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
Why a written plan

-An effective weapon against emotional sales & holds

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

If football is a game of inches, then farming is a game of pennies
  - Iowa Farmer
Components of a good marketing plan

- Goals
- Strategies
- Rule of thumb

Marketing Plans

Sell \textbf{# of bushels} by \textbf{date} at \\
\textit{(futures price plus expected basis} \\
\textit{minus storage expense)} \\
for delivery \textbf{on date} using \\
\textit{marketing contract.}
## Two types of marketing plans

- **Pre-Harvest Plan**
  - Pricing grain before it is harvested

- **Post Harvest Plan**
  - Pricing grain once it has been harvested

### Grain Marketing Plan Basics

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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.

Marketing Plans

- Quantity
- Price
- Date
- Contract
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

Marketing Plans

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

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

Price Goals

What is a realistic price goal?

- Know your cost of production…
  - Establish your own “breakeven”
  - UNL Crop Budgets
    - http://cropwatch.unl.edu/economics/budgets
  - Bank cash flows

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

**Futures price plus expected basis**

Futures Market ≠ Cash Market
The futures market contracts

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Boards: CBOT KCBOT

Contracts

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

Buyers & Sellers

- Grain User or Processor
- Grain Buyer
- Farmer
- Broker


*Images credit: Corn and wheat icon by Creative Stall, soybean icon by gira Park, silos icon by ludmil, dollar news icon by Aldric Rodriguez Iborra, gardener icon by Icon Fair, Factory icon created by Noe Araujo, from Noun Project.*
Cash Price = Futures Price + Basis

BASIS

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

2/17/2017
Basis = Holdrege, NE Cash Price – CH17 Closing Price
-$0.48 = $3.26– $3.74

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

2016 Corn Basis, Holdrege, NE

Local Price vs. Futures Price = BASIS

Mid-Late February Expected Basis = -$0.20

2011-2015 Average  2016
Pre-Harvest Grain Marketing Plans

Source: Baldwin, E. Dean, "Understanding and Using Basis – Grains"
Pre-Harvest Statement

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

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!
### Quantity

- **Don’t sell more than you have insured**

  \[
  \text{Expected production: } 150 \text{bu APH} \times 100 \text{ acres} = 15,000 \text{ bu}
  \]

  \[
  \text{Expected Production } 15,000 \text{bu} \times 70\% \text{ coverage} = 10,500 \text{ bu to pre-harvest market}
  \]

  *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**

### 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
Futures - Expiration Date

Pre - Harvest Soybean Price Pattern

% of Jan. 1 Price, 1996-2015

Pre - Harvest Winter Wheat Price Pattern

% of Aug. 1 Price, 1996-2015


Pre - Harvest Corn Price Pattern

% of Jan. 1 Price, 1997-2016

### 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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**Innovative. Responsive. Trusted.**
Example: Holdrege, NE Pre-Harvest Plan

Insured 500 acres, 150 APH, RP, 70% Level
75,000 X 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
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!*

Marketing Plans

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

**Quantity**
- Only sell grain “in the bin”

**Price**

**Date**

**Contract**

---

Post-Harvest: When are prices highest?

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

**Seasonal Price Patterns**
- “Harvest Low”
- “Spring Rally”
Post-Harvest: When are prices highest?

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

➤ Seasonal Price Patterns
  – “Harvest Low”
  – “Spring Rally”
Post - Harvest WHEAT Price Pattern

% of Jul. 1 Price, 1996-2015


July 1, 2016; KWN16 $3.94 Updated 2/23/2016


Post - Harvest SOYBEAN Price Pattern

% of Oct. 1 Price, 1996-2015

Very High Ending Stocks = >30MMT

October 1, 2016; SX16 = 99.73

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
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**.

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<thead>
<tr>
<th># of bushels</th>
<th>Date</th>
<th>Price per Bushel</th>
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</thead>
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<td>10,000bu.</td>
<td>Feb 1</td>
<td>$3.30 ($3.86 - $0.40 - $0.16)</td>
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<tr>
<td>10,000bu.</td>
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<tr>
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<td>$3.50 ($4.19 - $0.45 - $0.24)</td>
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<td>10,000bu.</td>
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<td>$3.60 ($4.38 - $0.50 - $0.28)</td>
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<tr>
<td>10,000bu.</td>
<td>Jun 1</td>
<td>$3.70 ($4.57 - $0.55 - $0.32)</td>
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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.

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
Does the market pay you for storage?

