

Store or Sell? Grain Marketing

Presented by:

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Grain Marketing Plan

- ⇒ A grain marketing plan is a **written**, proactive, strategic plan to sell your grain.

- ⇒ Plans should consider
 - Cash flow needs
 - Financial goals
 - Storage capacity
 - Farm logistics
 - Risk appetite



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Why a written plan

- An effective weapon against emotional sales & holds

- Everyone is on the same page
 - Spouse
 - Family members
 - Business partner
 - Bank
 - Elevator



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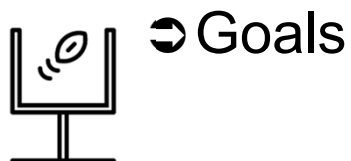
If football is a game
of inches, then
farming is a game of
pennies

– Iowa Farmer



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Components of a good marketing plan



⇒ Goals



⇒ Strategies



⇒ Rule of thumb



Icons: Goal by Nathan Driskell, Strategy by Arthur Shlain, Ruler by Aneeqe Ahmed from the Noun Project

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Marketing Plans

Sell # of bushels by date at
(futures price plus expected basis
minus storage expense)
 for delivery on date using
marketing contract.



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Two types of marketing plans

➤ Pre-Harvest Plan

– Pricing grain before it is harvested



➤ Post Harvest Plan

– Pricing grain once it has been harvested



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Grain Marketing Plan Basics



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Marketing Plans

Sell # of bushels by date at
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Marketing Plans

- ⇒ Quantity
- ⇒ Price
- ⇒ Date
- ⇒ Contract



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Quantity

- 
 Don't sell everything at once.*
- 100,000 bu / 5 sales goals = 20,000 bu per sale*
**unless you have to or the price is too good to pass up*

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Marketing Plans

- ⇒ Quantity
- ⇒ Price
 - Market Outlook
 - Cash Price vs. Futures Price
- ⇒ Date
- ⇒ Contract

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Price Goals: Market Outlook

➔ What is a realistic price goal?

– Market Outlook



- Cornhusker Economic Outlook Series
- Marketing Service
- USDA WASDE
 - Feb. 9th Reported Prices
 - » Wheat \$3.80-\$3.90
 - » Corn \$3.20-\$3.60
 - » Soybeans \$9.10-\$9.90

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Price Goals

➔ Know your cost of production...

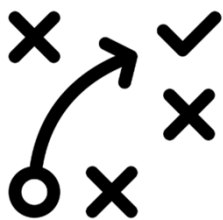


- Establish your own “breakeven”
- UNL Crop Budgets
 - <http://cropwatch.unl.edu/economics/budgets>
- Bank cash flows

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Price Strategy



⇒ Establish an **average target price** you are willing to sell at

Average Target \$3.50

Sell equal units at:

\$3.30, \$3.40, \$3.50, \$3.60, \$3.70

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futures price plus expected basis

Futures Market \neq Cash Market

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The futures market contracts

Corn
 Delayed Futures - 17:14 - Monday, February 13th
 [Go to Daily] [Options] [Profile] (Click on Contract for Chart)




Contract	Last	Change	Open	High	Low	Volume	Prev. Stl.	Time	Links
Cash (ZCY00)	376-0s	+5-0	0-0	376-0	376-0	0	371-0	02/10/17	Q / C / O
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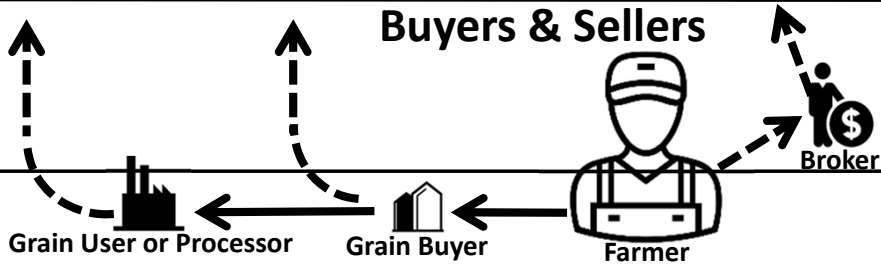
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Boards: CBOT KCBOT

Contracts

- | | | |
|---|---|---|
|  |  |  |
| CH## \$#.## | SF## \$#.## | KWH## \$#.## |
| CK## \$#.## | SH## \$#.## | KWK## \$#.## |
| CN## \$#.## | SK## \$#.## | KWN## \$#.## |
| CU## \$#.## | SN## \$#.## | KWU## \$#.## |
| CZ## \$#.## | SQ## \$#.## | KWZ## \$#.## |
| | SU## \$#.## | |
| | SX## \$#.## | |

Buyers & Sellers



$$\text{Cash Price} = \text{Futures Price} + \text{Basis}$$



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Futures vs. Cash Price



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BASIS

- Basis – Transportation and handling costs to move product from current location to point of delivery

