



Grain Marketing Specialist

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University of Minnesota

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Corn & Soybean Digest

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<http://edsworld.wordpress.com/>

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You can find my "Back to School" quizzes and videos at <http://cornandsoybeandigest.com>



What does the term "backwardation" mean?

- a. Corn prices are higher than wheat prices
- b. The spot price of a commodity is higher than the price for future delivery
- c. You live in a remote area with no internet access



Center for Farm Financial Management

Software and educational programs for farmers who are serious about agriculture



800-234-1111

www.cffm.umn.edu

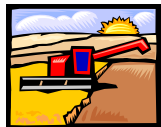


Launch Your Pre-Harvest Marketing Plan



Pre-harvest marketing is a broad view of the market, trying to take advantage of early seasonal price tendencies.

Launch and Land Your Post-Harvest Plan



Post harvest marketing is a practical approach to the current environment, adapting to market signals and incentives.

Call CFFM at **800-234-1111** for more information about how to sponsor a "Winning the Game" workshop in your town.



Tool Time for Pre-Harvest Marketers

or

Tool Time for Post-Harvest Marketers



Using the right pricing tool can make or break your grain marketing plan. Do you know how to select the right tool from your toolbox?

Call CFFM at **800-234-1111** for more information about how to sponsor a "Winning the Game" workshop in your town.

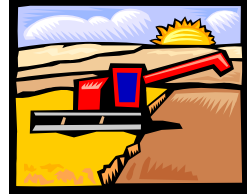
Back to school with Ed Usset

Lesson plan...

1. Earl Eitheror does a contango (post-harvest marketing plans)
2. Terry Timer and seasonal price patterns (pre-harvest marketing plans)



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Earl Eitheror and Post-Harvest Marketing



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Earl Eitheror asks...

What does the term “contango” mean?

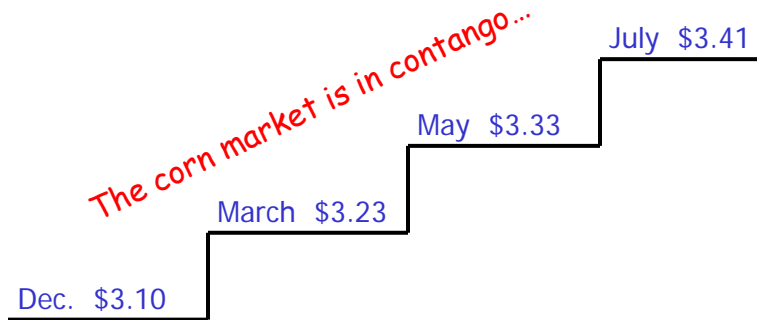
- A. The price of a commodity for future delivery is higher than the spot price
- B. It is the difference between cash and futures prices
- C. It's hard to describe, but I saw it on “Dancing With the Stars”



