Sizing-Up the Market

2010 Post Harvest Marketing Plans

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http://edsworld.wordpress.com/
“Back to School” quizzes and videos: http://cornandsoybeandigest.com

Book link
www.cffm.umn.edu/simple/
Launch Your Pre-Harvest Marketing Plan
Launch and Land Your Post-Harvest Plan

Call CFFM at 800-234-1111 to sponsor a workshop in your town.

2010 Post Harvest Marketing Plans

MN Soybean Research & Promotion Council
www.mnsoybean.org
A Different Approach to Marketing

• Find the dime!
  • Have a plan
  • Eliminate mistakes

Find the Dime!

• The average farm earns 20-30 cents per bushel (including gov’t payments). Just 10 cents more per bushel could increase net income by 33-50%!

Not ambitious enough? Try to find three or four dimes!
Have a Plan!

• A marketing plan is a **proactive strategy** to price your grain that considers your financial goals, cash flow needs, price objectives, storage capacity, crop insurance coverage, anticipated production, and appetite for risk.

  Proactive, not reactive, not overactive

Eliminate Mistakes

• Great marketing is not finding the high price. It’s finding an extra 10-20 cents per bushel with a solid plan that avoids mistakes.
Agenda

- Post harvest marketing choices
- Questions about the outlook
- Earl Eitheror asks one question
- Ed asks a few more questions
- 2010 post harvest marketing plans
Post-harvest marketing choices

1. Sell grain at harvest
2. Hold grain in storage to sell later
3. Hold grain in storage and “sell the carry”

How do I make a choice?

1. Sell grain at harvest
2. Hold grain in storage to sell later
3. Hold grain in storage and “sell the carry”
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- **Questions about the outlook**
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Important Outlook Questions

Where is the U.S. economy going?
Important Outlook Questions

Will we get a large crop?

Important Outlook Questions

Is that a La-Nina developing?
What about the Russian wheat crop?

How much grain will China need?
Agenda

- Post harvest marketing choices
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- **Earl Eitheror asks one question**
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Earl Eitheror has on-farm storage

At harvest he makes choice

Large carrying charges:
Store grain and “sell the carry”

Small carrying charges:
Store unpriced grain, to sell in the spring
Earl asks one question:
What is the carry in the market?
(What are carrying charges?)

What determines price differences between delivery months (e.g. December vs. March corn)? Is it expectations?

These price differences reflect market determined storage costs (aka carrying charges). Large carrying charges, where deferred contracts trade at a premium to nearby contracts, are common when free supplies are large.
Carrying Charges in Corn

- Large crops/large free stocks = large carrying charges

In the bear market environment, Earl plays it safe by selling the carry.

How Does Earl “Sell the Carry”?

CBOT Corn Futures: September 8, 2010

- Place crop in storage at harvest and “sell the carry” with futures/HTA
- $3.87 cash
- Dec. $4.62
- March $4.75
- May $4.80
- July $4.84
- 35 under by June? $4.49
Pros and cons of selling the carry

- Hedge against lower prices
- Capture the carry
- Capture basis improvement
- Defer taxes to a new year
- No more upside potential

Small (or inverted) carrying charges occur when supplies are small - a scarcity of stocks. The market says "we will pay a premium if you deliver now!"

CBOT Soybean Futures, September 8, 2010

Small (or inverted) carrying charges represent the opposite of a carrying charge market – deferred contracts trade at a discount to nearby contracts.
Carrying Charges in Soybeans

• Small crops/tight stocks = small carrying charges or inverses

In the bull market environment, Earl takes a chance with unpriced grain.

Earl Eitheror

Earl bases his choice on carrying charges.

Does it work?

Let’s compare Earl to Barney Binless...
Barney Binless

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

Earl vs. Barney, 1990-2009

<table>
<thead>
<tr>
<th></th>
<th>Barney</th>
<th>Earl</th>
<th>Sold the carry?</th>
<th>Worse than Barney?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.19</td>
<td>2.35</td>
<td>15/20 years</td>
<td>3/20 years</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.76</td>
<td>6.25</td>
<td>0/20 years</td>
<td>6/20 years</td>
</tr>
<tr>
<td>HRS Wheat</td>
<td>3.86</td>
<td>3.99</td>
<td>7/20 years</td>
<td>5/20 years</td>
</tr>
</tbody>
</table>

• 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.
Earl vs. Barney, 1990-2009

- 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%)

Earl lives in a black or white world!

