Marketing Webcast

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Center for Farm Financial Management
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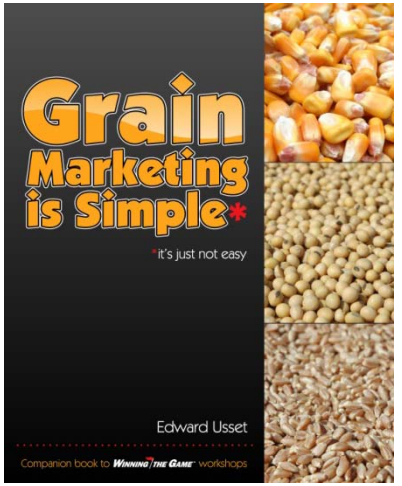
Book link
www.cffm.umn.edu/simple/

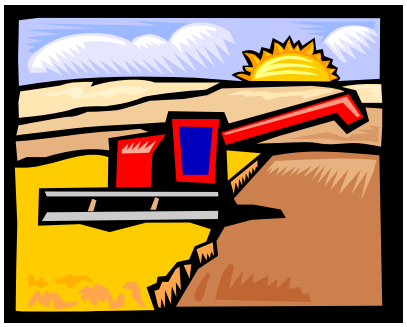
Columnist
Corn & Soybean Digest

Blog
http://edsworld.wordpress.com/



Marketing Webcast

A strategic approach to pre-harvest marketing



A tactical approach to post-harvest marketing

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!

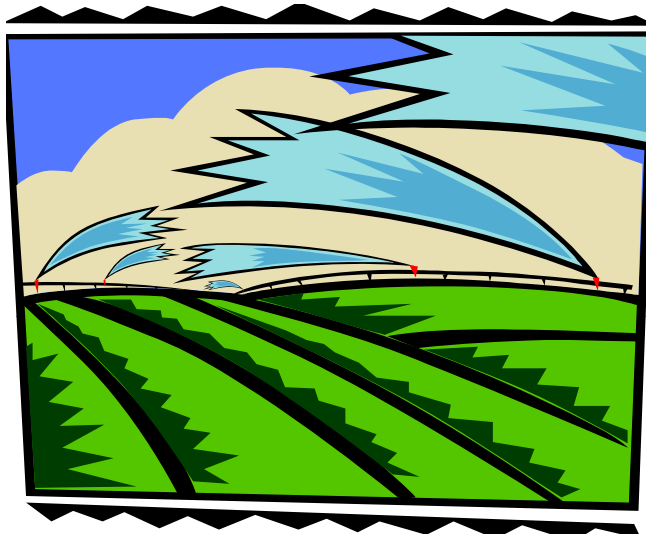
- ✓ A marketing plan is a proactive strategy to price your grain that considers your financial goals, cash flow needs, price objectives, storage capacity, crop insurance coverage, anticipated production, and appetite for risk

Proactive, not reactive, not overactive

Eliminate Mistakes

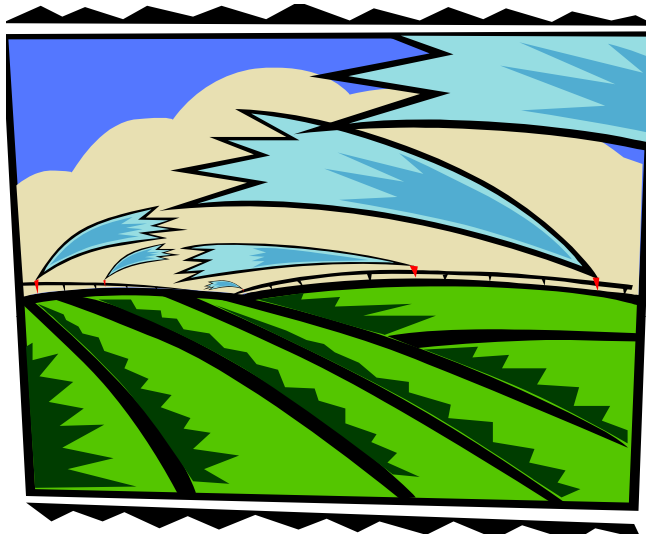
- ✓ Great marketing is not finding the high price. It's finding an extra 10-20 cents per bushel with a solid plan that avoids mistakes.

A strategic approach to pre-harvest marketing...



- Production costs establish a minimum price objective
- Understand seasonal price patterns before harvest

A strategic approach to pre-harvest marketing...



- **Production costs establish a minimum price objective**
- Understand seasonal price patterns before harvest

- Know your production costs!
- Production costs establish a minimum price objective
- Focus on ***local*** costs, not your cost

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With just a few clicks of the mouse, you can see reports such as:

- Cost and returns from Roundup Ready soybeans
- Dairy cost and returns by size or location of herd
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The possibilities are endless. Select Whole Farm Reports, Crop Reports, or Livestock Reports to create your own custom report.

