

# NCCC-134

APPLIED COMMODITY PRICE ANALYSIS, FORECASTING AND MARKET RISK MANAGEMENT

## **Summary: Panel Discussion on Research Priorities**

by

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Suggested citation format:

Malkerson, W., H. Madsen, and M. Hankey. 1983. "Summary: Panel Discussion on Research Priorities." Proceedings of the NCR-134 Conference on Applied Commodity Price Analysis, Forecasting, and Market Risk Management. Des Moines, IA. [<http://www.farmdoc.uiuc.edu/nccc134>].

Summary  
 Research Priorities in Applied Commodity Price Analysis,  
 Forecasting, and Risk Management; Panel Discussion by  
 Warren Malkerson, Howard Madsen, and Marilyn Hankey  
 (Selected comments edited by Marvin Hayenga)

Warren Malkerson - The Pillsbury Company

- 1) In the business world, commodity price analysis and risk management are inseparable--you can not do one without the other.
- 2) We want our forecasters to give a most likely or 50/50 forecast, and the probability distribution around that 50/50 number so we can get a better idea of the risks/rewards in taking any long term position in the market.
- 3) We use fundamentals to determine the trend, and technical analysis to fine tune the timing of taking a position. We emphasize use of "factor years" in which the fundamentals were very similar to the current year. The critical question is the "turning point," not the price level in most cases.
- 4) Some of the critical questions which deserve research include:
  - a) how to forecast more accurately the impacts of domestic and foreign government interference in the market place (e.g., PIK, USSR policy, flour subsidies, etc.)
  - b) how to cope with the inadequate data available on international commodities--sugar, corn, coconut oil, etc.?
  - c) forecasting the prices or various components or by-products of the grain and meat processing industries--millfeeds, flour, etc.
  - d) forecasting other major factors important in managing a food company--metals, currencies, transportation rates, etc.

Howard Madsen - Agri-Commodities, Inc.

1) Agricultural economists have developed many commodity models; can they be made operational for potential users? Perhaps as a program for mini- or micro-computers?

2) How do we evolve from point estimates of prices typically made by forecasters to the forecast probability distribution of prices?

3) Once you have gotten the forecast probability distribution of prices, how do you use it effectively in purchasing or selling decisions? Some work in England on optimal purchasing program may be applicable in strategy development in this country.

4) Economists generally have a bad name as forecasters. We need more analysis of the source of errors in our forecasts--some may be remedied by more or better surveys, etc., others may have to be acknowledged and "lived with." Some errors may be due to structural changes--some "driving" or causal variables that are important now simply were not relevant a decade ago--interest rates, exchange rates, etc. The impact of computer trading of futures markets deserves careful analysis.

5) Pension funds and insurance companies are just beginning to include futures markets in their investment portfolio. How should they do this? What could be their impact?

6) Are there certain times of the year when you should never be hedged? Especially when you are especially susceptible to radical price changes in some seasons of the year?

Marilyn Hankey - Safeway Stores

- 1) Does the relative inflexibility of grocery chains cause the volatility of prices at the wholesale level, and retail? Is there an optimum pricing policy that you can recommend to the industry?
- 2) Merchandisers tend to increase their buying if prices are going up or reduce buying if prices are going down temporarily. What does this behavior take us? Is there a more appropriate response to this behavior?
- 3) Specials and ads are planned a month in advance, but market developments often occur in that month. What are the implications for planning horizon? Would a contraction of the planning horizon be useful and have a salutary effect on our demand?
- 4) The generation of large amounts of computerized data for grocery stores should allow the estimation of very accurate price elasticities for a multitude of products, and the impact of price changes on product movement and revenues. This should allow for allocated optimization procedures to be used in retail store planning.
- 5) Optimization routines to select the best transportation systems for retailers could be quite helpful, but few are available.
- 6) Cross-hedging products in available futures markets would be useful; more work in this area would be helpful.

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FORECASTING SEMINAR - Des Moines

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