Large carrying charges:
Store grain and “sell the carry”

Small carrying charges:
Store unpriced grain, to sell in the spring
Should your post-harvest marketing choice be a black or white decision?

Essay Time!

How I spent my summer (by Ed)

- Things I did
- Things I did not do
- Things I’m thinking of doing
Things I did: BWCAW

Things I did not do:
Bungee jump off the Bloukrans Bridge
Things I did not do: RAGBRAI

Things I’m thinking of doing: Naked bike ride (www.worldnakedbikeride.org)
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Ed has a few questions too

Are market prices high or low?
Ed has a few questions too

Is basis high or low?

A black or white decision?

<table>
<thead>
<tr>
<th>Spring wheat</th>
<th>Barney</th>
<th>Earl</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$8.82</td>
<td>$6.15</td>
</tr>
</tbody>
</table>

The spring wheat carry was small in 2008. I saw $9 wheat at harvest and took a conservative approach. Earl held for higher prices and ouch!
Ed has a few questions too

What are my storage costs?

Ed has a few questions too

What is my appetite for risk?
The soybean carry was small in 2008. I checked my appetite for risk and sold a small carry, receiving $9. Earl received $10.45!

A black or white decision?

<table>
<thead>
<tr>
<th>Soybeans</th>
<th>Barney</th>
<th>Earl</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$8.24</td>
<td>$10.45</td>
</tr>
</tbody>
</table>

The carry was small again in 2009. I checked my appetite for risk and sold at harvest. Good job!
Agenda

• Post harvest marketing choices
• Questions about the outlook
• Earl Eitheror asks one question
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• **2010 post harvest marketing plans**

2010 Post-Harvest Marketing Plans

(preliminary)

<table>
<thead>
<tr>
<th>Corn</th>
<th>Southwest MN</th>
<th>September 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec’10 futures</td>
<td>$4.62</td>
<td></td>
</tr>
<tr>
<td>new crop basis</td>
<td>75 under</td>
<td></td>
</tr>
<tr>
<td>harvest price</td>
<td>$3.87</td>
<td></td>
</tr>
<tr>
<td>Jul’11 futures</td>
<td>$4.84</td>
<td></td>
</tr>
</tbody>
</table>
Sizing Up the Market

2010 corn market at harvest

- Earl has a large carry to sell
- Could the basis reach 30 under by next spring?
- Prices are higher and so is the risk of holding unpriced corn
2010 Post-Harvest Marketing Plans

Soybeans

(preliminary)
Southwest MN
September 8

- Nov'10 futures $10.48
- new crop basis 73 under
- harvest price $9.75
- Jul'11 futures $10.64

Sizing Up the Market

2010 soybean market at harvest

- The carry is small and Earl would hold unpriced soybeans in storage but...
- Prices are up (harvest sale?) and/or...
- Selling a small carry will buy time for a better basis
## 2010 Post-Harvest Marketing Plans

### Spring Wheat

<table>
<thead>
<tr>
<th></th>
<th>Red River Valley</th>
<th>August 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep’10 Futures</td>
<td>$7.07</td>
<td></td>
</tr>
<tr>
<td>Harvest Basis</td>
<td>90 under</td>
<td></td>
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<tr>
<td>Harvest Price</td>
<td>$6.17</td>
<td></td>
</tr>
<tr>
<td>Mar’11 Futures</td>
<td>$7.20</td>
<td></td>
</tr>
</tbody>
</table>

## Sizing Up the Market

2010 spring wheat market at harvest

- The carry is small and Earl would hold unpriced wheat in storage **but**...
- Wheat prices are high and...
- The basis is very weak
- **Selling a small carry buys time for basis improvement in the months ahead**
### What questions are you asking?

| Where is the U.S. economy going? | What is the carry in the market? |
| Will we get a large crop? | Are market prices high or low? |
| Is that a La-Nina developing? | Is basis high or low? |
| What about the Russian wheat crop? | What are my storage costs? |
| How much grain will China need? | What is my appetite for risk? |
Summary

• You have a choice; sell at harvest, store to sell later, “sell the carry”
• Earl bases his choice on one question, “What is the carry?”
• Market prices, basis and appetite for risk can help refine your choice
• Are you asking the right questions?