2/17/2017

$$\text{Basis} = \text{Holdrege, NE Cash Price} - \text{CH17 Closing Price}$$

$$-\$0.48 = \$3.26 - \$3.74$$



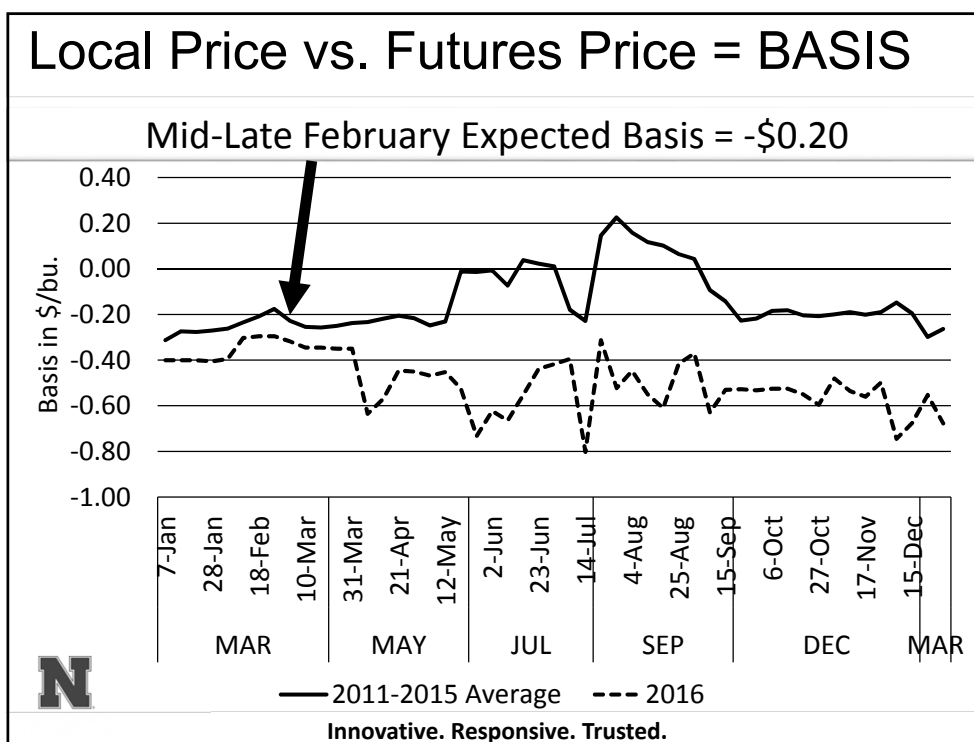
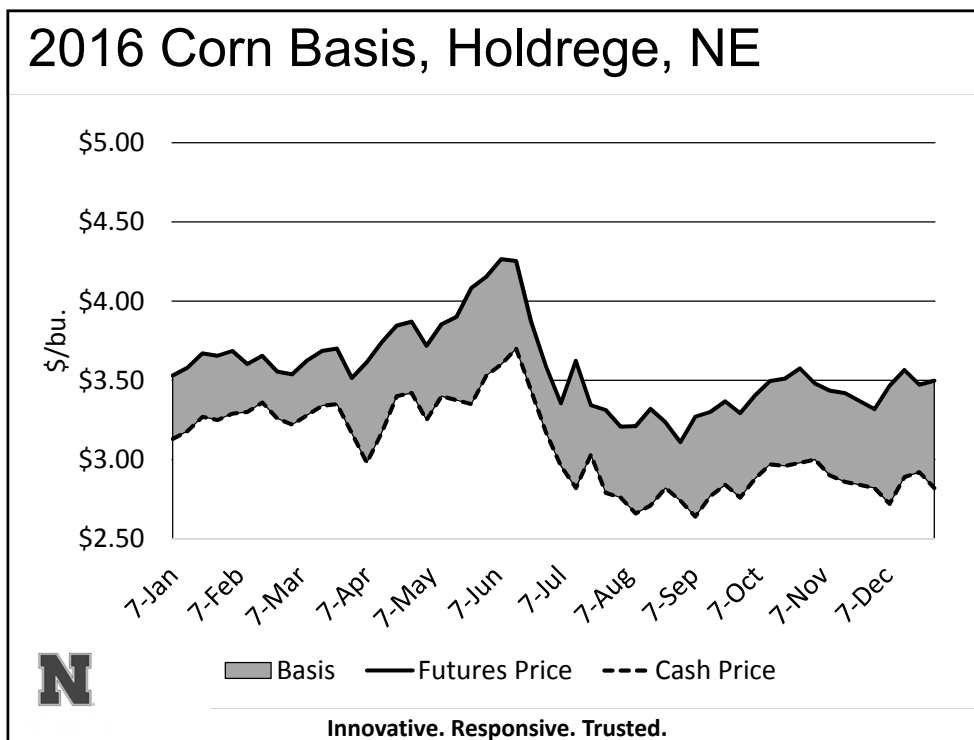
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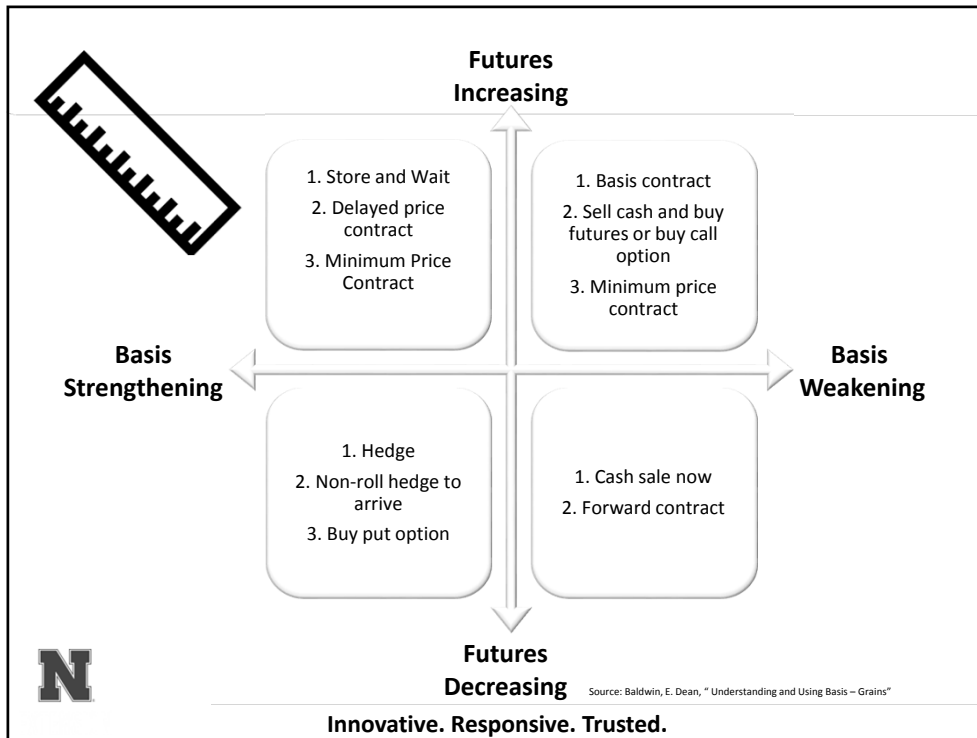
Local Price vs. Futures Price = BASIS

