VANTAGE RM

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Thought Leadership Series

Understanding Market Phases

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The market goes through a series of Phases each year. Understanding these Phases will help a producer focus on the market information that will have the greatest price impact. The purpose of this paper is to explain the four market Phases and provide guidance about what to look for during each one.

Phase I: The Supply Phase

The Supply Phase occurs when harvest size is the biggest unknown variable. This phase begins when the number of planted acres is known and ends shortly before harvest. During the Supply Phase, the market focuses on number of acres, weather, and other factors affecting supply. Market activity is considered to be "supply-driven" and has the following tendencies:

- Bull moves will be sharp with small corrections and will last longer.
- Bear moves can be extreme with dramatic breaks as supply expectations change.
- Options prices tend to be more expensive as traders require higher premiums.
- This phase will last longer if Carryover Stocks are expected to decrease from the prior year.

Phase II: The Supply-Demand Phase

The Supply-Demand Phase begins when supply appears to be safe from yield shocks and the market begins to focus on how demand will impact prices. During this Phase, the market tends to trade counter to the trend experienced during the Supply Phase, yet market moves are still considered "supply-driven". Tendencies of the Supply-Demand Phase are:

- The crop is past most yield risk but not all.
- The market will begin to focus on how price will change demand.
- Bull moves tend to be gradual but choppy.
- Bear moves tend to be strong as the market seeks the price level where buyers overpower sellers.

Phase III: The Demand Phase

The Demand Phase begins when the early harvest selling has slowed. This is the point that most of the crop is in storage, whether it be in a farmer's tank or a commercial's warehouse. The Phase ends as planting time approaches and traders begin to focus on supply again. During the Demand Phase, demand drives sellers to the market and price moves during this phase are considered "demand-driven". The Demand Phase has the following tendencies:

- Market moves are usually less volatile and can be the easiest to trade.
- The market is focused on demand trend changes as it seeks to determine how much of the harvest will not be needed.
- Bull moves last longer and are slower in their ascent.
- Bear markets are choppy as the Market seeks a price that attracts buyers.
- Sideways price moves are dull with small ranges.

Phase IV: The Demand-Supply Phase

The Demand-Supply Phase is the final phase of the year. This phase begins before the planting season and ends when the Supply phase starts. In this phase the market seeks to balance the current demand with the expected supply for next year's crop. Market moves during this Phase are considered "demand-driven" and are not usually as volatile as their "supply-driven" counterparts. The Demand-Supply Phase has the following tendencies:

- Bull moves are smaller, steady, and shorter lived.
- Bear moves are shallower and move sideways to lower.
- This is one of the hardest Phases to trade because demand becomes more certain while small changes have greater impact to the final carryover.
- Moves can be counter intuitive as the market considers the prior year carryover with the first look at supply changes for the coming year.

Impact to Hedgers

Knowing what Phase the market is in will help you recognize how price is likely to react to fundamental news. This in turn can provide confidence in how to manage a position. Of course there is no guarantee these tendencies always hold true; however, knowledge of these tendencies can be very powerful and put the odds of success in your favor.

About VantageRM

It is our objective to provide fundamentally grounded technical analysis. This means we focus primarily on technical analysis while ensuring that it fits within the context of the bigger fundamental picture. The result is that producers and users receive a fundamentally grounded technical component to incorporate into their marketing and trading decisions.

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