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

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Carrying Charge

Carrying charge – price difference between futures contract delivery months

Future Futures Contract – Current Futures Contract = Carrying Charge
### Corn Carrying Charge Expectations

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<td>$-0.81</td>
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<td>Z</td>
<td>H</td>
</tr>
<tr>
<td>1996-2015 Avg.</td>
<td>$0.17</td>
<td>$0.12</td>
<td>$-0.04</td>
<td>$-0.01</td>
<td>$0.21</td>
</tr>
<tr>
<td>Very High Ending Stocks</td>
<td>$0.26</td>
<td>$0.19</td>
<td>$0.08</td>
<td>$0.01</td>
<td>$-0.04</td>
</tr>
<tr>
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<td>N</td>
<td>U</td>
<td>Z</td>
<td>H</td>
<td>K</td>
</tr>
<tr>
<td>1996-2015 Avg.</td>
<td>$0.22</td>
<td>$0.03</td>
<td>$-0.04</td>
<td>$0.09</td>
<td>$0.21</td>
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<tr>
<td>Very High Ending Stocks</td>
<td>$0.32</td>
<td>$0.25</td>
<td>$0.17</td>
<td>$0.12</td>
<td>$0.03</td>
</tr>
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</table>

### Wheat Carrying Charge Expectations

<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td>K</td>
<td>N</td>
<td>U</td>
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<td>H</td>
</tr>
<tr>
<td>1996-2015 Avg.</td>
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<td>$0.01</td>
<td>$0.08</td>
<td>$0.15</td>
<td>$0.06</td>
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<td>Very High Ending Stocks</td>
<td>$0.04</td>
<td>$0.05</td>
<td>$0.11</td>
<td>$0.16</td>
<td>$0.08</td>
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<tr>
<td>2nd Deferred Contract</td>
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<td>H</td>
<td>K</td>
<td>N</td>
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<tr>
<td>1996-2015 Avg.</td>
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<td>$0.22</td>
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<td>$0.26</td>
<td>$0.28</td>
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<tr>
<td>1996-2015 Avg.</td>
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<td>$0.20</td>
<td>$0.30</td>
<td>$0.23</td>
<td>-$0.05</td>
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<td>$0.27</td>
<td>$0.37</td>
<td>$0.33</td>
<td>$0.19</td>
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</table>

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


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### Soybean Carrying Charge Expectations

<table>
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</tr>
</thead>
<tbody>
<tr>
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<td>F</td>
<td>H</td>
<td>K</td>
<td>N</td>
<td>Q</td>
<td>U</td>
<td>X</td>
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<td>1996-2015 Avg.</td>
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<td>$0.06</td>
<td>-$0.03</td>
<td>-$0.20</td>
<td>-$0.30</td>
<td>-$0.07</td>
<td>$0.08</td>
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<tr>
<td>Very High Ending Stocks</td>
<td>-$0.01</td>
<td>$0.05</td>
<td>-$0.05</td>
<td>-$0.22</td>
<td>-$0.31</td>
<td>-$0.06</td>
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<td>2nd Deferred Contract</td>
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<td>Q</td>
<td>U</td>
<td>X</td>
<td>F</td>
<td></td>
</tr>
<tr>
<td>1996-2015 Avg.</td>
<td>$0.03</td>
<td>$0.09</td>
<td>-$0.15</td>
<td>-$0.52</td>
<td>-$0.39</td>
<td>$0.00</td>
<td>$0.11</td>
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<tr>
<td>Very High Ending Stocks</td>
<td>$0.02</td>
<td>$0.08</td>
<td>-$0.19</td>
<td>-$0.55</td>
<td>-$0.39</td>
<td>$0.00</td>
<td>$0.09</td>
</tr>
<tr>
<td>3rd Deferred Contract</td>
<td>N</td>
<td>Q</td>
<td>U</td>
<td>X</td>
<td>F</td>
<td>H</td>
<td>K</td>
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<td>1996-2015 Avg.</td>
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<td>$0.00</td>
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<td>-$0.64</td>
<td>-$0.32</td>
<td>$0.01</td>
<td>$0.10</td>
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<td>Very High Ending Stocks</td>
<td>-$0.77</td>
<td>-$0.84</td>
<td>-$1.30</td>
<td>-$1.50</td>
<td>-$1.13</td>
<td>-$0.83</td>
<td>-$0.72</td>
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</table>

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

**Very High Soybean Ending Stock Years**: 2000-2015

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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!

---

**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?

<table>
<thead>
<tr>
<th>Sell NOW</th>
<th></th>
<th>Price NOW, Deliver LATER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Futures Price (H)</td>
<td>$3.59</td>
<td>Futures Price (K)</td>
</tr>
<tr>
<td>+ Current basis</td>
<td>-$0.49</td>
<td>+ Expected basis</td>
</tr>
<tr>
<td>-Accrued Storage</td>
<td>-$0.16</td>
<td>- Accrued + Additional Storage</td>
</tr>
<tr>
<td>Price Received</td>
<td>$2.94</td>
<td>Expected Cash Price</td>
</tr>
</tbody>
</table>

Gain $0.08 in futures, and $0.14 in expected basis. However, we accrued an additional $0.08 in storage.
Example: Holdrege, NE Post-Harvest Plan

50,000 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 + -$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.

The secret to marketing grain…

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…**
  - 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

Questions?

Jessica Groskopf – Extension Educator
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308-632-1247
jgroskopf2@unl.edu