- Basis – Transportation and handling costs to move product from current location to point of delivery
 - Storage costs
 - Transportation
 - Variations in grade
 - Unavailability of substitutes
 - **Expected supply & demand**



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Pre-Harvest Grain Marketing Plans

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Pre-Harvest Statement

Sell # of bushels by date at
 (futures price plus expected basis)
~~minus storage expense~~
 for delivery at harvest using
marketing contract.

N



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Pre-Harvest



⇒ Sell during growing season,
 when prices are traditionally
 higher



⇒ Only price grain when the price
 is above your cost of
 production.*

**unless you don't think the market will offer a higher price or if you
 have to!*

N



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Quantity



⇒ Don't sell more than you have insured*

*Expected production: 150bu APH X 100 acres
= 15,000 bu*

*Expected Production 15,000bu X 70% coverage
= 10,500 bu to pre-harvest market*

**Sell as much as you are comfortable with! You do not have to sell all of your insured expected production!*



⇒ Sell grain that does not fit in **on-farm storage** for delivery at harvest



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Pre-Harvest: When are prices highest?

⇒ Look at the “new crop” contract – contract closest to expiration at harvest

- Dec (Z) for Corn
- Nov (X) for Soybeans
- Jul (N) for Winter Wheat



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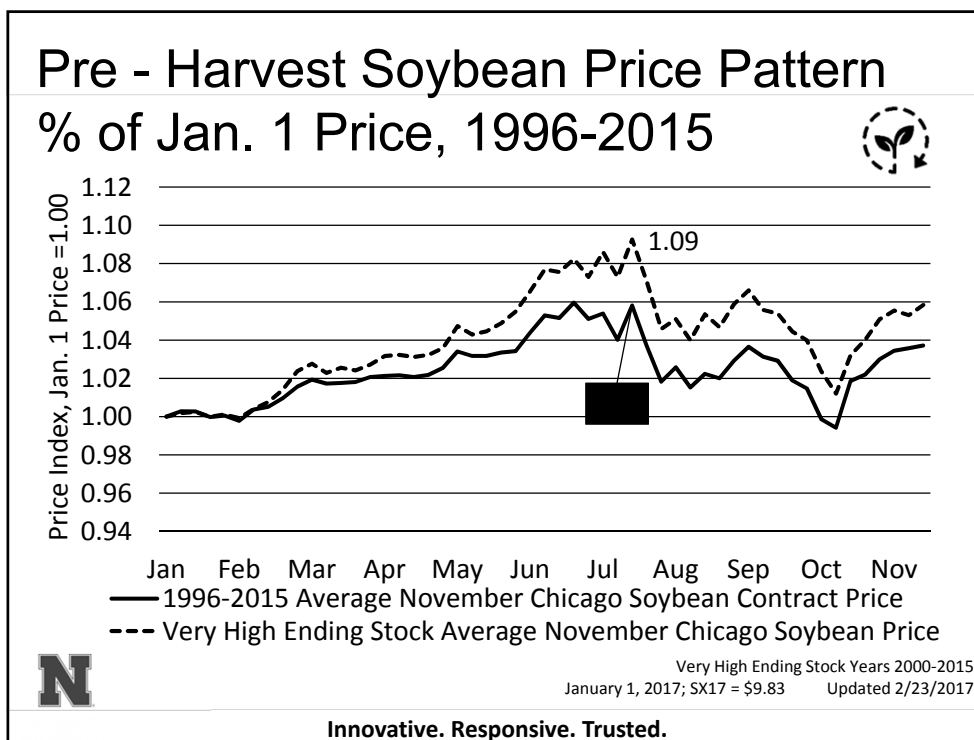
Futures- Expiration Date