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Carrying Charges

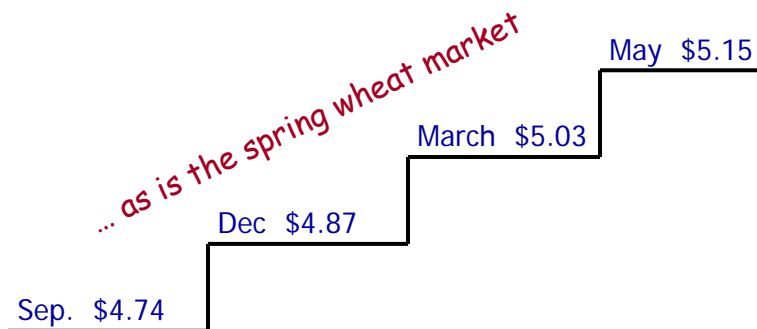
CBOT Corn Futures: September 9, 2009



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Carrying Charges

MGEX Wheat Futures: September 9, 2009

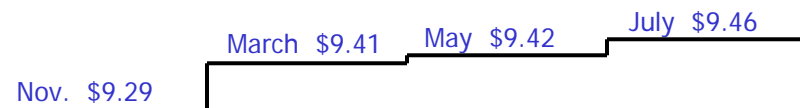


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Carrying Charges

CBOT Soybean Futures: September 9, 2009

While the soybean market is flat



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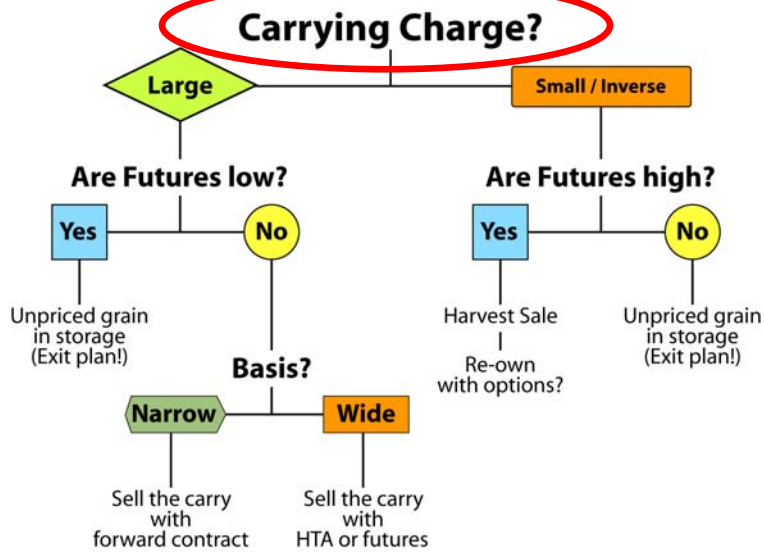
Earl Eitheror and carrying charges



Earl has on-farm storage. After harvest, he either sells the carry when carrying charges are large, or he holds his crop in the bin to sell in May when the carry is small.

>140% of interest: large - sell the carry

Decision Tree for Sizing Up the Market



Earl Eitheror

Earl bases his choice on carrying charges.

Does it work?

Let's compare Earl to Barney Binless.



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Barney Binless





Barney has no on-farm storage, so he sells his crop off the combine, taking the harvest price every year.



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Earl vs. Barney, 1989-2008

				
	Barney	Earl	Sold the carry?	Worse than Barney?
Corn	2.12	2.29	15/20 years	2/20 years
Soybeans	5.55	6.06	0/20 years	5/20 years
HRS Wheat	3.80	3.90	6/20 years	6/20 years

- Barney Binless represents the harvest price.
- Due to storage limitations, Earl sells 20% of his grain at harvest, and this sale is part of his average price.
- Earl's results are net of on-farm storage costs.



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Earl vs. Barney, 1989-2008

- Over time, Earl's choice paid-off vs. the harvest price, net of on-farm storage costs
- His results are consistent for corn, soybeans and wheat
- Earl's choice does not work every time (nothing is 100%)



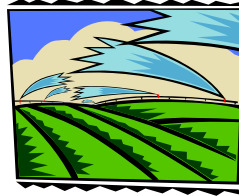
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2009 Post Harvest Marketing Plans (What would Earl do?)

- ✓ In corn and spring wheat, Earl has a large carry to sell (400% of interest costs in corn, 300% in wheat)
- ✓ In soybeans, carrying charges are flat and the basis is good. Prices are high. Does Barney have the right idea?



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Terry Timer and Pre-Harvest Marketing



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Terry Timer wonders...



In agricultural commodities, which of the following displays the strongest seasonal price pattern?

- A. June hog futures prices increasing from March to June
- B. December sugar futures prices increasing from August to November
- C. December corn futures prices decreasing from May to October



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CBOT December Corn Futures, 1990-2008

- ✓ 15 years (79%) the market declined
- ✓ 4 years (21%) the market improved
- ✓ 8 years the market declined more than 40 cents!