FINBIN WINS AAEA AWARD

—July 28, 2006

FINBIN, the Farm Financial Database, was presented the 2006 Award for ***Outstanding Agricultural Economics Extension Website*** by the Extension Section of the American Agricultural Economics Association.

Nominated websites, including FINBIN, were judged on: Content, Usability, and Appearance as well as their contributions to the furthering of Agricultural Economics while harnessing the power of the internet.

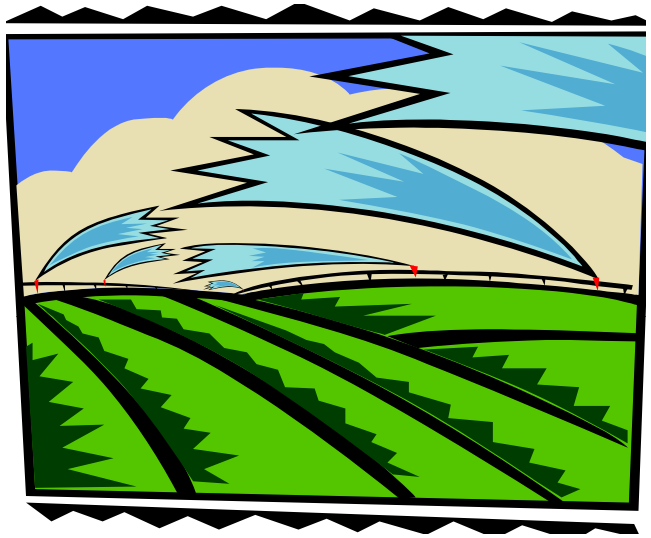
FINBIN received this honor during the Annual Meeting of the AAEA, July 23-26, 2006 in Long Beach, California.

FEATURED REPORT: DAIRY ENTERPRISE RETURNS BY HERD SIZE

—June 26, 2006

Our featured report this month is Dairy Enterprise Returns by Herd Size. The 2005 FINBIN database includes 579

A strategic approach to pre-harvest marketing...



- Production costs establish a minimum price objective
- **Understand seasonal price patterns before harvest**

CBOT December Corn Futures, 1990-2008

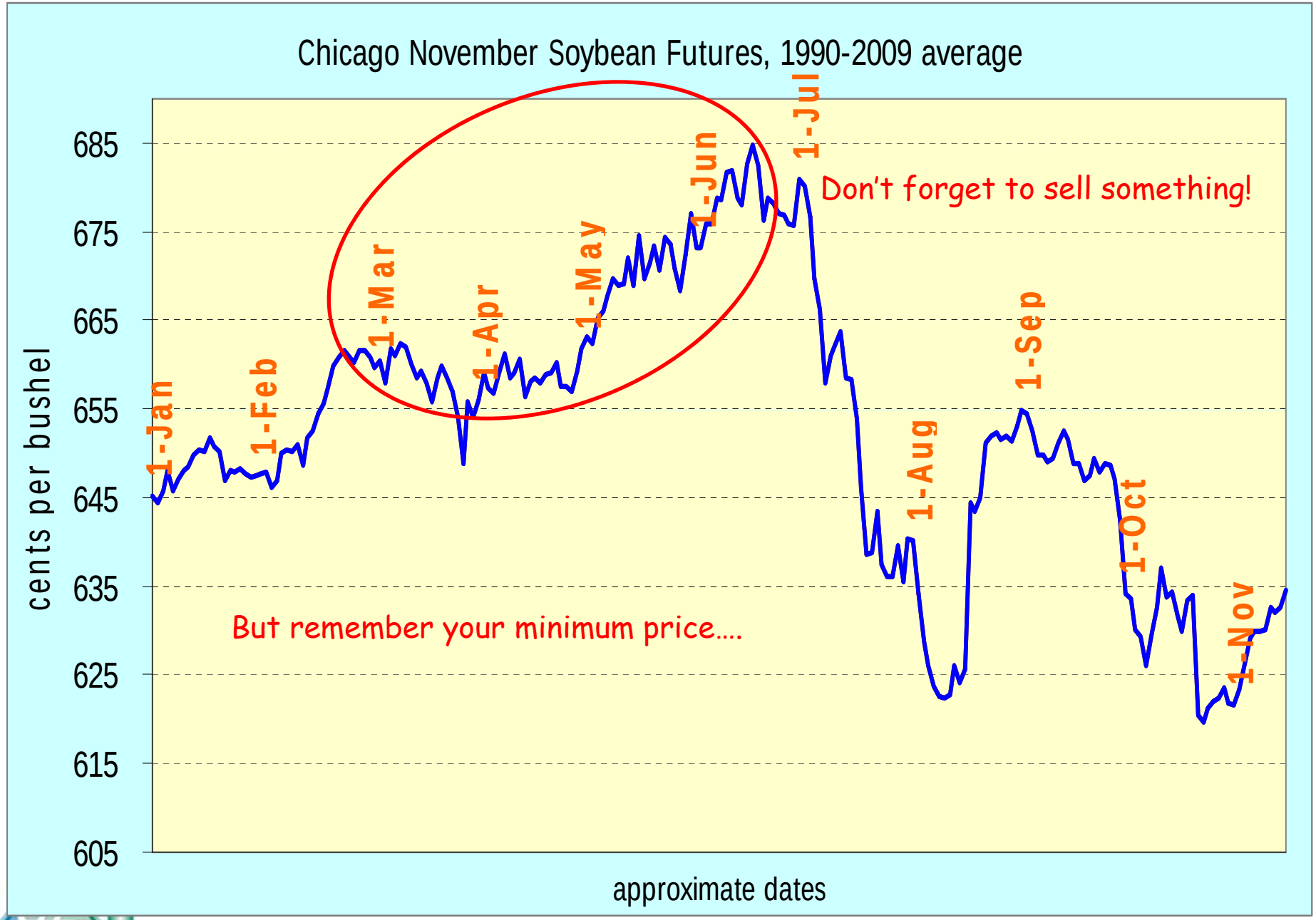
- ✓15 years (79%) the market declined
- ✓4 years (21%) the market improved
- ✓8 years the market declined more than 40 cents!

