Winning the Game™ February 26, 2024 Webinar

A simple, approach to crop marketing, emphasizing the development of both pre and post harvest marketing plans, an openness to various pricing tools, and a decision-making framework focused on action and taking the emotion out of marketing.

Webinars, in person Seminars and ½ day Workshops

Kansas Farm Bureau The Voice of Agriculture

K-State Research and Extension

North Central Extension Risk Management Education

Winning the Game

Developed by Dr. Ed Usset

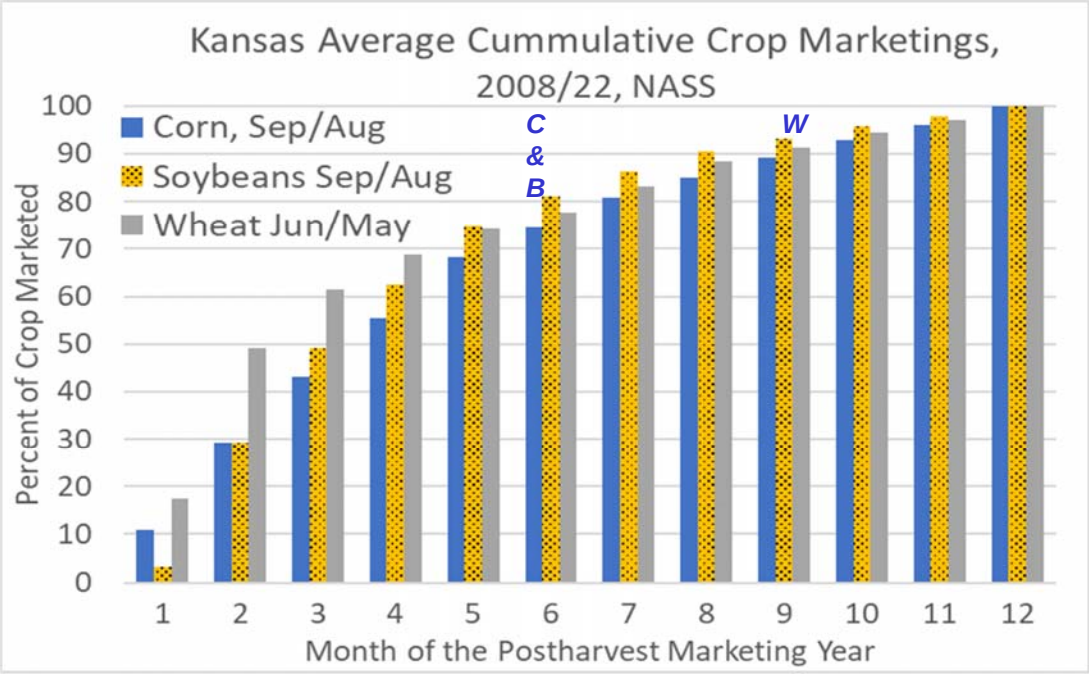
What is a Marketing Plan?

A proactive strategy to price your crop; before, at, and/or after harvest; that considers your financial goals, cash flow, storage capacity, crop insurance, labor, anticipated production, appetite for risk, and price outlook.

a) Preharvest plans by January (Oct for wheat).
b) Postharvest plans in Sep-Oct (May-Jun wheat).
c) Implementation and "decisions" throughout.

Winning the Game

How are we doing with 2023 crop?



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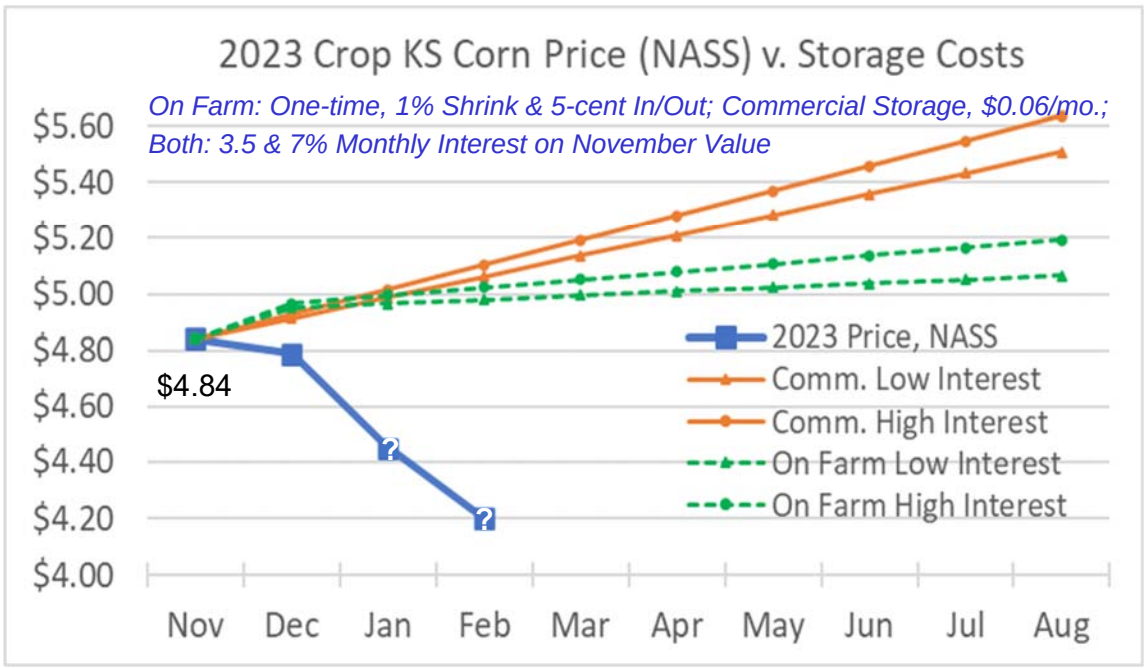

Postharvest Steps

Sell the cash commodity and consider "re-owning" with options?

