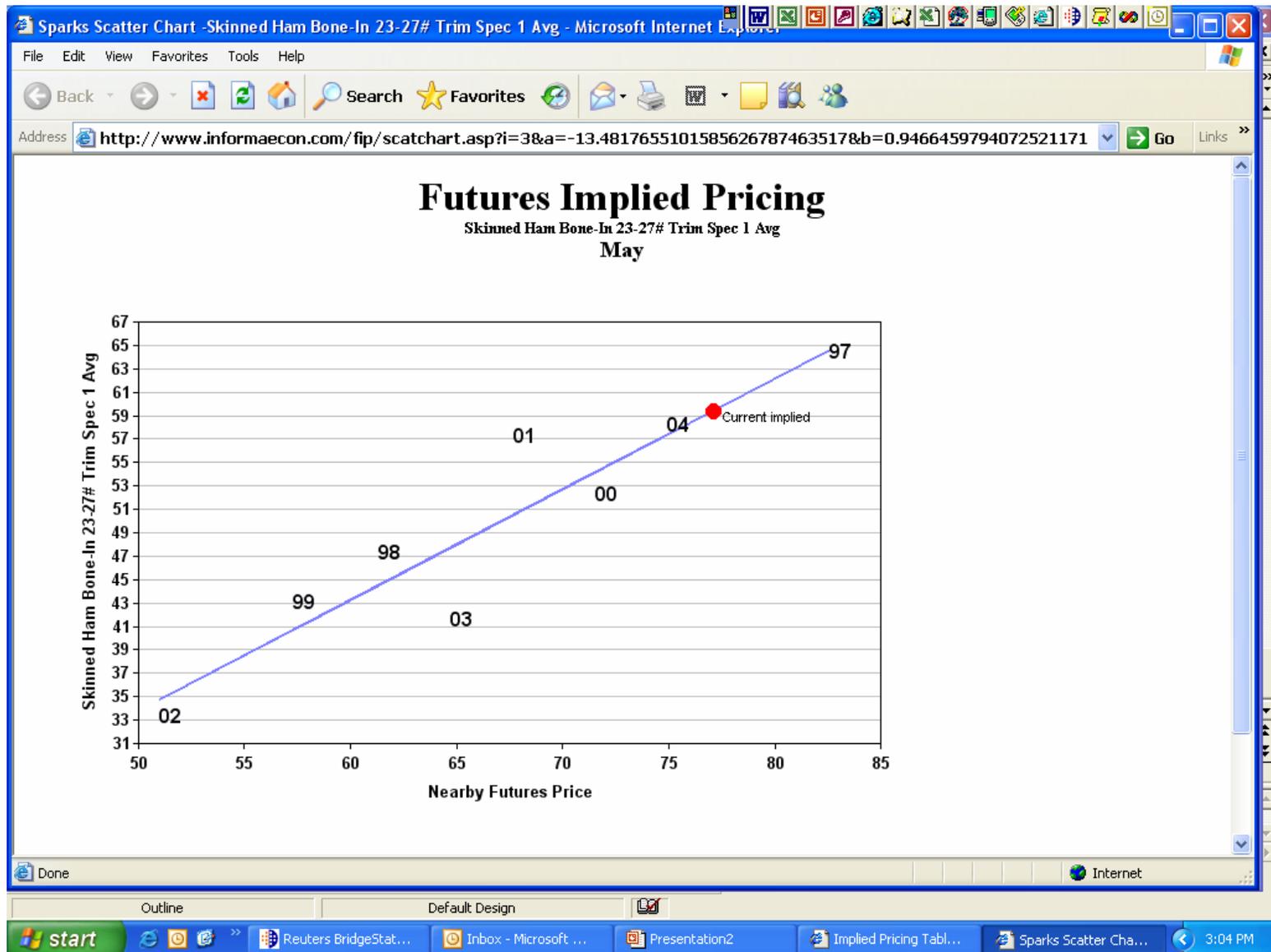
[Change Parameters/ Refresh data](#)  [Choose another commodity](#) [Chart cash prices](#)