Year	1-May	1-Oct	Change
1990	2.70	2.29	(0.42)
1991	2.53	2.54	0.01
1992	2.53	2.12	(0.41)
1993	2.43	2.43	0.00
1994	2.58	2.14	(0.44)
1995	2.63	3.11	0.48
1996	3.33	2.90	(0.44)
1997	2.76	2.56	(0.20)
1998	2.62	2.05	(0.58)
1999	2.31	2.05	(0.26)
2000	2.62	1.99	(0.63)
2001	2.27	2.11	(0.16)
2002	2.20	2.56	0.36
2003	2.33	2.20	(0.13)
2004	3.17	2.06	(1.11)
2005	2.27	2.06	(0.21)
2006	2.72	2.68	(0.04)
2007	3.79	3.69	(0.10)
2008	6.32	4.84	(1.48)
2009	4.33		
Average	**2.85**	**2.54**	**(0.30)**

CBOT November Soybean Futures, 1990-2008

- ✓13 years (68%) the market declined
- ✓6 years (32%) the market improved
- ✓9 years the market declined more than 50 cents!

Contract	1-May	1-Oct	Change
1990	6.55	6.05	(0.51)
1991	6.09	5.89	(0.20)
1992	6.05	5.33	(0.72)
1993	5.96	6.18	0.22
1994	6.28	5.38	(0.90)
1995	6.06	6.37	0.32
1996	7.58	7.49	(0.08)
1997	6.96	6.21	(0.76)
1998	6.17	5.15	(1.02)
1999	5.14	4.81	(0.33)
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	**6.46**	**6.19**	**(0.27)**



Soybeans show the need for a minimum price!

CBOT November Soybean Futures, 2000-2008

- ✓5 years (56%) the market declined
- ✓4 years (44%) the market improved

Contract	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	**6.46**	**6.19**	**(0.27)**