2023 Corn		
2/23/2024 "Re-Owning" with CME Group Call Options	(A) Simply Buy a Call Option	(B) Implement a Call Spread
Futures Price	$4.2625	$4.26
Buy a July Call		
A-T-M Strike	$4.30	$4.30
Option Premium	($0.2125)	($0.21)
Sell a July Call	*Futures + premium + commission*	
O-T-M Strike		$4.80
Option Premium		$0.0750
BE Futures Price	$4.52	$4.46
Out of Pocket Cost	($0.22)	($0.16)
per 5,000 bu. Contract	($1,113)	($788)
* $0.01 per bushel commission for each position.		

Why? Because we think there is a chance for a rally?

What?

- ✓ Set up an account with a commodities futures broker.
- ✓ (A) Buy a Call Option.
- ✓ (B) Buy that same Call Option AND sell a Call Option with the same expiration month to reduce costs.

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Postharvest Steps

Sell the cash commodity and consider "re-owning" with options?

Hold the phone!

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- ✓ If I SELL a Call Option, I'll be subject to margin calls! And will need to provide margin money in my hedge account.
- ✓ True. But if futures increase beyond $4.80, any losses incurred by the SOLD Call, will be offset by gains in the $4.30 PURCHASED Call option.

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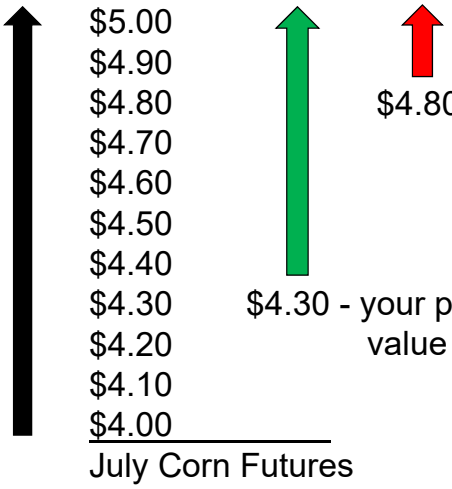
Postharvest Steps

Call Options provide a "buy" position in the futures market, so as futures prices rise, calls gain in value.



$4.80 - your sold July call option costs you when futures rise past $4.80

$4.30 - your purchased July call option, gains in value when futures rise past $4.30

If July Corn Futures decrease, Call Options will decline in value. The MOST you will lose with the purchased call is the premium, and you keep the premium of the sold call.

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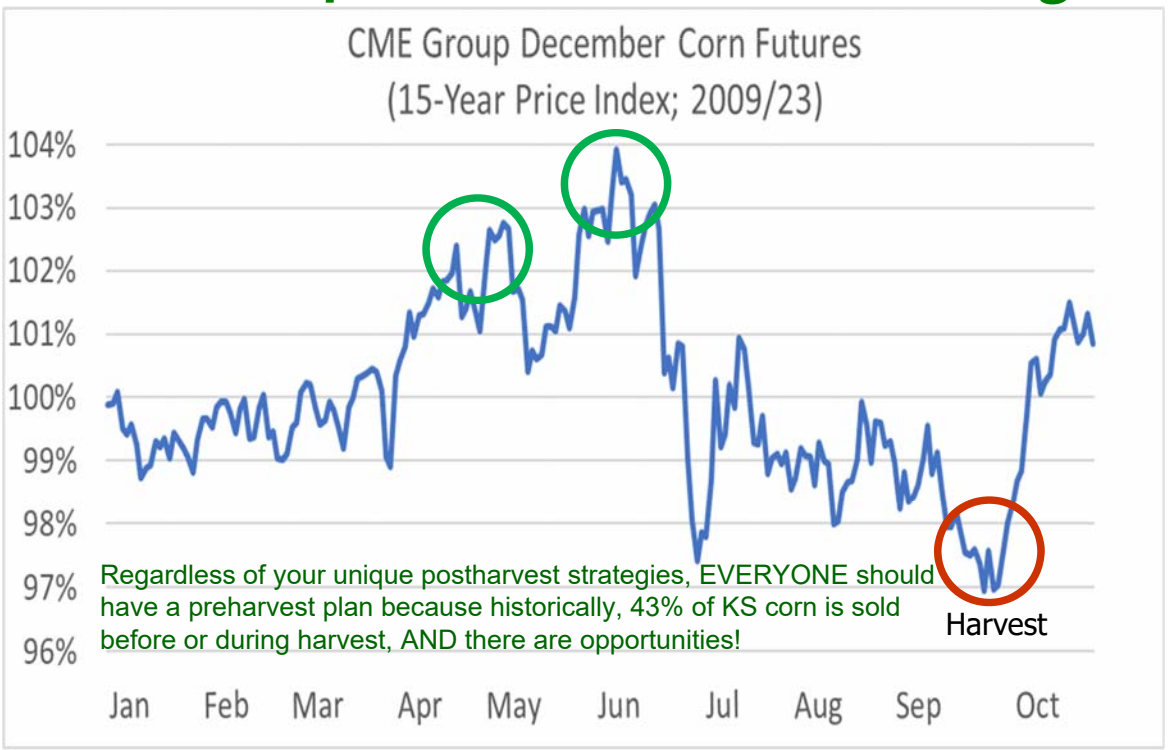
2024 Crop Preharvest Corn Marketing



Regardless of your unique postharvest strategies, EVERYONE should have a preharvest plan because historically, 43% of KS corn is sold before or during harvest, AND there are opportunities!

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Key Marketing Plan Elements

To be effective, marketing plans must include:

1. Pricing Increments, (how much each time);
2. Pricing Targets, (the price$ you'll sell at); and
3. Pricing Dates, (designed to compel action when/if price targets aren't reached).

Together, these can guide your decisions, **lead to action**, and help take the emotion out of marketing.

- Know your cost of production!
- Learn about different marketing tools.
- Create and work with a "Marketing Team."

A Sample Pre-Harvest 2024 Feedgrain Plan

Objective: Buy crop insurance to protect production risk and maximize the price received on bushels sold before or at harvest.