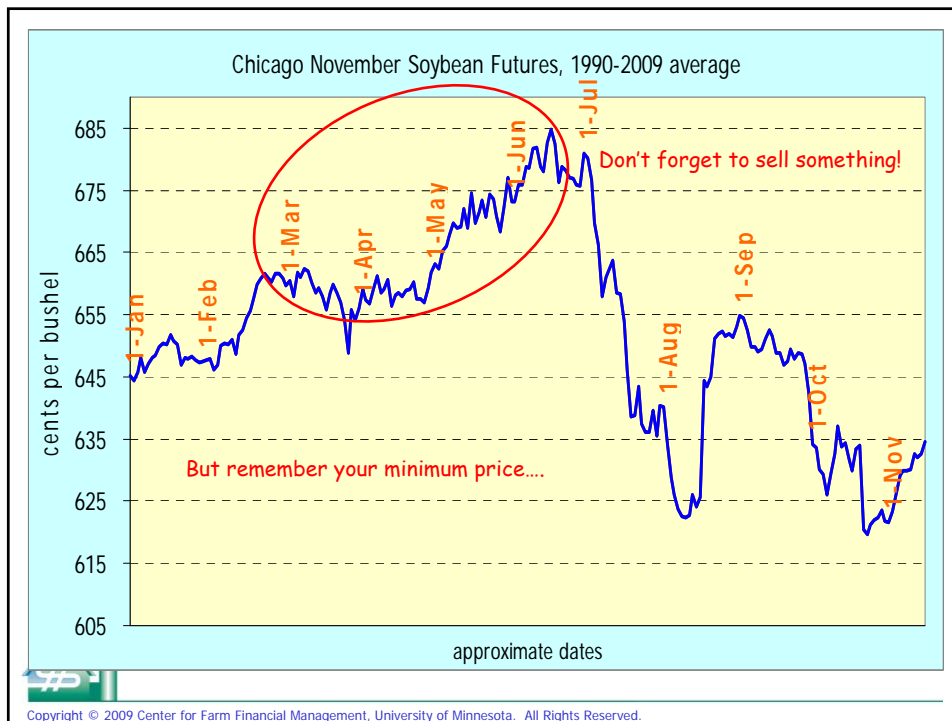
Year	1-May	1-Oct	Change
1990	2.70	2.29	(0.42)
1991	2.53	2.54	0.01
1992	2.53	2.12	(0.41)
1993	2.43	2.43	0.00
1994	2.58	2.14	(0.44)
1995	2.63	3.11	0.48
1996	3.33	2.90	(0.44)
1997	2.76	2.56	(0.20)
1998	2.62	2.05	(0.58)
1999	2.31	2.05	(0.26)
2000	2.62	1.99	(0.63)
2001	2.27	2.11	(0.16)
2002	2.20	2.56	0.36
2003	2.33	2.20	(0.13)
2004	3.17	2.06	(1.11)
2005	2.27	2.06	(0.21)
2006	2.72	2.68	(0.04)
2007	3.79	3.69	(0.10)
2008	6.32	4.84	(1.48)
2009	4.33		
Average	2.85	2.54	(0.30)



CBOT November Soybean Futures, 1990-2008

- ✓ 13 years (68%) the market declined
- ✓ 6 years (32%) the market improved
- ✓ 9 years the market declined more than 50 cents!

Contract	1-May	1-Oct	Change
1990	6.55	6.05	(0.51)
1991	6.09	5.89	(0.20)
1992	6.05	5.33	(0.72)
1993	5.96	6.18	0.22
1994	6.28	5.38	(0.90)
1995	6.06	6.37	0.32
1996	7.58	7.49	(0.08)
1997	6.96	6.21	(0.76)
1998	6.17	5.15	(1.02)
1999	5.14	4.81	(0.33)
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	6.46	6.19	(0.27)



Soybeans show the need for a minimum price!

CBOT November Soybean Futures, 2000-2008

- ✓ 5 years (56%) the market declined
- ✓ 4 years (44%) the market improved

Contract	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	6.46	6.19	(0.27)



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Remove years when Nov beans <\$5.50 on May 1.

