Expected 2003 production: 84,000 bushels (600 acres @ 140 bushels per)

Objective: Buy crop insurance to protect my production risk, and have 70% of my anticipated corn crop priced by mid-June.

- Price 10,000 bushels at $2.00 cash price ($2.50 Dec. futures) using forward contract/futures hedge/futures fixed contract.
- Price 10,000 bushels at $2.12, or by March 18, using some form of forward contract.
- Price 10,000 bushels at $2.24, or by April 16, using some form of forward contract.
- Price 10,000 bushels at $2.36, or by April 30, consider options or a trend system.
- Price 10,000 bushels at $2.48, or by May 16, consider options or a trend system.
- Price the last 10,000 bushels at $2.60, or by May 30, consider options or a trend system.

Plan starts on November 1, 2002. Earlier sales will be made at a 15 cent premium to price targets noted above.
Ignore decision dates and make no sale if prices are lower than $2.00 local cash price/$2.50 December futures.
Exit all options positions by mid-September.
Objective: Buy crop insurance to protect my production risk, and have 70% of my anticipated corn crop priced by mid-June.

- Price 10,000 bushels at $2.00 cash price ($2.50 Dec. futures) using forward contract/futures hedge/futures fixed contract. Forward contract on 4/17 @ $2.01
- Price 10,000 bushels at $2.12, or by March 18, using some form of forward contract. 5,000 bu. forward contract, 5,000 bu. futures fixed on 4/17 @ $2.01 cash, $2.40½ futures
- Price 10,000 bushels at $2.24, or by April 16, using some form of forward contract. Futures fixed on 4/17 @ $2.40½ futures
- Price 10,000 bushels at $2.36, or by April 30, consider options or a trend system. Futures fixed on 5/16 @ $2.49% futures
- Price 10,000 bushels at $2.48, or by May 16, consider options or a trend system. Futures fixed on 5/16 @ $2.49% futures
- Price the last 10,000 bushels at $2.60, or by May 30, consider options or a trend system. No action to date - prices below my minimum
Corn: Execution of the 2003 Pre-Harvest Marketing Plan
by Ed Usset

April 17, 2003: Since November 1 the Dec’03 futures price has traded between $2.30 and $2.47, frustratingly shy of my $2.50 minimum. I passed through my first two decision dates (March 18 and April 16) with new crop bids just under my $2.00 minimum price objective. But new crop basis levels remain very strong and creeping higher, giving me the chance to price new crop corn at $2.01, 40 under tonight’s closing price of $2.40½ in the December contract.

A dilemma: Should I use a forward contract with my local; elevator to lock in the favorable basis? This is the simplest way to assure myself the $2.00 minimum, but harvest delivery will close the door to post harvest opportunities. Using a futures fixed contract with the option to roll my hedge forward at harvest will keep the door open to post harvest opportunities. But this contract also exposes me to basis risk. During the harvest of 2002, the basis traded as high as 30 under the December. This contrasted sharply with the previous three years, when basis levels of 50-60 under were common. Which scenario will we see in the harvest of 2003?

A compromise is in order. I will use a forward contract to price the first 15,000 bushels. I don’t like the fact that it closes the door to post harvest opportunities, but it locks in a favorable basis and $2.00 minimum price. I will use a futures fixed on the next 15,000 bushels. The door stays open for post harvest strategies but I have exposed myself to basis risk and the chance to get something less than $2.00 at harvest.

May 16, 2003: A decision date has arrived and futures prices are at my minimum. I decided to price 20,000 bushels with a futures fixed contract at $2.49 ¾. This accounts for steps 4 and 5 (April 30 and May 16 decision dates) in my marketing plan.

May 30, 2003: My final decision date arrived and futures prices are below my minimum. I will pass and hope for a better opportunity later in the growing season.