(1) Increments

(3) Pricing dates

Pricing four increments of total expected APH production

1 Price 20% at $5.65 December futures or by Jun 1

2 Price 10% at $6.25 December futures or by Jul 20

3 Price 20% at $7.00

4 Price 25% at $7.25 December futures

(2) Pricing targets

"Cash-based"

"Cash, futures, or options"

Pricing tools?

- Be patient; Don't ignore $0.50-$.75 rallies; Aggr. price targets;
- Plan is designed to price at least **30%** of APH production, but IF we see a significant rally of $2.25, we'll price up to **75%**.
- If using a "cash" marketing alternative, **NEVER** price at less than your expected production cost per bushel.

Preharvest Actions to Date

None.

Looking to:

Wheat: Price 10% at $7.50 July futures or by Apr 15
Corn: Price 20% at $5.65 December futures or by Jun 1
Soybeans: Price 20% at $13.25 Nov. futures or by Jun 15

2024 Costs of Production. Total exp. per bu. (yield)

	Dry Corn	IRR Corn	G. Sorghum	Soybeans
NW	$5.09 (89)	$4.55 (240)	$4.71 (85)	$13.44 (25)
SW	$5.22 (82)	$4.58 (225)	$4.35 (85)	$13.33 (25)
NC	$4.17 (120)	$4.24 (240)	$3.43 (120)	$8.91 (45)
SC	$3.87 (110)	$4.40 (225)	$2.82 (110)	$8.17 (40)
NE	$4.31 (145)		$3.80 (125)	$8.36 (55)
SE	$4.18 (120)		$3.58 (100)	$8.59 (45)

Thank you so much!

Managing Risk with ARC, PLC, and SCO - Webinar Slides and Recording.
https://agmanager.info/news/recent-videos/managing-risk-arc-plc-and-sco-webinar-slides-and-recording?utm_medium=email&utm_source=govdelivery

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Kansas Farm Bureau
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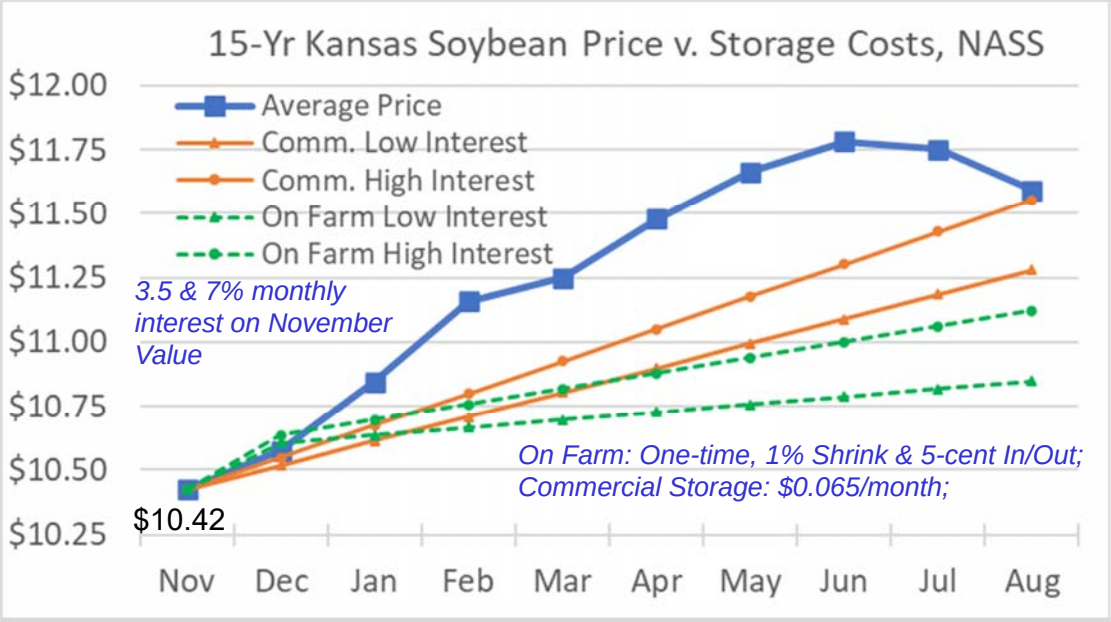
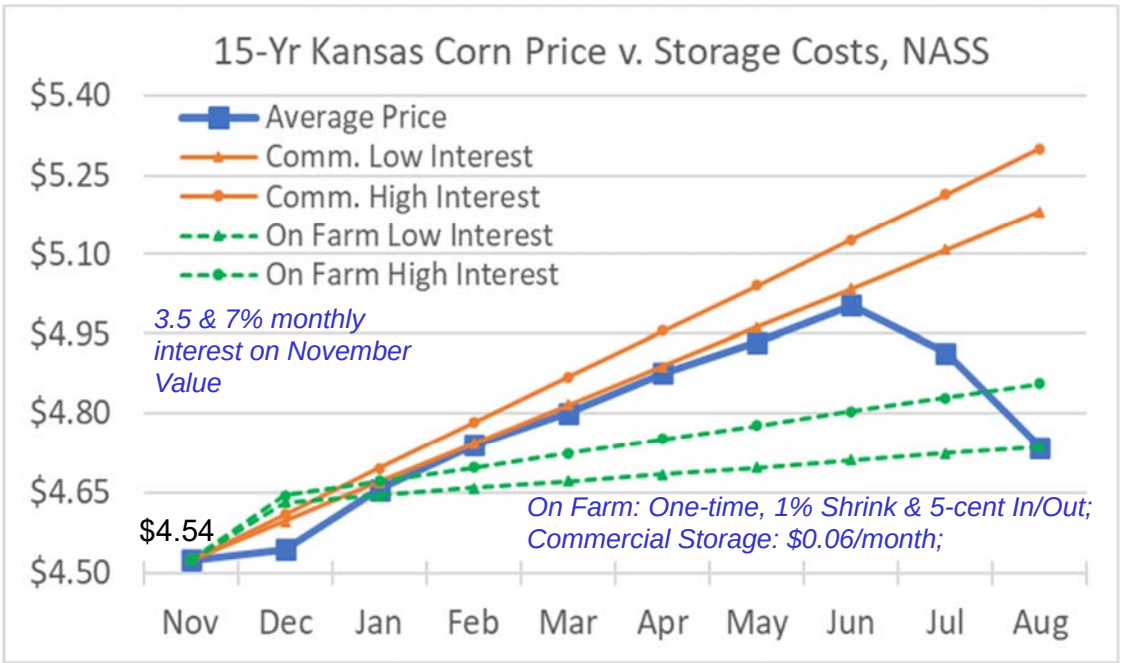
Does Storage Pay?