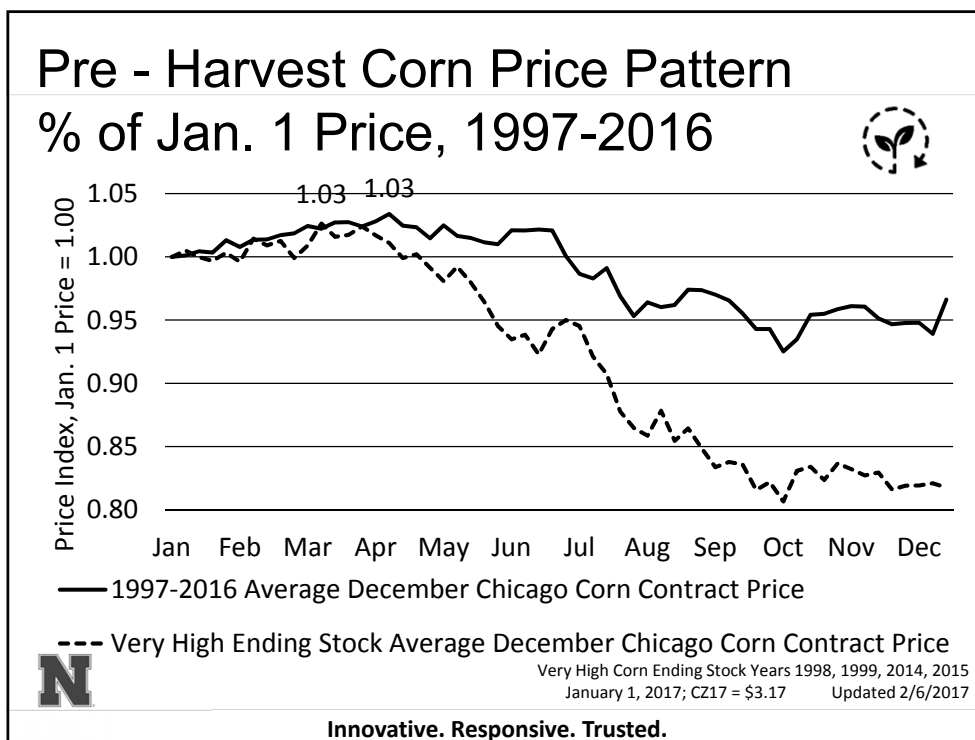
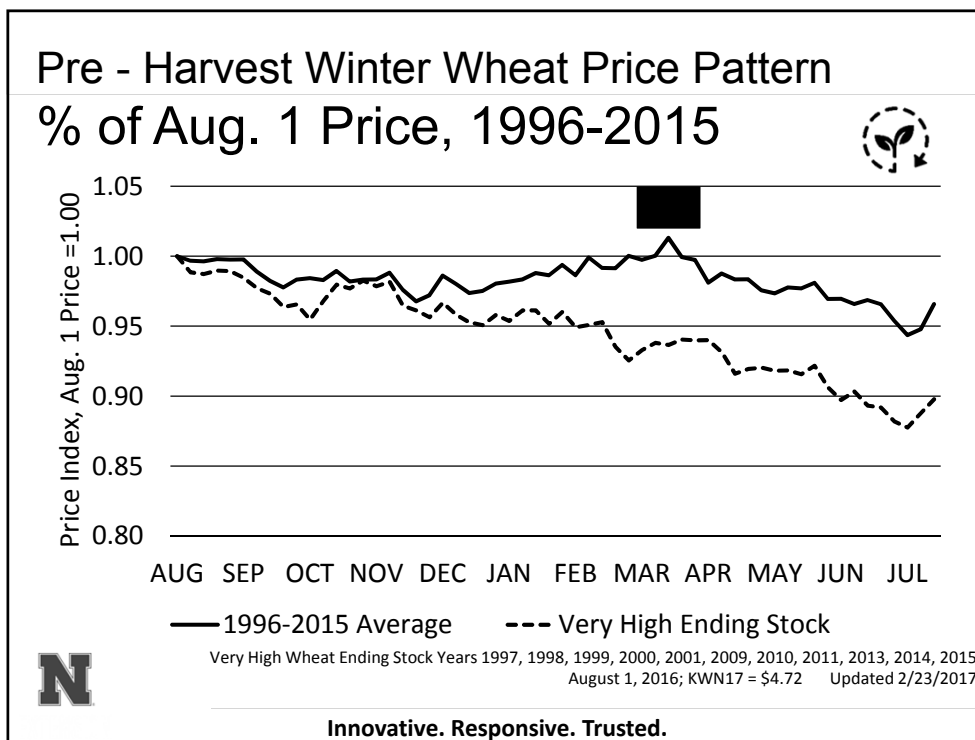
	JAN 15th	FEB 15th	MAR 15th	APR 15th	MAY 15th	JUN 15th	JUL 15th	AUG 15th	SEP 15th	OCT 15th	NOV 15th	DEC 15th
ZC & KE	MAR (H)		MAY (K)		JUL (N)		SEP (U)		DEC (Z)			
ZS	MAR (H)		MAY (K)		JUL (N)		AUG (Q)	SEP (U)	NOV (X)		JAN (F)	

Corn (ZC) & HRW Wheat (KE)			Soybeans (S)		
Contract	Start	End	Contract	Start	End
MAR(H)	DEC 15	MAR 14	JAN (F)	NOV 15	JAN 14
MAY (K)	MAR 15	MAY 14	MAR(H)	JAN15	MAR 14
JUL (N)	MAY 15	JUL14	MAY (K)	MAR 15	MAY 14
SEP (U)	JUL 15	SEP 14	JUL (N)	MAY 15	JUL14
DEC (Z)	SEP 15	DEC 14	AUG(Q)	JUL 15	AUG 14
			SEP (U)	AUG 15	SEP 14
			NOV (X)	SEP 15	NOV 14

N

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Pre-Harvest


 ☞ Corn & Soybeans - Plan should start in January and be completed by July

☞ Wheat – Plan should start in August and be finished in January?



