Grain Marketing

Center for Farm Financial Management
University of Minnesota
www.cffm.umn.edu/grain

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Corn: 2012 Post-Harvest Marketing Plan

by Ed Usset

2012 production: 90,000 bushels (600 acres @ 150 bushels per)

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no unpriced corn beyond July 1, 2013.

15,000 bushels: Price and deliver at the harvest price of $7.34.

65,000 bushels priced @ $5.72½ (average of 7 pre-harvest sales) with futures sales of the December contract (October 12 close @ $7.52¾): Place in storage and sell the carry by rolling the December hedges forward to the March contract (also trading at $7.52¾). The harvest basis is strong at 19 cents under the December and March contracts, but I am a basis bull. Exit plan: Unwind my storage hedge when the cash basis goes "over" the March contract, or look for an opportunity to roll the hedge forward to the May or July contracts at even money. If I reach option price (0 basis) the March on these bushels, I will receive a cash price of $5.72½ per bushel ($7.52¾ March futures - $0.00 basis - $1.80 loss on the early sales of December futures).

10,000 bushels: Place in storage and hold for higher prices. Sell 5,000 bushels @ $8.00, and the last 5,000 @ $8.40. Risk no more than 64 cents under the harvest price - sell if the cash price falls below $6.70. Bushels unsold at the end of April will be sold in equal increments in May and June.

Corn: Execution of the 2012 Post-Harvest Marketing Plan

by Ed Usset

October 12, 2012: The harshest drought since 1988 strikes, sending corn prices higher and inverting the futures market (an inverse at harvest is rare – we saw it in 1988, 1983 and 1995). I'm willing to roll my pre-harvest hedges forward to the March contract. Carrying charges are not there but I am a basis bull. I anticipate a very strong basis (large overs) by next spring - even stronger than 2011 or 2012. Storage limitations force a sale of 15,000 bushels at harvest, but a basis of 19 cents under is very good for harvest. This is also another year of tight stocks, so I'm holding 10,000 bushels in storage, anticipating $8 corn and better.

January 2, 2013: I'm still a basis bull and I have the chance to roll March hedges to the May contract at a modest 2¾ cent carry (CH13@ $6.90¾ and CK13 @ $6.93½). I am now long the basis at 21¾ cents under the May, and looking for a positive basis.

January 4, 2013: Holding unpriced corn is doing me no favors. The cash price dropped below $6.70/bushel and it's time to make an exit on 10,000 bushels at $6.68/bu.

March 8, 2013: The basis is at 5 cents over the May and it's time to unwind the hedge – buy back May futures at $7.03½ and sell cash corn at $7.09/bu. Final price is $5.80¾/bu. ($5.72½ March sales + 2¾ cents carry to May + 5½ basis).

Summary of the 2012 Corn Crop:

15,000 bushels sold for….	**$7.34**
65,000 bushels sold for….	**$5.80¾**
10,000 bushels sold for….	**<u>$6.68</u>**
Final average price for 2012 corn	**$6.16/bu.**