With soybeans, on average, yes.



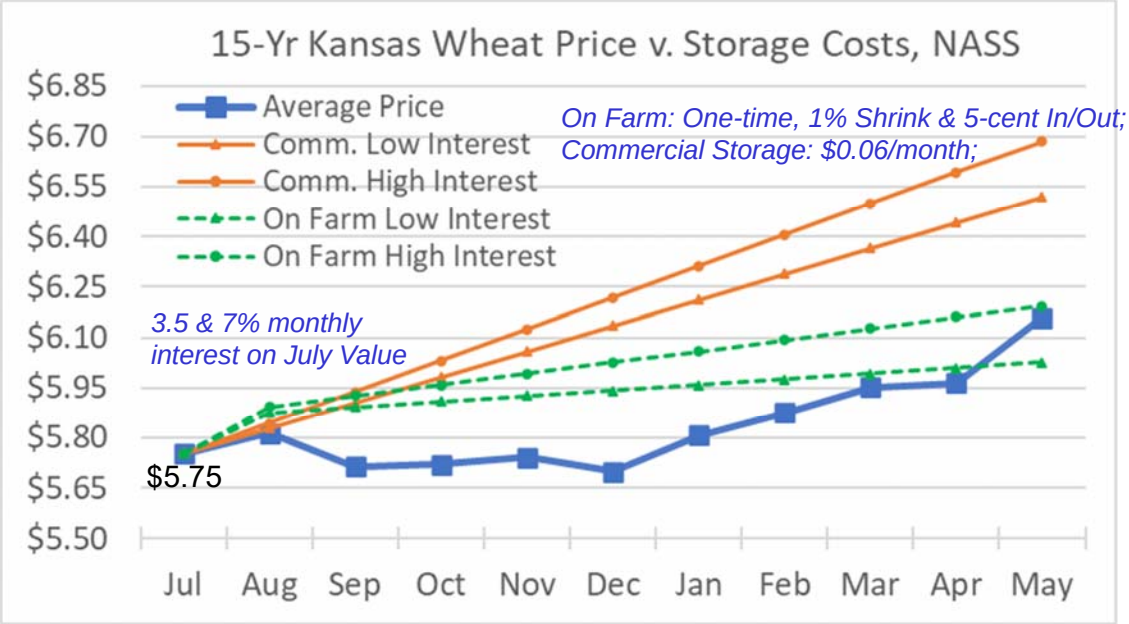
Does Storage Pay?

With corn, on average, it's close.



Does Storage Pay?

With wheat, on average, nope.



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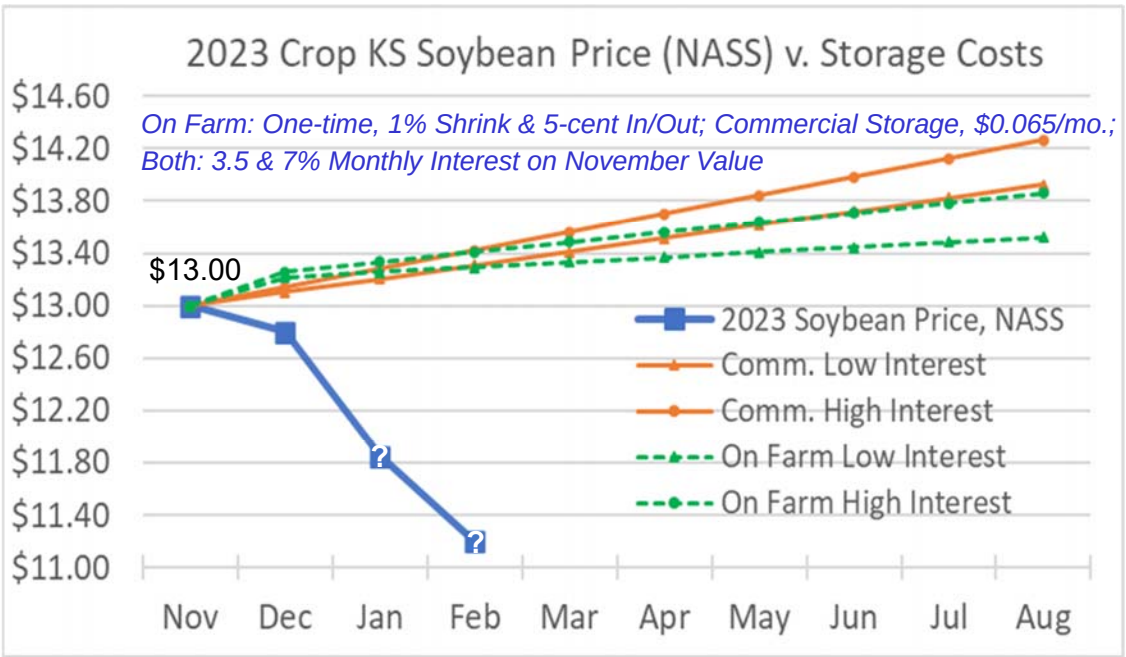