CBOT November Soybean Futures, 2000-2008

- ✓ 5 years (71%) the market declined
- ✓ ~~4~~ 2 years (29%) the market improved

Contract	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	6.46	6.19	(0.27)

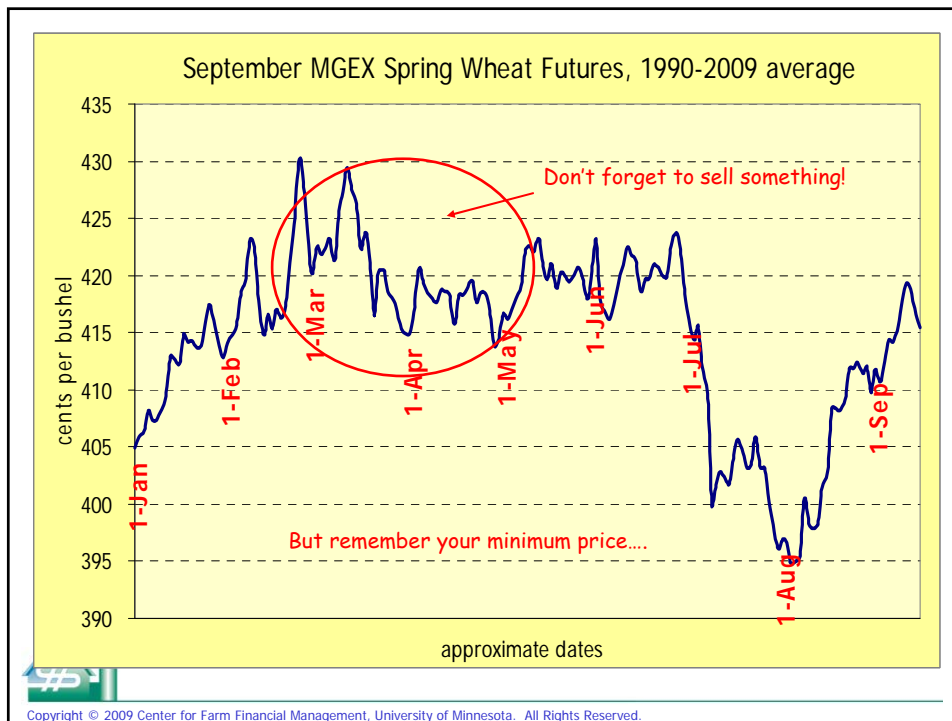


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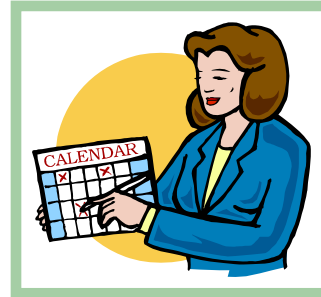
MGEX September Spring Wheat, 1990-2009

- ✓ 12 years (60%) the market declined
- ✓ 8 years (40%) the market improved
- ✓ 9 years the market declined more than 30 cents!

Year	1-May	1-Aug	Change
1990	3.61	2.81	(0.80)
1991	2.95	2.88	(0.07)
1992	3.55	3.06	(0.49)
1993	2.99	3.15	0.15
1994	3.34	3.34	(0.00)
1995	3.65	4.73	1.08
1996	5.93	4.70	(1.23)
1997	4.39	3.92	(0.48)
1998	3.61	3.08	(0.53)
1999	3.33	3.44	0.11
2000	3.35	2.97	(0.38)
2001	3.47	3.16	(0.31)
2002	3.01	3.80	0.80
2003	3.39	3.70	0.32
2004	4.24	3.53	(0.71)
2005	3.46	3.50	0.04
2006	4.28	4.69	0.40
2007	5.24	6.32	1.08
2008	8.77	8.74	(0.03)
2009	6.77	6.05	(0.72)
Average	4.17	4.08	(0.09)



Terry Timer



Terry makes pre-harvest sales in the spring.

Does it work?

Let's compare Terry to Barney Binless.



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Barney Binless

Barney has no interest in pricing grain before harvest - he sells his crop off the combine, taking the harvest price every year.