CBOT November Soybean Futures, 2000-2008

- ✓5 years (71%) the market declined
- ✓~~4~~ 2 years (29%) the market improved

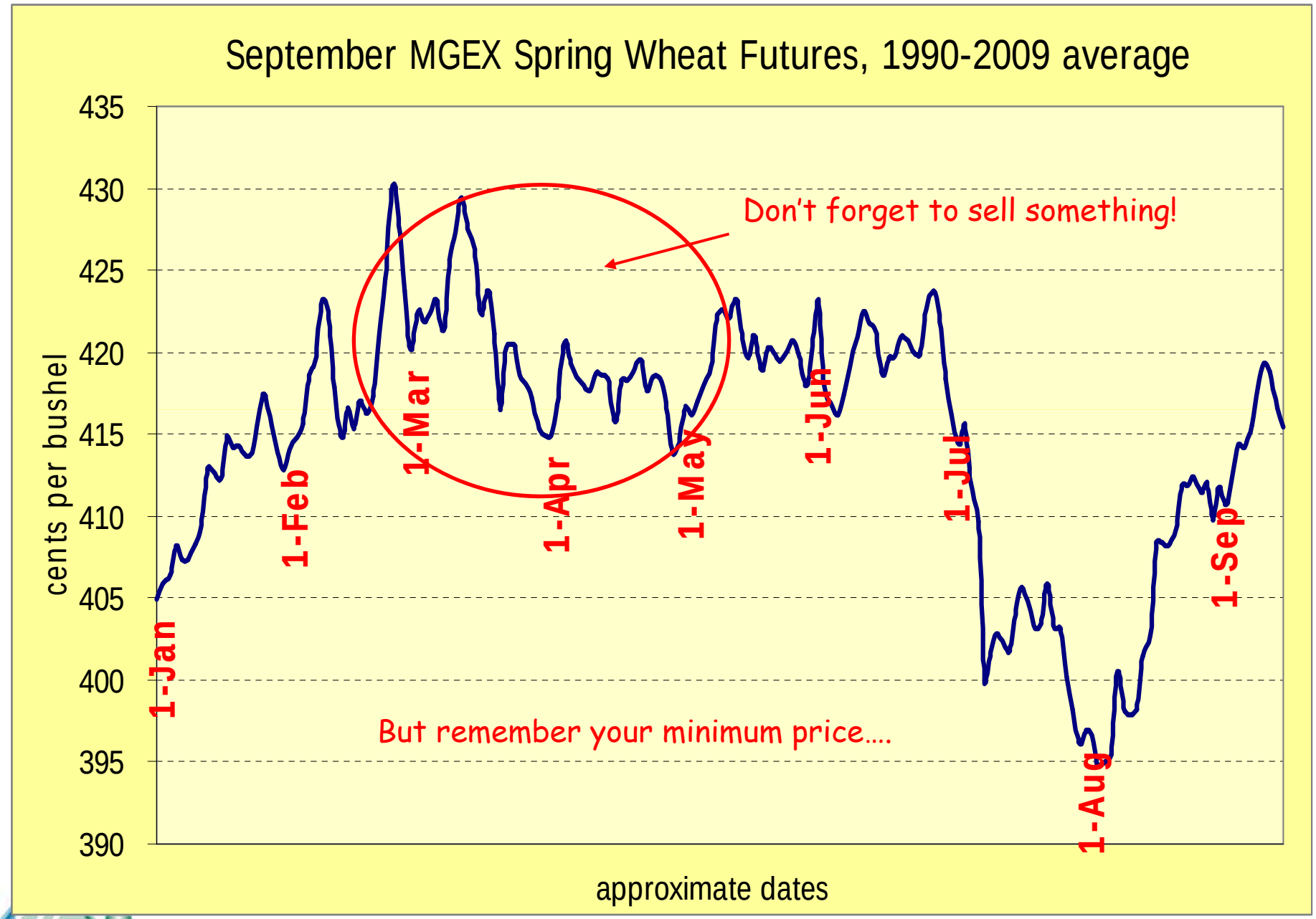
Remove years when Nov beans <$5.50 on May 1.

Contract	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
~~2001~~	~~4.34~~	~~4.52~~	~~0.18~~
~~2002~~	~~4.56~~	~~5.42~~	~~0.86~~
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71		
Average	**6.46**	**6.19**	**(0.27)**

MGEX September Spring Wheat, 1990-2009

- ✓12 years (60%) the market declined
- ✓8 years (40%) the market improved
- ✓9 years the market declined more than 30 cents!

Year	1-May	1-Aug	Change
1990	3.61	2.81	(0.80)
1991	2.95	2.88	(0.07)
1992	3.55	3.06	(0.49)
1993	2.99	3.15	0.15
1994	3.34	3.34	(0.00)
1995	3.65	4.73	1.08
1996	5.93	4.70	(1.23)
1997	4.39	3.92	(0.48)
1998	3.61	3.08	(0.53)
1999	3.33	3.44	0.11
2000	3.35	2.97	(0.38)
2001	3.47	3.16	(0.31)
2002	3.01	3.80	0.80
2003	3.39	3.70	0.32
2004	4.24	3.53	(0.71)
2005	3.46	3.50	0.04
2006	4.28	4.69	0.40
2007	5.24	6.32	1.08
2008	8.77	8.74	(0.03)
2009	6.77	6.05	(0.72)
Average	**4.17**	**4.08**	**(0.09)**



Years when Sep wheat >$3.50 on May 1

MGEX September Spring Wheat, 1990-2009

- ✓8 years (73%) the market declined
- ✓3 years (27%) the market improved

Year	1-May	1-Aug	Change
1990	3.61	2.81	(0.80)
1992	3.55	3.06	(0.49)
1995	3.65	4.73	1.08
1996	5.93	4.70	(1.23)
1997	4.39	3.92	(0.48)
1998	3.61	3.08	(0.53)
2004	4.24	3.53	(0.71)
2006	4.28	4.69	0.40
2007	5.24	6.32	1.08
2008	8.77	8.74	(0.03)
2009	6.77	6.05	(0.72)
Average	**6.00**	**5.74**	**(0.27)**

Terry Timer

Terry makes pre-harvest sales in the spring.

Does it work?

Let's compare Terry to Barney Binless.

Barney Binless

Barney has no interest in pricing grain before harvest - he sells his crop off the combine, taking the harvest price every year.

Terry vs. Barney, 1990-2008

			
	Barney	Terry	**Worse than Barney?**
Corn	2.12	2.33	**3/19 years**
Soybeans	5.58	5.87	**4/19 years**
HRS Wheat	3.86	3.97	**6/20 years**

- Barney Binless represents the harvest price.
- Due to crop insurance limitations, Terry sells 25% of her grain at harvest, and this sale is part of her average price.