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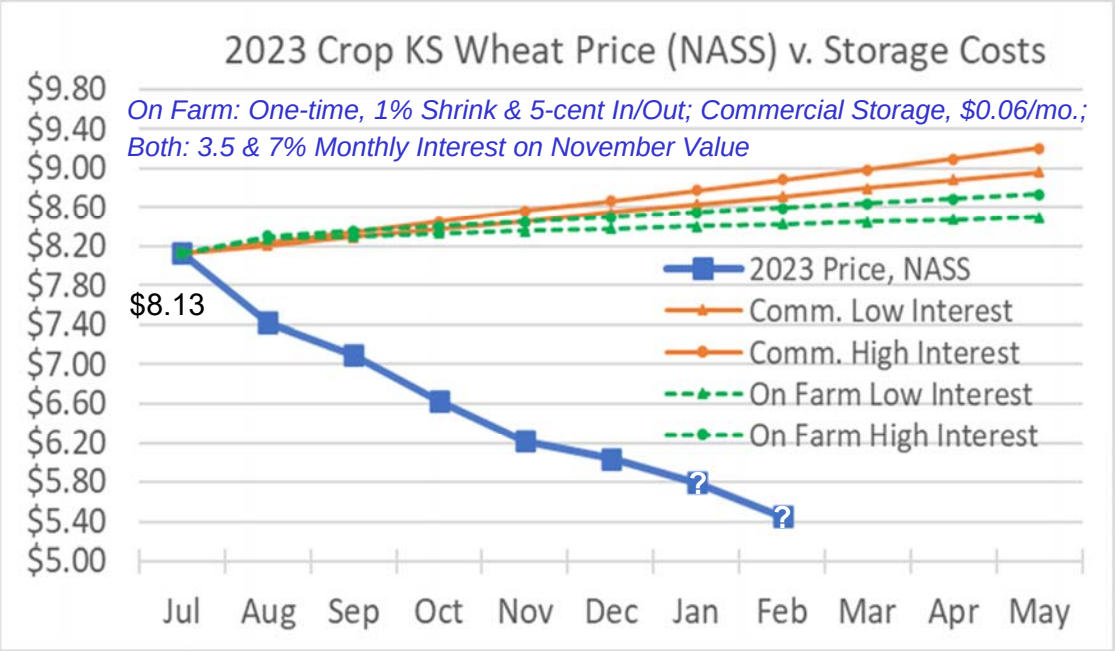

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Pricing Targets v. January 1

Jan 1, 2024
$4.98

Let's start with the past 15 years

Jan 1 thru Sep 30 New Crop Futures Analysis

On average, harvest begins in September and is 75% complete by October 22

Fifteen Years: CME December Corn Futures

2009/23	Jan 1 Price	Preharvest Max Price	Change	Percent Change
2009	$4.56	$4.73	$0.17	4%
2010*	$4.45	$5.22	$0.77	17%
2011	$5.53	$7.75	$2.23	40%
2012	$5.90	$8.39	$2.49	42%
2013	$5.92	$5.94	$0.01	0%
2014	$4.48	$5.13	$0.65	14%
2015	$4.20	$4.52	$0.32	8%
2016	$3.77	$4.49	$0.72	19%
2017	$3.84	$4.15	$0.31	8%
2018	$3.87	$4.27	$0.40	10%
2019	$3.98	$4.69	$0.70	18%
2020*	$4.05	$4.05	$0.00	0%
2021	$4.35	$6.37	$2.02	46%
2022	$5.48	$7.66	$2.18	40%
2023	$6.07	$6.29	$0.22	4%

* Prices continued higher

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Pricing Targets v. January 1

Let's sort'em by rally size

Jan 1, 2024
$4.98

Jan 1 thru Sep 30 New Crop Futures Analysis

27% of the time, at least a $2.00 rally

53% of the time, at least a $0.65 rally

73% of the time, at least a $0.25 rally

Fifteen Years: CME December Corn Futures

2009/23	Jan 1 Price	Preharvest Max Price	Change	Percent Change
2012	$5.90	$8.39	$2.49	42%
2011	$5.53	$7.75	$2.23	40%
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2020	$4.05	$4.05	$0.00	0%

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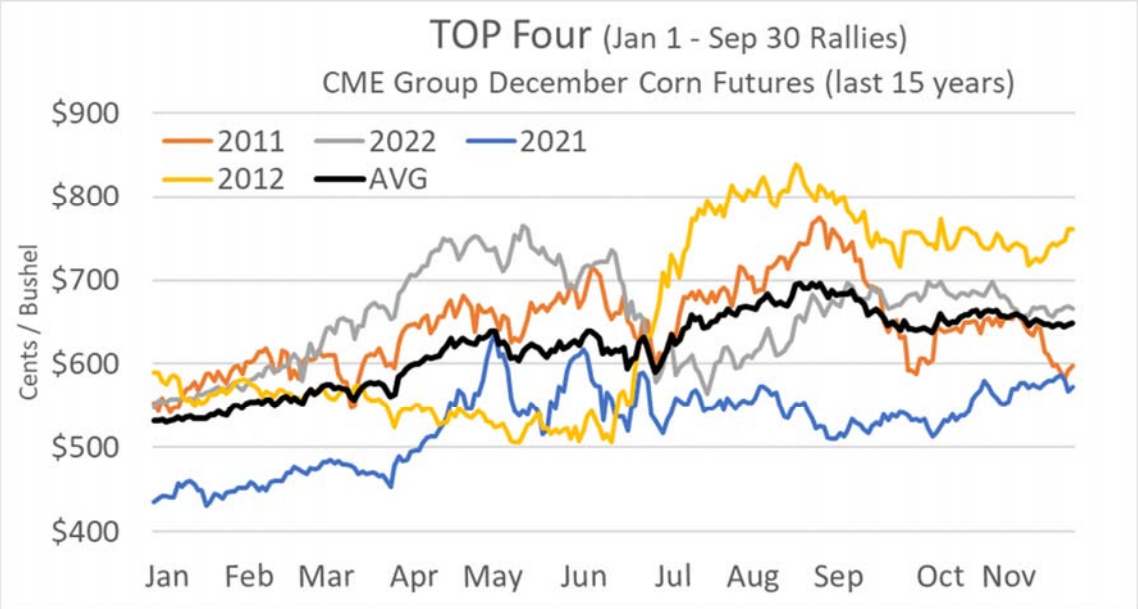

- In "good" years, prices trend higher throughout preharvest, rewarding patience and aggressive price targets.
- May – Jun & Aug – Sep offer opportunities to price.