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Terry vs. Barney, 1990-2008

	 Barney	 Terry	
			Worse than Barney?
Corn	2.12	2.33	3/19 years
Soybeans	5.58	5.87	4/19 years
HRS Wheat	3.86	3.97	6/20 years

- Barney Binless represents the harvest price.
- Due to crop insurance limitations, Terry sells 25% of her grain at harvest, and this sale is part of her average price.



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Terry vs. Barney, 1990-2008

- Over time, Terry's early sales paid-off vs. the harvest price
- Her results are consistent for corn, soybeans and wheat
- Terry's decision to sell early does not work every time (nothing is 100%)



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Corn

2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by early June.

Price 10,000 bushels at \$3.65 cash price (\$4.05 Dec. futures) using forward contract/futures hedge/futures fixed contract.

Price 10,000 bushels at \$3.90c/4.30f, or by Mar 29, pricing tool tbd.

Price 10,000 bushels at \$4.15c/4.55f, or by Apr 14, pricing tool tbd.

Price 5,000 bushels at \$4.40c/4.80f, or by Apr 28, pricing tool tbd.

Price 10,000 bushels at \$4.65c/5.05f, or by May 13, pricing tool tbd.

Price 10,000 bushels at \$4.90c/5.30f, or by May 27, pricing tool tbd.

Price 10,000 bushels at \$5.25c/5.55f, or by June 10, pricing tool tbd.

Plan starts on January 1, 2010. Earlier sales will be made at a 25 cent premium to price targets noted above and will be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$3.65 local cash price/\$4.05 December futures.

Exit all options positions by mid-September 2010.



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Crop insurance is the foundation to my approach to grain marketing!



... which sets the stage for my post-harvest marketing plan

... upon which I build a pre-harvest marketing plan

Crop insurance is the foundation



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Soybeans

2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by early June.

Price 2,500 bushels at \$8.35 cash price (\$9.05 Nov. futures) using some form of fixed price contract: forward contract, HTA, sell futures.

Price 2,500 bushels at \$8.85c/9.55f, or by March 29, pricing tool tbd.

Price 2,500 bushels at \$9.35c/10.05f, or by April 14, pricing tool tbd.

Price 2,500 bushels at \$9.85c/10.55f, or by April 28, pricing tool tbd.

Price 2,500 bushels at \$10.35c/11.05f, or by May 13, pricing tool tbd.

Price 2,500 bushels at \$10.85c/11.55f, or by May 27, pricing tool tbd.

Price 2,500 bushels at \$11.35c/12.05f, or by June 10, pricing tool tbd.

Plan starts on January 1, 2010. Earlier sales will be made at a 25 cent premium to price targets noted above and be limited to 10,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$8.35 local cash price/\$9.05 November futures.

Exit all options positions by mid-September 2010.



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Spring Wheat

2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated wheat crop (based on APH yield) priced by early June.

Price 5,000 bushels at \$5.20 cash price/\$5.60 Sep wheat futures using some form of fixed price contract: forward contract, HTA, sell futures

Price 5,000 bushels at \$5.60c/\$6.00f, or by March 29, pricing tool tbd.

Price 5,000 bushels at \$6.00c/\$6.40f, or by April 28, pricing tool tbd.

Price 2,500 bushels at \$6.40c/\$6.80f, or by May 27, pricing tool tbd.

Price my last 5,000 at \$6.80c/\$7.20f, or by June 25, pricing tool tbd.

Plan starts on November 1, 2009. Earlier sales will be made at a 30 cent premium to price targets noted above and are limited to 15,000 bushels.

I will consider the December futures contract for new crop sales at a 15 cent premium to September.

Ignore decision dates and make no sale if prices are lower than \$5.20 local cash price/\$5.60 September futures.



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Have a plan!

The “not easy” part of marketing:

An approach that works **over** time is not guaranteed to work **every** time.



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The Proactive Approach to Grain Marketing

- Con? In a **bull** market, sales are often *too early and too cheap*
- Pro? Early sales are good in a **sideways** or **bear** market



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Final Thoughts

- ✓ Ask, "What would Earl do?" after harvest (carrying charges)
- ✓ Early sales before harvest make Terry a winner over time
- ✓ Crop insurance serves as the foundation to a proactive approach to marketing