Month	R Square	Hedge Ratio	25% Level	50% Level	75% Level	Number Years	Based on Futures	Updated	Chart this week's basis
Mar	73.4	0.70	56.62	58.86	61.11	8	LH 2005-04	2/14/2005 13:11	
Apr	82.4	0.71	50.87	52.24	53.62	8	LH 2005-06	2/14/2005 13:11	
May	86.3	0.95	57.69	59.48	61.27	8	LH 2005-06	2/14/2005 13:11	
Jun	85.8	0.93	57.80	59.34	60.88	8	LH 2005-07	2/14/2005 13:11	
Jul	88.7	0.95	60.92	62.31	63.70	8	LH 2005-08	2/14/2005 12:31	
Aug	82.2	0.93	62.81	64.71	66.60	8	LH 2005-10	2/14/2005 13:11	
Sep	87.2	0.85	61.43	63.04	64.65	8	LH 2005-10	2/14/2005 13:11	
Oct	86.8	0.98	60.65	61.90	63.15	9	LH 2005-12	2/14/2005 11:28	
Nov	93.2	1.01	59.46	60.50	61.54	9	LH 2005-12	2/14/2005 11:28	
Dec	86.1	0.89	51.78	52.97	54.15	9	LH 2006-02	2/14/2005 13:11	
Jan	92.6	1.05	48.43	49.54	50.65	9	LH 2006-02	2/14/2005 13:11	
Feb	85.4	0.95	49.49	50.43	51.38	9	LH 2006-02	2/14/2005 13:11	

Internet

start | Outline | Default Design | Reuters BridgeStatio... | Inbox - Microsoft Out... | Presentation2 | Implied Pricing Table - ... | 3:03 PM

# Hedging Tool Example, Continued



# Other Risk Management Applications

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- **Market News price data is often used to construct models that calculate a company's Value-at-Risk metric.**
- **These are very data-intensive models and often the company does not have adequate historical purchase or sales price information. Market News information is used as a proxy**
- **USDA price data is frequently used in the process of testing for hedge effectiveness under the accounting statement FAS133**

# Cash-Settled Futures

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- **Futures markets serve several important roles in the economy, yet some commodities do not lend themselves to physical delivery.**
- **Good examples: feeder cattle, hogs, fresh boneless beef, milk**
- **In these cases, futures exchanges have opted for cash settlement in place of physical delivery**

## **Cash-Settled Futures, continued**

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- **In order to be successful, these futures require an unbiased cash market price index for settlement**
- **Non-public price indices have been tried, but the perception that these are not unbiased caused distrust and hurt trading volume.**
- **USDA price collection process is transparent to users, thus producing a higher level of confidence among market participants.**

# Mandatory Price Reporting

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- **Price discovery is an important social benefit of markets**
- **For centralized markets (e.g. grains) market prices are easily observable, but for decentralized markets (e.g. meats) price discovery is more troublesome.**
- **Mandatory price reporting has improved price discovery in the beef market. Selective reporting is no longer an issue.**
- **MPR has enhanced formula-pricing in cash beef markets**

# **Mandatory Price Reporting, continued**

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- **Mandatory price reporting has opened up the possibility for new cash-settled futures contracts on beef cutouts, primals or even sub-primal cuts.**
- **Mandatory price reporting has been a boon for analysts and other data users. It has generated a wealth of price and volume information that would not have been available under voluntary reporting.**
- **Price discovery in the pork market is at an all-time low. Perhaps MPR for pork is a solution.**

# Wish List

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- **Would like to see all of the data published by USDA accessible through a centralized database, preferably over the Internet.**
- **More aggregate information would be useful: monthly weighted prices, quarterly, etc.**
- **Better information on export trades for the meats**
- **More frequent updating of yields for use in calculating aggregate meat values, e.g. pork cutout**

# Summary

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- **USDA Market News data is a very important input into private sector efforts to understand markets**
- **Information originating from USDA sources tends to have better credibility than data from non-public sources**
- **Mandatory price reporting is justified in decentralized markets—it can improve efficiency**
- **Futures markets will become increasingly dependent on cash settlement and USDA is the preferred source for data to build indices**