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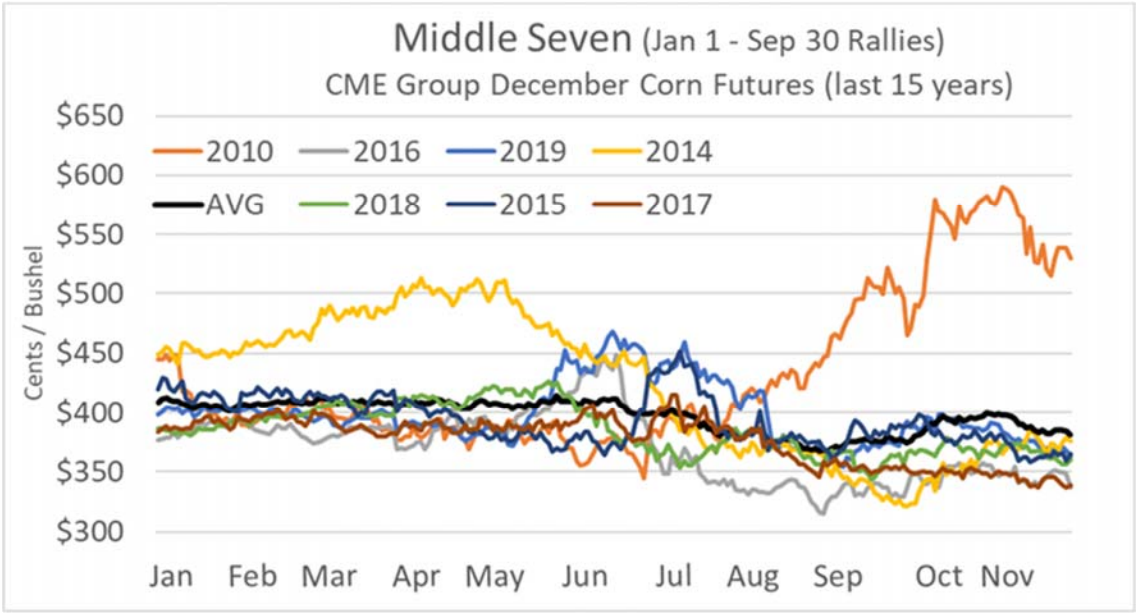
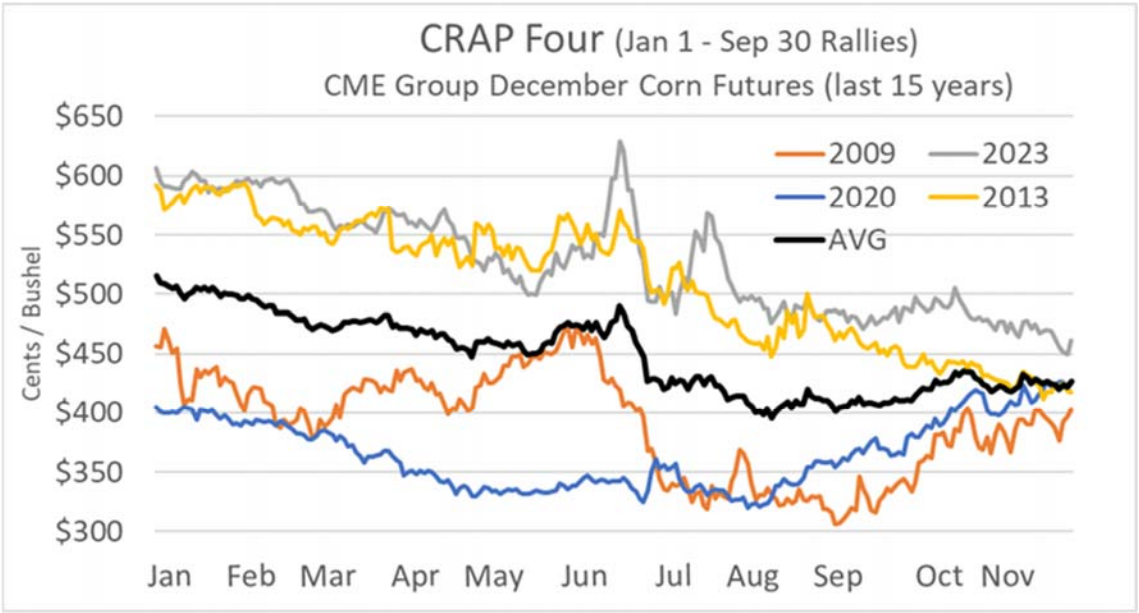
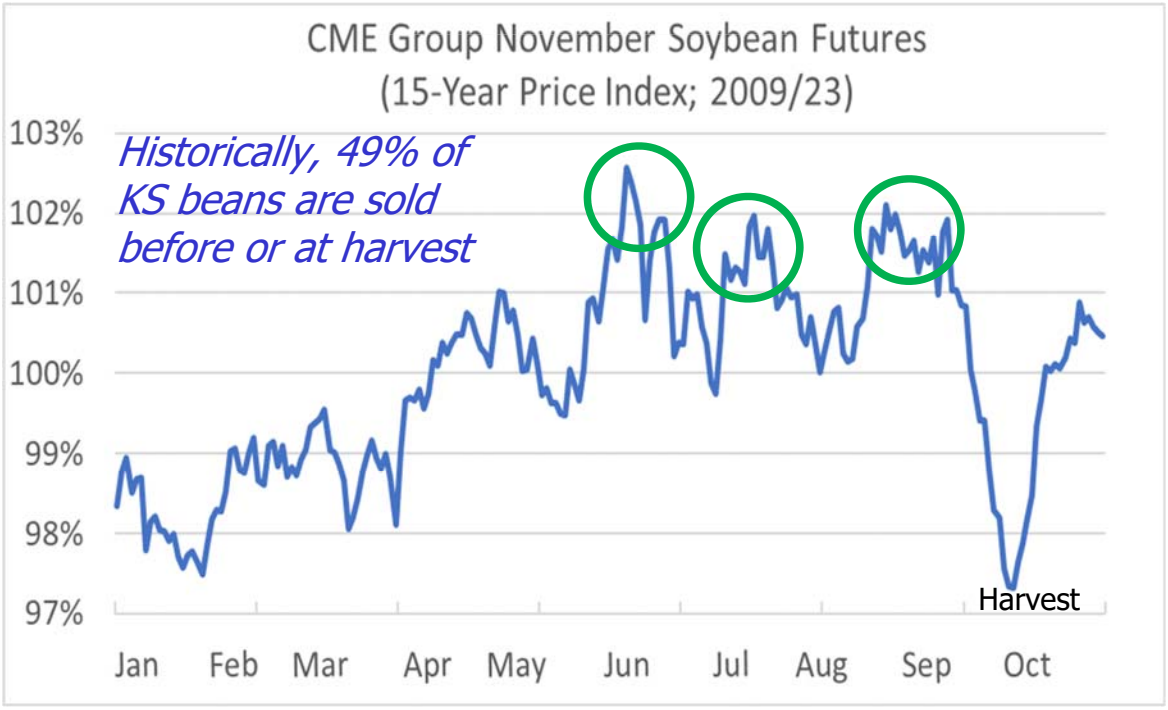