Terry vs. Barney, 1990-2008

- Over time, Terry's early sales paid-off vs. the harvest price
- Her results are consistent for corn, soybeans and wheat
- Terry's decision to sell early does not work every time (nothing is 100%)

Corn
2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by early June.

Price 10,000 bushels at $3.65 cash price ($4.05 Dec. futures) using forward contract/futures hedge/futures fixed contract.
Price 10,000 bushels at $3.90c/4.30f, or by Mar 29, pricing tool tbd.
Price 10,000 bushels at $4.15c/4.55f, or by Apr 14, pricing tool tbd.
Price 5,000 bushels at $4.40c/4.80f, or by Apr 28, pricing tool tbd.
Price 10,000 bushels at $4.65c/5.05f, or by May 13, pricing tool tbd.
Price 10,000 bushels at $4.90c/5.30f, or by May 27, pricing tool tbd.
Price 10,000 bushels at $5.25c/5.55f, or by June 10, pricing tool tbd.

Plan starts on January 1, 2010. Earlier sales will be made at a 25 cent premium to price targets noted above and will be limited to 30,000 bushels.
Ignore decision dates and make no sale if prices are lower than $3.65 local cash price/$4.05 December futures.
Exit all options positions by mid-September 2010.

Soybeans
2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated corn crop (based on APH yield) priced by early June.

Price 2,500 bushels at $8.35 cash price ($9.05 Nov. futures) using some form of fixed price contract: forward contract, HTA, sell futures.
Price 2,500 bushels at $8.85c/9.55f, or by March 29, pricing tool tbd.
Price 2,500 bushels at $9.35c/10.05f, or by April 14, pricing tool tbd.
Price 2,500 bushels at $9.85c/10.55f, or by April 28, pricing tool tbd.
Price 2,500 bushels at $10.35c/11.05f, or by May 13, pricing tool tbd.
Price 2,500 bushels at $10.85c/11.55f, or by May 27, pricing tool tbd.
Price 2,500 bushels at $11.35c/12.05f, or by June 10, pricing tool tbd.

Plan starts on January 1, 2010. Earlier sales will be made at a 25 cent premium to price targets noted above and be limited to 10,000 bushels.
Ignore decision dates and make no sale if prices are lower than $8.35 local cash price/$9.05 November futures.
Exit all options positions by mid-September 2010.

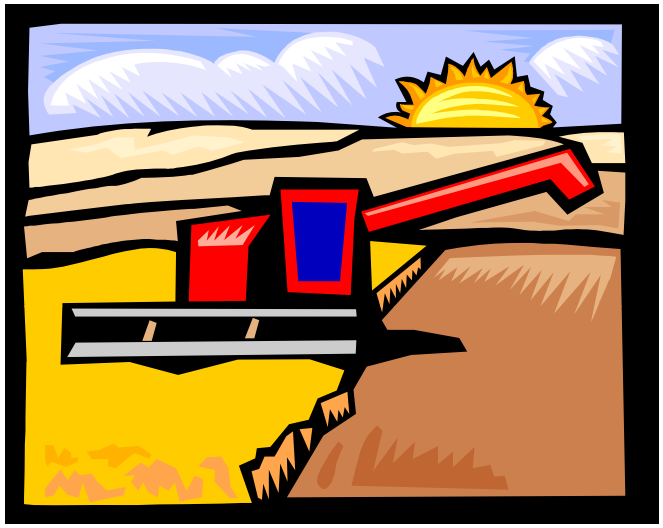
Spring Wheat
2010 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and have 75% of my anticipated wheat crop (based on APH yield) priced by early June.

Price 5,000 bushels at $5.20 cash price/$5.60 Sep wheat futures using some form of fixed price contract: forward contract, HTA, sell futures
Price 5,000 bushels at $5.60c/$6.00f, or by March 29, pricing tool tbd.
Price 5,000 bushels at $6.00c/$6.40f, or by April 28, pricing tool tbd.
Price 2,500 bushels at $6.40c/$6.80f, or by May 27, pricing tool tbd.
Price my last 5,000 at $6.80c/$7.20f, or by June 25, pricing tool tbd.

