



Traders Consult Meteorologists To Weather Pits

By SUZANNE MCGEE

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK - Prices in Chicago's \$45 billion agricultural commodity pits are - literally - as changeable as the weather.

Delays and damage caused by flooding in the Midwest have already put this year's grain and soybean crops at risk, making those markets hyper-sensitive to meteorological news. That's making marketmovers of some unlikely people: weather forecasters.

"In a year like this, you can't overestimate the importance of tiny changes in forecasts: Millions of dollars are at stake," said Victor Lespinasse, vice president of Dean Witter Reynolds Inc. in Chicago, and a veteran observer of commodities markets. "The first thing people in volatile markets like the one we're in now do every day is check the weather forecasts."

But not just any weather forecast. The National Weather Service, for instance doesn't pay enough attention to the peculiarities of agriculture, and broadcasts its insights to any and all listeners. Traders looking to get an edge on their rivals demand the cream of the crop: private forecasters, who for as much as \$10,000 a month (excluding bonuses), will provide a detailed, precise - and preferably exclusive-analysis of what's on the horizon.

Take Jon Davis, for instance. The Illinois native is one of a half-dozen weathermen whose prognostications can rattle the markets. He is one of only a handful to have accurately predicted the unprecedented second frost that devastated Brazil's coffee crop a year ago.

The witty, soft-spoken meteorologist employed by Smith Barney specifically to track the weather for the firm's agricultural- and energy-futures traders and its clients - begins each day at 4:15 a.m. sifting through as much as two feet of accumulated weather charts. By 6 a.m. the phones are ringing, with agitated grain traders grilling him on whether the weather will allow farmers to get back into the fields and resume much-delayed corn plantings - a move which could send corn prices plunging. For the next 12 hours, farmers in Iowa, Houston-based oil companies and New York hedge-fund managers all demand information about how the weather might affect their success in trading and profits.

"Things can get really crazy in markets where weather becomes the dominant factor," he said. In fact, in the early stages of the 1988 drought, Mr. Davis found he'd inadvertently moved markets by donning a trench coat when he went to seek a cup of coffee outside the office.

"I had to walk past the traders to get out, and everyone figured this was some kind of secret signal, that I thought the weather would break and start raining, and maybe they should sell the market," he recalled. In fact, he said, "it was a cool day in May and I'd put the coat on because it was chilly."

Weather is no longer a seasonal affair, something agriculture traders watch for a few months as wheat, corn and

soybean crops are planted and harvested. Crops in other parts of the world have a growing impact on the prices of the U.S. commodities, traders said. Thus, it's important to keep tabs on the Australian wheat crop, the Indian sugar harvest, China's cotton output and Brazil's soybean production.

And forecasting is becoming increasingly important as trading volume has soared in energy markets. Weather forecasters have been pressed into service to help determine the demand for heating oil and natural gas to heat homes and offices in the winter, and to gauge the need for gas to generate the electricity to run air conditioners in summer. The advent of electricity-futures contracts on the New York Mercantile Exchange later this year will add yet another variable for meteorologists to follow.

"When my fiancée and I sat down to plan our wedding, I had to tell her there was no way I could take two weeks off any time between April and the end of August, or in the winter," said Smith Barney's Mr. Davis. The couple have tentatively set the date for September 1996 - weather permitting.

Forecasting for high-powered commodities traders isn't a breeze. Just ask Donald Day who launched a private weather-forecasting firm, AgriWeather Inc., in Cheyenne, Wyo., three years ago. His clients include large market players, such as Archer-Daniels-Midland, the Decatur, 111., grain merchant.

"I can feel the pressure through the phone; it's very high-strung," he said of his conversations with his commoditytrading clientele. "I'm aware that what I say is going to have an impact on the market, and that scares the living daylights out of me sometimes." Indeed, his business insurer discontinued his coverage claiming that the business of offering advice to commodities traders was just too risky.

"They seemed to worry that if I had a bad forecast, somebody might sue me if they lost money on it," Mr. Day said. From time to time, that fear keeps him awake at night, too. "There's the potential for that kind of thing to happen as the business gets more competitive and clients demand more and more reliability," he frets.

Most weather forecasts would choose not to trade commodities or even know how the traders they advise are doing.

"I'd rather stick to the easy stuff: forecasting the weather," said Peter Leavitt, chief executive of Weather Services Corp. in Lexington, Mass., who has been advising commodities traders since 1970. "I can make a perfect forecast, and that will lead to a disastrous investment, and that keeps me out of the markets."

But a handful of meteorologists try to predict both the weather and the markets. James Roemer, a Raleigh, N.C., forecaster, has worked simultaneously as a meteorologist and commodities trader, at one point managing as much as \$15 million in futures and options for his clients. During the 1988 drought, he turned a \$10,000 stake into \$500,000 during the course of the summer. Now he's working with Freese-Notis Weather Inc., a Des Moines, Iowa, private weather firm, offering trading advice based on weather predictions.

"I put my money where my mouth is," Mr. Roemer said, admitting he gets "a little paranoid" about other pit traders trying to follow his specific trading strategies. "Part of me wants to keep something back, like the particular combination of options that I'm using to put my market view into effect."

So what's the forecast for this week?

Mr. Roemer and his partners at FreeseNotis, like many other forecasters, are calling for more rain early in the week, which they say could push wheat and grain prices even higher. A clearing trend developing later in the week might allow farmers to resume planting, they said, but the grain yields this year likely will still fall significantly, supporting prices in the longer term. Soybeans, they warn, are a more risky investment: it still isn't too late for farmers to plant and harvest a large crop.

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