- "Mid" years, generally trend lower throughout preharvest, so we can't ignore $0.50 to $0.70 rallies vs. the Jan 1 price.
- May, Jun & Jul offer opportunities to price preharvest. Note how the late season rally of 2010 rewarded patience.



- In "Crap" years, prices trend lower throughout preharvest.
- Summer rallies (Jun – Aug) back to Jan 1 levels can provide opportunities that exceed harvest time price levels.

2024 Crop Preharvest Bean Marketing



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Pricing Targets v. January 1

Jan 1, 2024
$12.22

Let's start with the past 15 years

Jan 1 thru Sep 30 New Crop Futures Analysis

On average, harvest begins in October and is 75% complete by November 1

Fifteen Years: CME NOV Soybean Futures

2009/23	Jan 1 Price	Preharvest Max Price	Change	Percent Change
2009	$10.04	$10.90	$0.86	9%
2010*	$10.20	$11.89	$1.09	11%
2011	$12.94	$14.58	$1.63	13%
2012	$12.19	$17.68	$5.49	45%
2013	$12.94	$13.96	$1.02	8%
2014	$11.29	$12.71	$1.42	13%
2015	$9.93	$10.37	$0.44	4%
2016	$8.73	$11.63	$2.90	33%
2017	$9.83	$10.43	$0.60	6%
2018	$9.82	$10.54	$0.71	7%
2019	$9.44	$9.64	$0.21	2%
2020*	$9.81	$10.44	$0.63	9%
2021	$11.21	$14.60	$3.39	30%
2022	$12.84	$15.82	$2.99	23%
2023	$13.97	$14.25	$0.27	2%

* Prices continued higher

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Pricing Targets v. January 1

Let's sort'em by rally size

Jan 1, 2024
$12.22

	Fifteen Years: CME NOV Soybean Futures				
	2009/23	Jan 1 Price	Preharvest Max Price	Change	Percent Change
27% of the time, at least a $2.90 rally	2012	$12.19	$17.68	$5.49	45%
	2021	$11.21	$14.60	$3.39	30%
	2022	$12.84	$15.82	$2.99	23%
	2016	$8.73	$11.63	$2.90	33%
53% of the time, at least a $1.00 rally	2011	$12.94	$14.58	$1.63	13%
	2014	$11.29	$12.71	$1.42	13%
	2010	$10.20	$11.89	$1.09	11%
	2013	$12.94	$13.96	$1.02	8%
80% of the time, at least a $0.50 rally	2009	$10.04	$10.90	$0.86	9%
	2018	$9.82	$10.54	$0.71	7%
	2020	$9.81	$10.44	$0.63	9%
	2017	$9.83	$10.43	$0.60	6%
	2015	$9.93	$10.37	$0.44	4%
	2023	$13.97	$14.25	$0.27	2%
	2019	$9.44	$9.64	$0.21	2%

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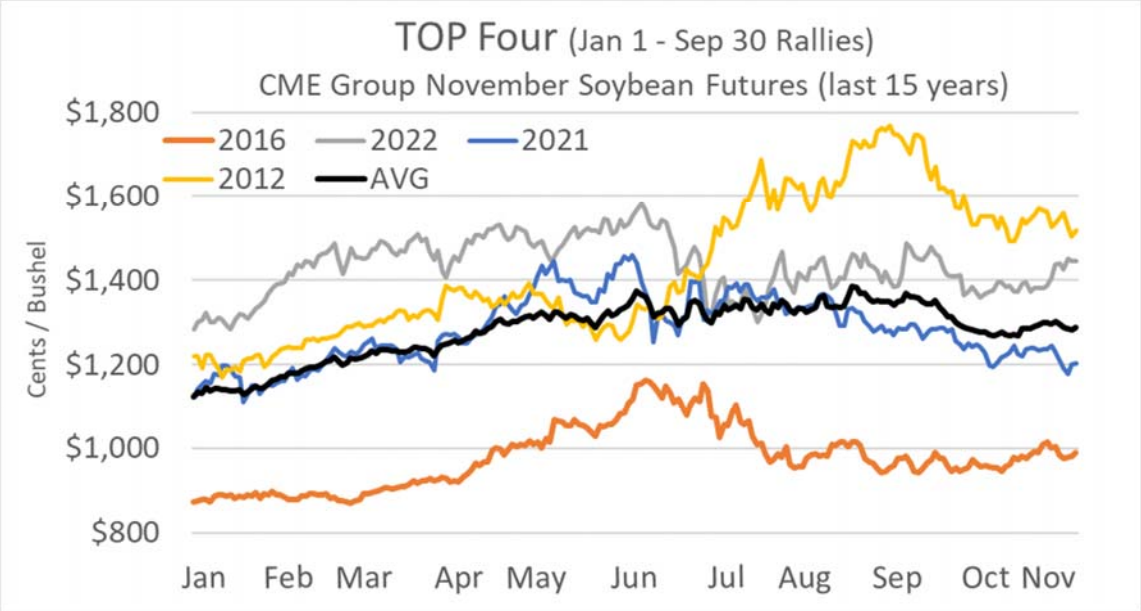

- In "good" years, prices trend higher throughout preharvest, rewarding patience and aggressive price targets.
- Jun – Sep offer opportunities to price.

