Have Farmers and Ranchers Lost Confidence in Futures Markets?

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Selected Poster prepared for presentation at the Southern Agricultural Economics Association (SAEA) Annual Meeting, Orlando, Florida, 3-5 February 2013

Abstract for poster titled "**Have Farmers and Ranchers Lost Confidence in Futures Markets?"**

Agricultural producers have used futures markets to manage price risk, confident that 1) cash and futures prices move together over time, 2) cash and futures prices converge as the contract approaches expiration, and 3) funds held in margin accounts as a performance bond were secure in segregated accounts at the brokerage firm. However, recent price and basis volatility, coupled with the financial events surrounding MF Global and Peregrine may have shaken some growers' perceptions of the risks of hedging with futures and options. In order to assess the degree to which these circumstances in the futures markets have impacted the risk management strategies of agricultural producers, we surveyed the 1,015 graduates of the Texas A&M AgriLife Master Marketer program. This group represents a sample of farmers and ranchers, merchandisers, and lenders with training and experience in using futures and options for hedging. Besides collecting information on their current risk management practices, we measured respondent views on the importance of key new sources of risk. On a 1 to 7 Likert scale with 1=disagree, 7=agree, and 4=neutral, respondents indicated some agreement (4.87) that futures price volatility and margins are a serious impediment to using futures and options. Respondents were neutral (4.06) on margin account security as a serious impediment to futures and options. The questions touched a nerve with some farmers, as noted in the comments.

Poster to follow at 2013 SAEA Annual Meeting.