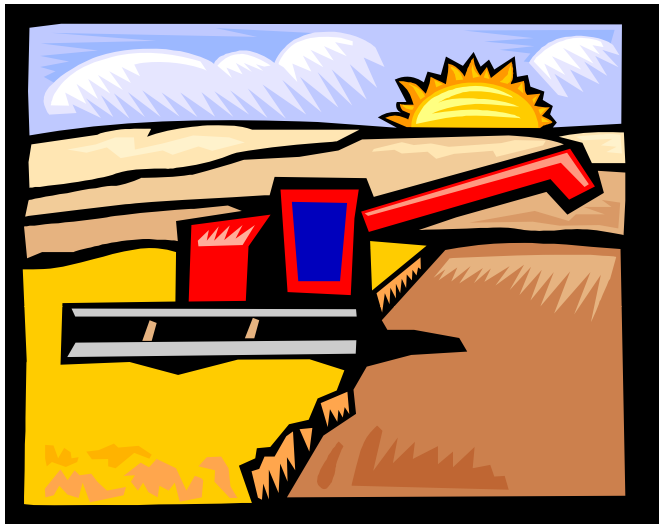
Plan starts on November 1, 2009. Earlier sales will be made at a 30 cent premium to price targets noted above and are limited to 15,000 bushels.
I will consider the December futures contract for new crop sales at a 15 cent premium to September.
Ignore decision dates and make no sale if prices are lower than $5.20 local cash price/$5.60 September futures.

A tactical approach to post-harvest marketing...



- “To store, or not to store?”
- Understand carrying charges

A tactical approach to post-harvest marketing...



- **“To store, or not to store?”**
- Understand carrying charges

Post Harvest Marketing is Simple!

- ✓Sell grain at harvest
- ✓Hold grain in storage to sell later
- ✓Hold grain in storage and “sell the carry”

How do I make a choice?

Meet Earl Eitheror

If a large carry is offered, he “sells the carry.”
If the carry is small or inverted (smaller crop and/or stocks), he takes a risk with unpriced grain in storage.

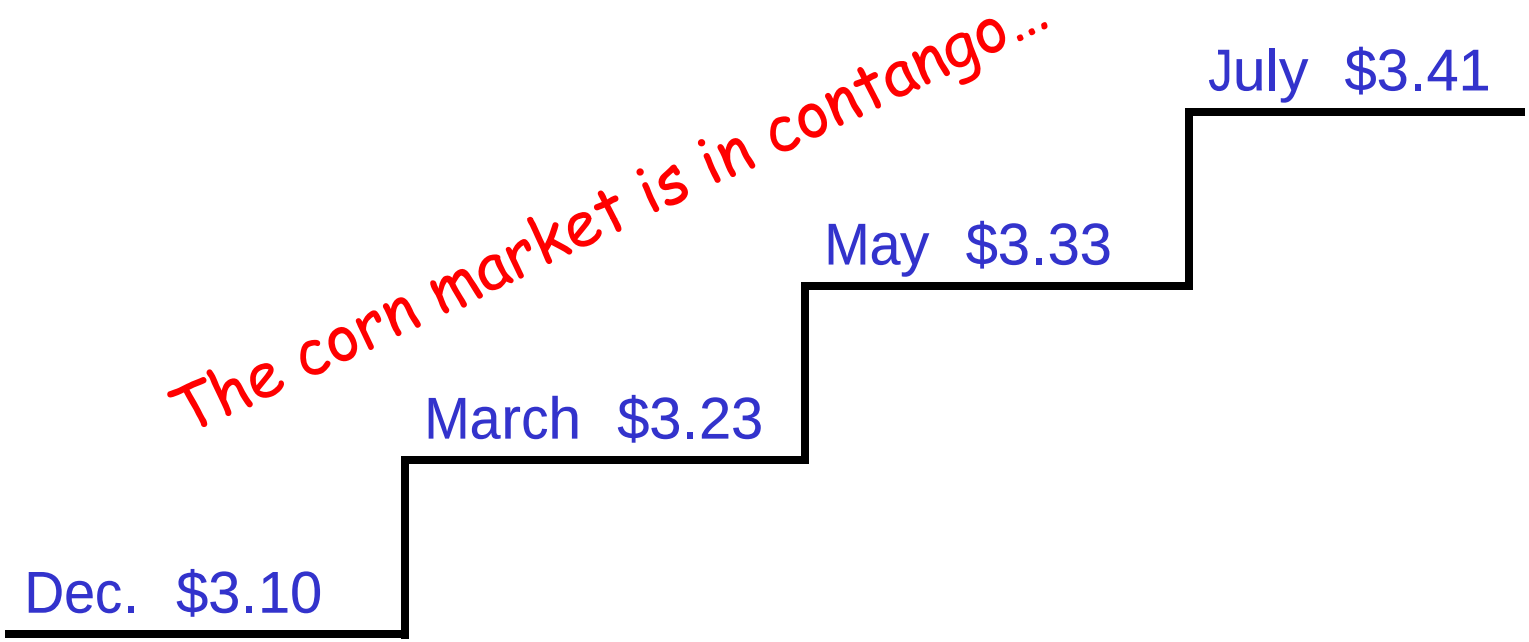
>140% of interest: large - sell the carry

Earl has three tools to “sell the carry”

- Forward contract (when the basis is good)
- Hedge-to-arrive (when basis is poor)
- Sell futures (when basis is poor and you want maximum flexibility)