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Example: Holdrege, NE Pre-Harvest Plan

Insured 500 acres, 150 APH, RP, 70% Level
 $75,000 \times 0.70 = 52,500$ Maximum Pre-price
 Estimated cost of production: \$3.50
 Expected harvest basis = -\$0.55
 Average price cash target = \$3.50

- ☞ **Sell # of bushels by date at (futures price + expected harvest basis) for delivery at harvest using marketing contract.**
- ☞ Price 10,000bu. before February 1 at \$3.30 ($\$3.85 + -\0.55) for delivery at harvest
- ☞ Price 10,000bu. before March 1 at \$3.40 ($\$3.95 + -\0.55) for delivery at harvest
- ☞ Price 10,000bu. before April 1 at \$3.50 ($\$4.05 + -\0.55) for delivery at harvest
- ☞ Price 10,000bu. before May 1 at \$3.60 ($\$4.15 + -\0.55) for delivery at harvest
- ☞ Price 10,000bu. before June 1 at \$3.70 ($\$4.25 + -\0.55) for delivery at harvest



This example is provided for demonstration purposes only and is not intended to be used for specific grain marketing strategies. Past performance is not necessarily indicative of future results. Grain marketing involves risk, and you should fully understand those risks before pricing grain.

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Example: Holdrege, NE Pre-Harvest Plan

Insured 500 acres, 150 APH, RP, 70% Level

$75,000 \times 0.70 = 52,500$ Maximum Pre-price

Estimated cost of production: \$3.50

Expected harvest basis = -\$0.45

Average price cash target = \$3.50

- Actual Sale = 10,000bu. at \$3.31 ($\$3.86 + -\0.55) on 1/4/2017 for delivery at harvest
- Actual Sale = 10,000bu. at \$3.40 ($\$3.95 + -\0.55) on 1/20/2017 for delivery at harvest
- Price 10,000bu. at \$3.50 ($\$4.05 + -\0.55) before April 1 for delivery at harvest
- Price 10,000bu. at \$3.60 ($\$4.15 + -\0.55) before May 1 for delivery at harvest
- Price 10,000bu. at \$3.70 ($\$4.25 + -\0.55) before June 1 for delivery at harvest



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Post-Harvest Grain Marketing Plans



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Post-Harvest Marketing



- Obtain a higher return than what is offered at harvest by taking advantage of improvements in price, basis, or capturing carrying charges.

- Meet cash flow needs

Avoid the call method of marketing!



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Marketing Plans

Sell # of bushels by date at (futures price plus expected basis minus storage expense) for delivery on date using marketing contract.



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Marketing Plans

➔ Quantity

- Only sell grain “in the bin”

➔ Price

➔ Date

➔ Contract



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Post-Harvest: When are prices highest?

➔ Look at the “nearby” contract – contract closest to expiration

➔ Seasonal Price Patterns

- “Harvest Low”
- “Spring Rally”



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Futures- Expiration Date

	JAN 15th	FEB 15th	MAR 15th	APR 15th	MAY 15th	JUN 15th	JUL 15th	AUG 15th	SEP 15th	OCT 15th	NOV 15th	DEC 15th
ZC & KE	MAR (H)		MAY (K)		JUL (N)		SEP (U)		DEC (Z)			
ZS	MAR (H)		MAY (K)		JUL (N)		AUG (Q)	SEP (U)	NOV (X)		JAN (F)	

Corn (ZC) & HRW Wheat (KE)			Soybeans (S)		
Contract	Start	End	Contract	Start	End
MAR(H)	DEC 15	MAR 14	JAN (F)	NOV 15	JAN 14
MAY (K)	MAR 15	MAY 14	MAR(H)	JAN15	MAR 14
JUL (N)	MAY 15	JUL14	MAY (K)	MAR 15	MAY 14
SEP (U)	JUL 15	SEP 14	JUL (N)	MAY 15	JUL14
DEC (Z)	SEP 15	DEC 14	AUG(Q)	JUL 15	AUG 14
			SEP (U)	AUG 15	SEP 14
			NOV (X)	SEP 15	NOV 14

