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Lessons Learned from the 2008-09 Price Volatility for Fertilizer

by Luke Brummel
Industry Analyst,
Knowledge Exchange

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Key Points:

- ***Crop and crop input prices have become much more volatile since 2008, and the outlook calls for continued heightened price volatility.***
- ***At present, no silver bullet solutions exist in the marketplace to alleviate the risk of fertilizer price swings, but there are strategies that can help mitigate price volatility risk.***
- ***Fertilizer price volatility remains a challenge for retailers in the farm supply business. Most retailers have adapted their business practices to alleviate future losses from price swings.***
- ***Several new exchange-cleared and off-exchange-traded products have been created to help manage the price volatility risk, but to date, fertilizer retailers' interest in these new swap products has been tepid.***
- ***Farm co-op retailers must not only manage open positions of fertilizers and other farm inputs, but also arrange for suitable product storage and expedient transportation.***

Paradigm Shift

During the past five years, the farm supply industry has been whipsawed by large swings in crop input and grain prices. The heightened price volatility is a fairly new phenomenon, and fertilizer retailers are still searching for effective risk mitigation strategies, especially for crop input prices. The primary aim of this report is to review some of the strategies and best practices that retailers are using and refining to manage these volatile prices.

The Good Old Days, Pre-2008

Prior to 2008, crop input prices generally trended upwards, and volatility hadn't yet surfaced as an issue. For many farm co-op retailers, the typical approach to fertilizer purchasing before 2008 was to buy inventory either in the spring before the planting seasons began, or early in the fall ahead of preseason applications. As product demand increased, retail fertilizer prices appreciated, leading to increased margins on fertilizer inventories. This strategy allowed fertilizer retailers to capture gains from appreciating fertilizer value on preseason bookings.