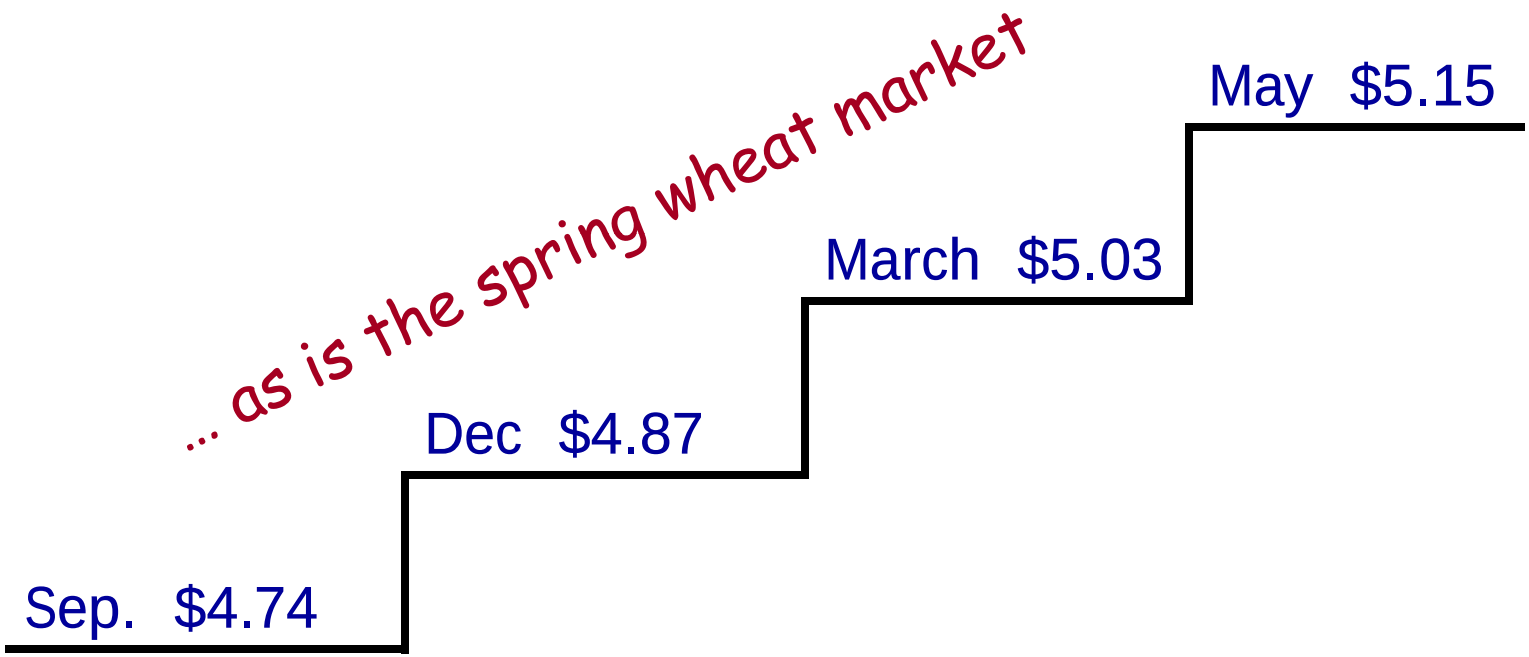
Carrying Charges

CBOT Corn Futures: September 9, 2009



Carrying Charges

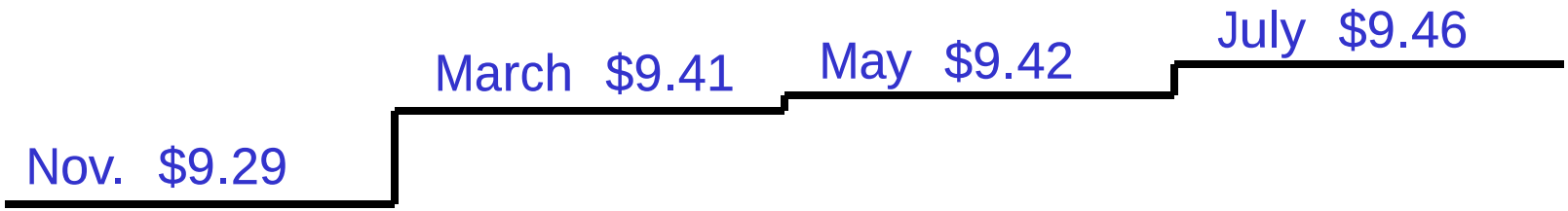
MGEX Wheat Futures: September 9, 2009



Carrying Charges

CBOT Soybean Futures: September 9, 2009

While the soybean market is flat

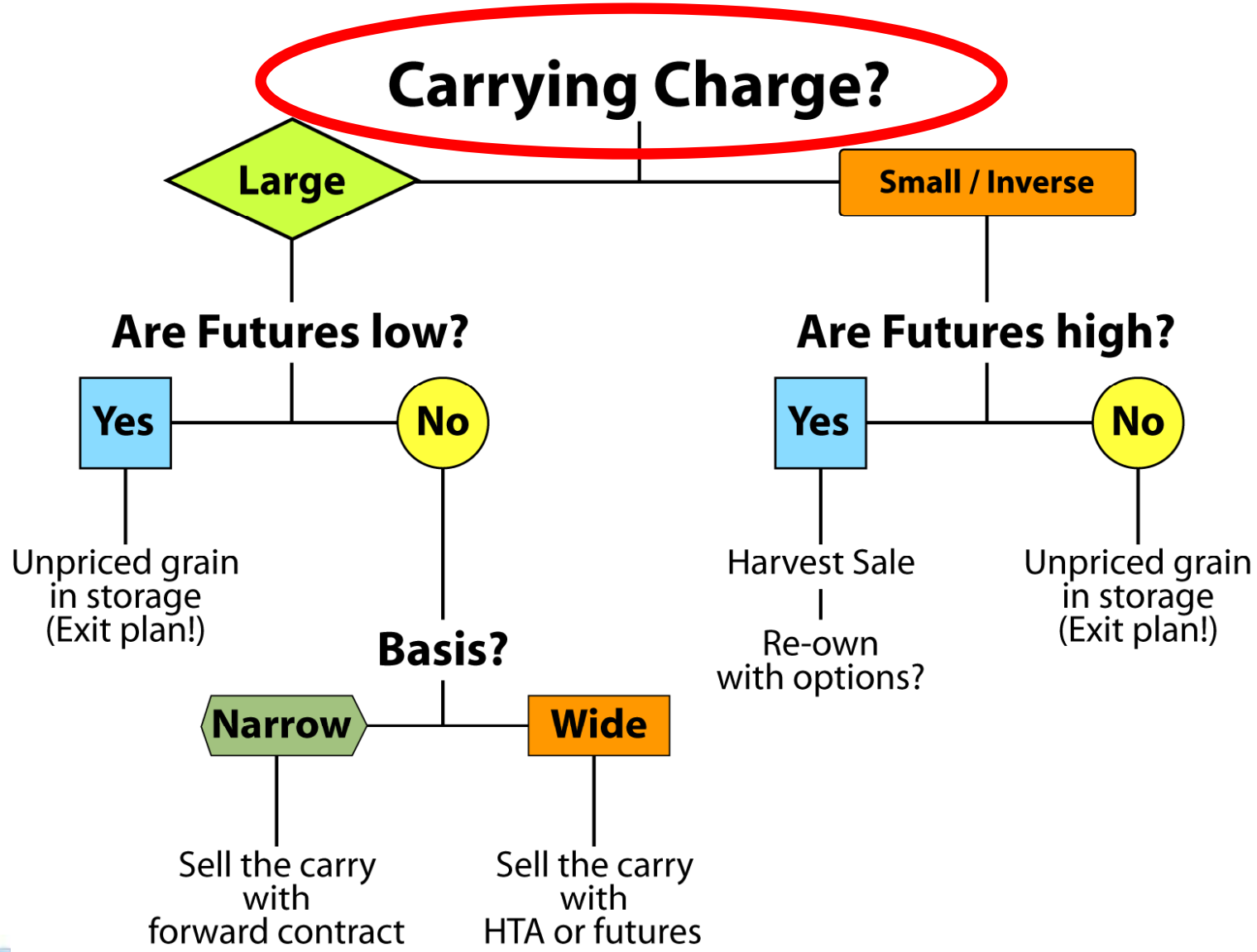


Earl Eitheror and carrying charges

Earl has on-farm storage. After harvest, he either sells the carry when carrying charges are large, or he holds his crop in the bin to sell in May when the carry is small.

>140% of interest: large - sell the carry

Decision Tree for Sizing Up the Market



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, 1989-2008

				
	Barney	Earl	**Sold the carry?**	**Worse than Barney?**
Corn	2.12	2.29	**15/20 years**	**2/20 years**
Soybeans	5.55	6.06	**0/20 years**	**5/20 years**
HRS Wheat	3.80	3.90	**6/20 years**	**6/20 years**

- 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, 1989-2008

- 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%)

2009 Post Harvest Marketing Plans
(What would Earl do?)

- ✓ In corn and spring wheat, Earl has a large carry to sell (400% of interest costs in corn, 300% in wheat)
- ✓ In soybeans, carrying charges are flat and the basis is good. Does Barney have the right idea?

The Proactive Approach to Grain Marketing

- Con? In a bull market, sales are often *too early and too cheap*
- Pro? Early sales are good in a sideways or bear market

Final Thoughts

- ✓ At harvest ask; Are carrying charges large or small? (What would Earl do?)
- ✓ Early sales before harvest make Terry a winner over time
- ✓ Terry and Earl take a proactive approach to marketing