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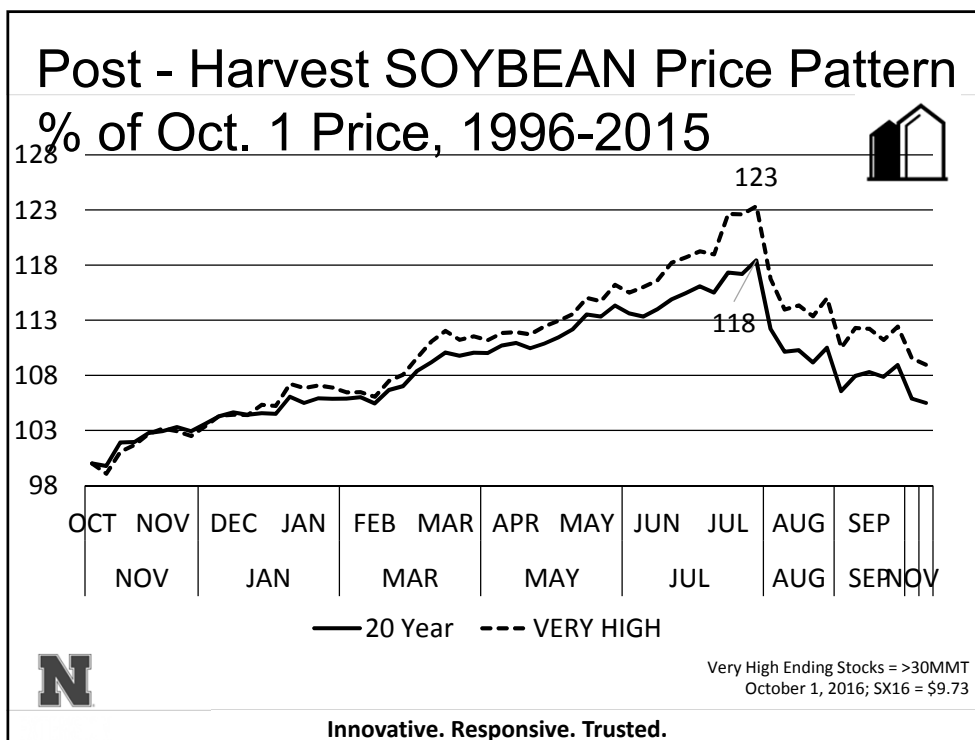
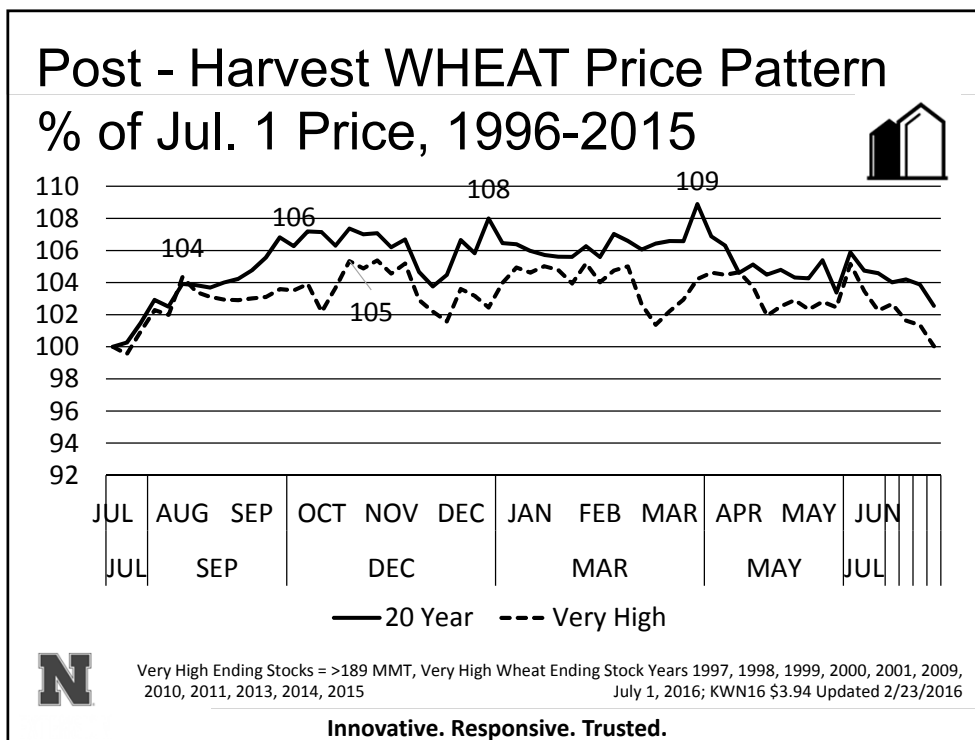
Post-Harvest: When are prices highest?

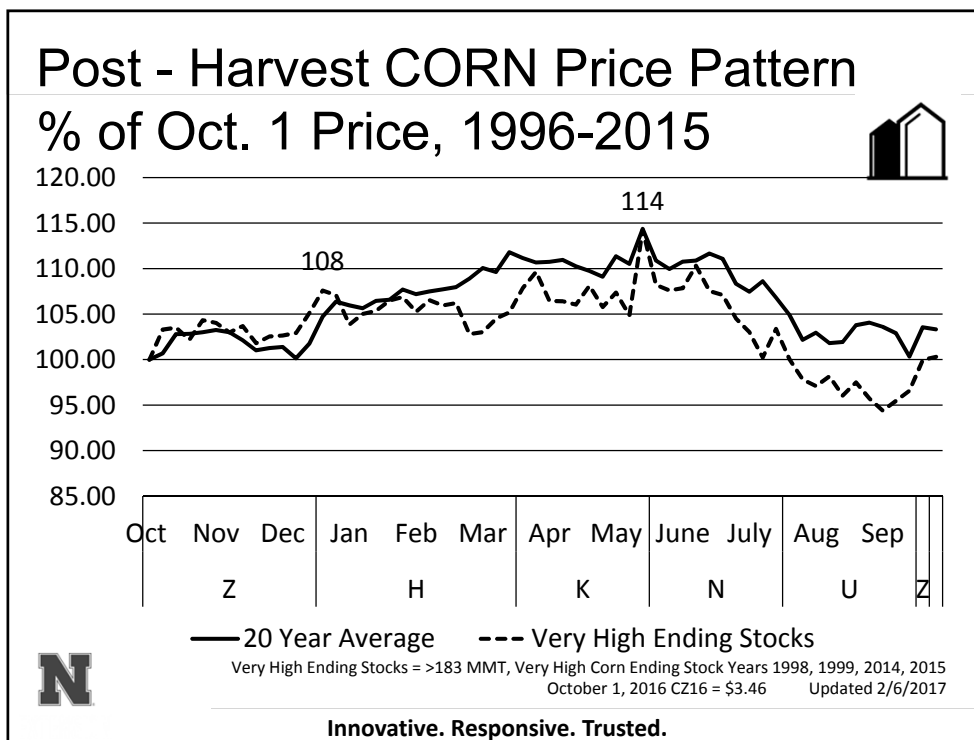
- ➡ Look at the “nearby” contract – contract closest to expiration

- ➡ Seasonal Price Patterns
 - “Harvest Low”
 - “Spring Rally”




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Post-Harvest Strategies

- 
 ⇒ Sell throughout the year
 - Sell at the price or the date target
 - Watch for adverse changes in basis and accumulating storage expenses
 - The highest futures price does not equal the highest return
- 
 ⇒ Exit Plan
 - Have corn & soybean bushels priced by July
 - Have wheat bushels priced by January

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Example: Holdrege, NE Post-Harvest Plan

50,00 bushels in storage
 Average Oct "Harvest" Price: \$2.96/bu.
 \$0.04/bu./month storage expense
 Average price cash target = \$3.50

- ⇒ Sell **# of bushels** by **date** at (**futures price** + **expected basis** - **storage expense**) for delivery **on date** using **marketing contract**.
- ⇒ Sell 10,000bu. at \$3.30 (\$3.86 + -\$0.40 – \$0.16) before February 1
- ⇒ Sell 10,000bu. at \$3.40 (\$3.95+ -\$0.35 – \$0.20) before March 1
- ⇒ Sell 10,000bu. at \$3.50 (\$4.19+ -\$0.45 – \$0.24) before April 1
- ⇒ Sell 10,000bu. at \$3.60 (\$4.38+ -\$0.50 – \$0.28) before May 1
- ⇒ Sell 10,000bu. at \$3.70 (\$4.57+ -\$0.55 – \$0.32) before June 1



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Example: Holdrege, NE Post-Harvest Plan

50,00 bushels in storage
 Average Oct "Harvest" Price: \$2.96/bu.
 \$0.04/bu./month storage expense
 Average cash price target (less storage) = \$3.50

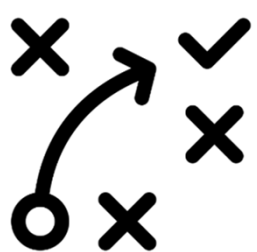
- ⇒ Actual Sale = 10,000bu. at \$2.94 (\$3.59 + -\$0.49 – \$0.16) on Jan. 31 for immediate delivery using a cash sale.
- ⇒ Sell 10,000bu. at \$3.49 (\$4.04+ -\$0.35 – \$0.20) before March 1
- ⇒ Sell 10,000bu. at \$3.59 (\$4.28+ -\$0.45 – \$0.24) before April 1
- ⇒ Sell 10,000bu. at \$3.69 (\$4.47+ -\$0.50 – \$0.28) before May 1
- ⇒ Sell 10,000bu. at \$3.79 (\$4.66+ -\$0.55 – \$0.32) before June 1



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Post-Harvest Strategies: Selling the Carry



⇒ For those with **on farm storage**, examine the **carrying charges** before making a sale on the nearby contract



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Later Sale Date = More Storage

- ⇒ On farm vs. off farm storage expense
- ⇒ Storage expenses, often overlooked
 - Facility expense
 - Extra drying
 - Shrinkage
 - Handling
 - Quality deterioration
- ISU on farm Storage Rate \$0.03/bu./month



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Does the market pay you for storage?

Corn

Delayed Futures - 17:14 - Monday, February 13th

[Go to Daily] [Options] [Profile] (Click on Contract for Chart)

Contract	Last	Change	Open	High	Low	Volume	Prev. Stl.	Time	Links
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CME ice



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Carrying Charge

➔ Carrying charge – price difference between futures contract delivery months

Future Futures Contract – Current Futures Contract = Carrying Charge



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Sep '18 (ZCU18)	407-0s	+0-2	402-4	407-0	402-4	8	406-6	02/13/17	Q / C / O
Dec '18 (ZCZ18)	407-6s	+0-6	406-6	408-0	405-4	791	407-0	02/13/17	Q / C / O
Mar '19 (ZCH19)	413-2s unch		414-6	415-0	413-2	9	413-2	02/13/17	Q / C / O
May '19 (ZCK19)	418-4s unch		0-0	418-4	418-4	0	418-4	02/13/17	Q / C / O
Jul '19 (ZCN19)	421-0s	+1-4	420-0	421-0	420-0	3	419-4	02/13/17	Q / C / O
Sep '19 (ZCU19)	418-2s	+1-2	0-0	418-2	418-2	0	417-0	02/13/17	Q / C / O
Dec '19 (ZCZ19)	409-2s	+0-4	410-0	410-0	409-2	1	408-6	02/13/17	Q / C / O



CME ice



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Corn Carrying Charge Expectations

	Oct. 1 – Dec. 14	Dec. 15 – Mar. 14	Mar. 15 – May 14	May 15 – Jul. 14	Jul. 15 – Sep. 14
Nearby Contract	Z	H	K	N	U
1 st Deferred Contract	H	K	N	U	Z
1996-2015 Avg.	\$0.10	\$0.06	\$0.03	-\$0.05	\$0.10
Very High Ending Stocks	-\$0.41	-\$0.53	-\$0.69	-\$0.77	-\$0.81
2 nd Deferred Contract	K	N	U	Z	H
1996-2015 Avg.	\$0.17	\$0.12	-\$0.04	-\$0.01	\$0.21
Very High Ending Stocks	\$0.26	\$0.19	\$0.08	\$0.01	-\$0.04
3 rd Deferred Contract	N	U	Z	H	K
1996-2015 Avg.	\$0.22	\$0.03	-\$0.04	\$0.09	\$0.21
Very High Ending Stocks	\$0.32	\$0.25	\$0.17	\$0.12	\$0.03

Average carrying charge, by date and contract.
 Very High Corn Ending Stock Years 1998, 1999, 2014, 2015



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Wheat Carrying Charge Expectations

	Dec. 15 – Mar. 14	Mar. 15 – May 14	May 15 – Jul. 14	Jul. 15 – Sep. 14	Oct. 15– Dec. 14
Nearby Contract	H	K	N	U	Z
1 st Deferred Contract	K	N	U	Z	H
1996-2015 Avg.	\$0.01	\$0.01	\$0.08	\$0.15	\$0.06
Very High Ending Stocks	\$0.04	\$0.05	\$0.11	\$0.16	\$0.08
2 nd Deferred Contract	N	U	Z	H	K
1996-2015 Avg.	-\$0.02	\$0.08	\$0.22	\$0.24	\$0.05
Very High Ending Stocks	\$0.09	\$0.13	\$0.26	\$0.28	\$0.15
3 rd Deferred Contract	U	Z	H	K	N
1996-2015 Avg.	\$0.06	\$0.20	\$0.30	\$0.23	-\$0.05
Very High Ending Stocks	\$0.19	\$0.27	\$0.37	\$0.33	\$0.19

Average carrying charge in \$/bu., by date and contract.

Very High Wheat Ending Stock Years 1997, 1998, 1999, 2000, 2001, 2009, 2010, 2011, 2013, 2014, 2015

N



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Soybean Carrying Charge Expectations

	Nov 15- Jan 14	Jan 15- Mar 14	Mar 15- May 14	May 15 – Jul 14	Jul 15- Aug 14	Aug 15 – Sep 14	Sep 15 Nov 14
Nearby Contract	F	H	K	N	Q	U	X
1 st Deferred Contract	H	K	N	Q	U	X	F
1996-2015 Avg.	\$0.01	\$0.06	-\$0.03	-\$0.20	-\$0.30	-\$0.07	\$0.08
Very High Ending Stocks	-\$0.01	\$0.05	-\$0.05	-\$0.22	-\$0.31	-\$0.06	\$0.07
2 nd Deferred Contract	K	N	Q	U	X	F	H
1996-2015 Avg.	\$0.03	\$0.09	-\$0.15	-\$0.52	-\$0.39	\$0.00	\$0.11
Very High Ending Stocks	\$0.02	\$0.08	-\$0.19	-\$0.55	-\$0.39	\$0.00	\$0.09
3 rd Deferred Contract	N	Q	U	X	F	H	K
1996-2015 Avg.	\$0.06	\$0.00	-\$0.44	-\$0.64	-\$0.32	\$0.01	\$0.10
Very High Ending Stocks	-\$0.77	-\$0.84	-\$1.30	-\$1.50	-\$1.13	-\$0.83	-\$0.72

Average carrying charge in \$/bu., by date and contract.

Very High Soybean Ending Stock Years 2000-2015

N



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Differences Between Contracts

- Small or negative carrying charge
 - Lower demand in the future
 - Negative carrying charge is also called “Inverted”

- Large carrying charge
 - More demand in the future
 - The carrying charge must be larger than your estimated storage costs for you to hold the product until the later date!



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Jan. 31st Sale Decision – Holdrege, NE

Sell 5,000 bu. of corn today **or** store it until May at \$0.04/bu./month storage expense?

Gain \$0.08 in futures, and \$0.14 in **expected** basis. However, we accrued an an additional \$0.08 in storage.



<i>Sell NOW</i>	
Futures Price (H)	\$3.59
+ Current basis	-\$0.49
-Accrued Storage	-\$0.16
Price Received	\$2.94
<i>Price NOW, Deliver LATER</i>	
Futures Price (K)	\$3.67
+ Expected basis	-\$0.35
- Accrued + Additional Storage	-\$0.28
Expected Cash Price	\$3.04

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Example: Holdrege, NE Post-Harvest Plan

50,00 bushels in storage

Average Oct "Harvest" Price: \$2.96/bu.

\$0.04/bu./month storage expense

Average cash price target (less storage) = \$3.50

- ⇒ Actual Sale = 10,000bu. at \$3.04 ($\$3.67 + \underline{-\$0.35} - \0.28) on Jan. 31 for delivery on the May contract
- ⇒ Sell 10,000bu. at \$3.46 ($\$4.01 + -\$0.35 - \0.20) before March 1
- ⇒ Sell 10,000bu. at \$3.56 ($\$4.25 + -\$0.45 - \0.24) before April 1
- ⇒ Sell 10,000bu. at \$3.67 ($\$4.45 + -\$0.50 - \0.28) before May 1
- ⇒ Sell 10,000bu. at \$3.77 ($\$4.64 + -\$0.55 - \0.32) before June 1



This example is provided for demonstration purposes only and is not intended to be used for specific grain marketing strategies. Past performance is not necessarily indicative of future results. Grain marketing involves risk, and you should fully understand those risks before pricing grain.

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The secret to marketing grain...



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Sell or Store?

⇒ Sell...

- when your date target hits
- when your price target hits
- when you do not believe the futures price or basis will improve enough to profit from additional storage
 - Lock in futures and basis using a (1) cash sale, or (2) Cash forward contract

⇒ Store...

- grain when you think the futures price and basis will improve enough to profit from additional storage
 - Unpriced grain
 - Priced grain using a (1) delayed price contract, or a (2) minimum price contract
- Priced grain when you think basis will improve
 - Lock in futures price using a (1) Hedge to Arrive Contract, or a (2) futures hedge, or (3) buy a put option
- Priced grain when you think the futures price will improve, but basis will not
 - Lock in basis using a (1) basis contract, or (2) sell cash and buy futures or a call option, or a (3) Minimum price contract



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Questions?



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