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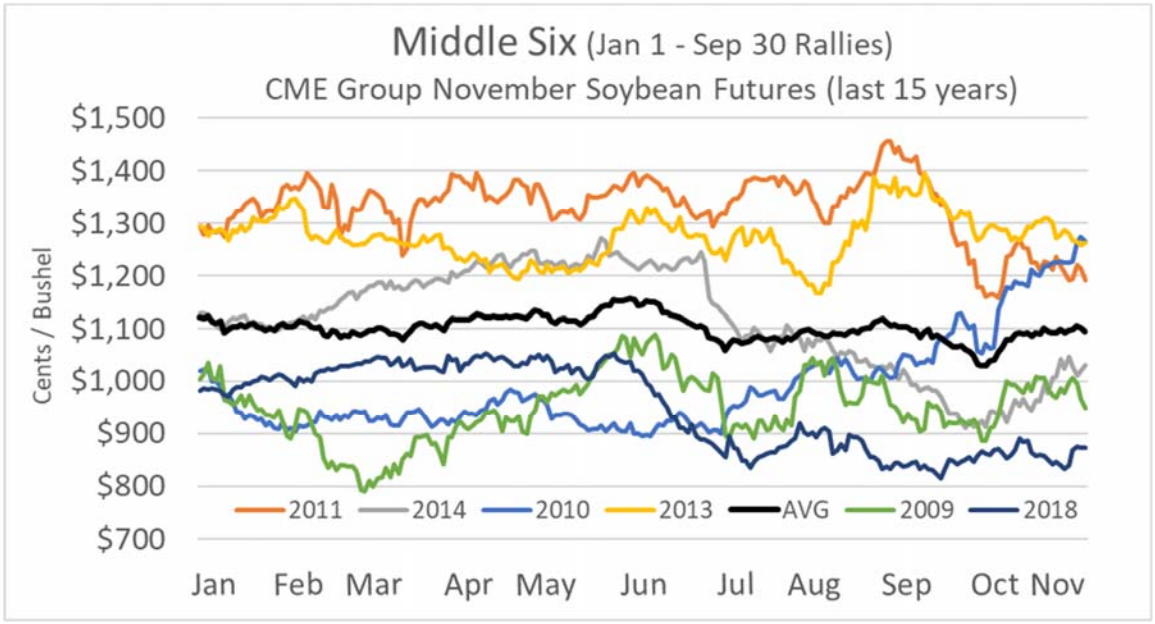
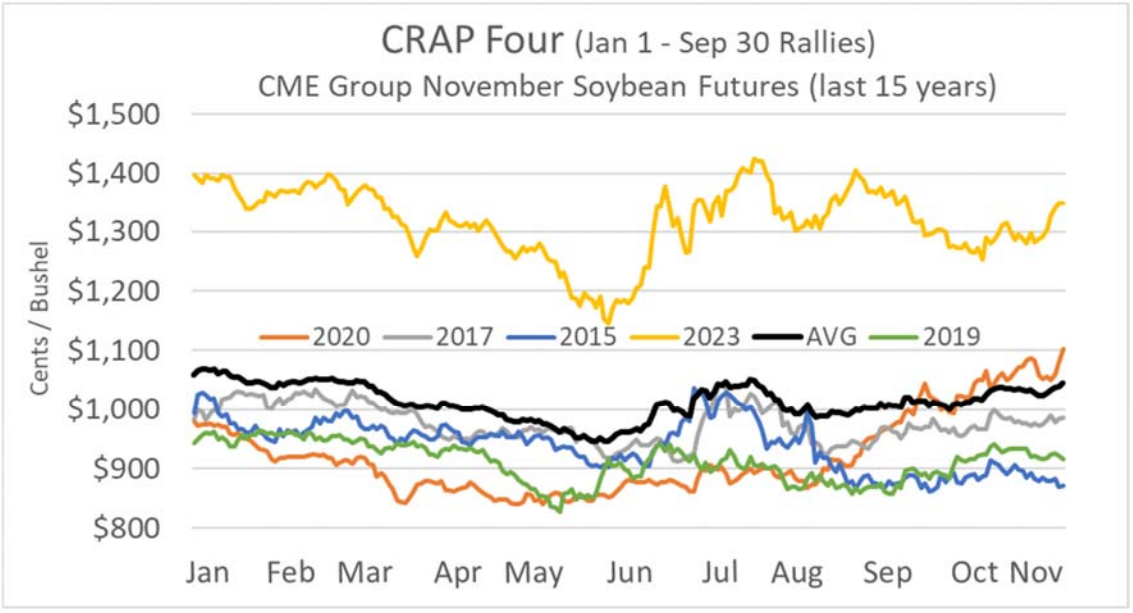


- In "Mid" years, prices trend largely sideways to lower but preharvest opportunities often arise, offering prices $0.50 to $1.50 greater than both, the Jan 1 and harvest prices.



- In "Crap" years, prices trend largely sideways to lower.
- Summer rallies (Jul – Sep) back to Jan 1 levels can provide opportunities that meet or exceed harvest time price levels.

A Sample Pre-Harvest 2024 Soybean Plan

Objective: Buy crop insurance to protect production risk.
Maximize the price received on bushels sold before or at harvest.

Pricing three increments of total expected APH production
1 Price 20% at $13.25 November futures or by Jun 15
2 Price 10% at $14.00 November futures or by Sep 15
3 Price 20% at $14.50 November futures
4 Price 25% at $15.25 November futures

- Be patient; Don't ignore $0.50-$1.50 rallies; Aggr. price targets;
- Plan is designed to price at least **30%** of APH production, but IF we see a significant rally of $3.00, we'll price up to **75%**.
- If using a "cash" marketing alternative, **NEVER** price at less than your expected production cost per bushel.

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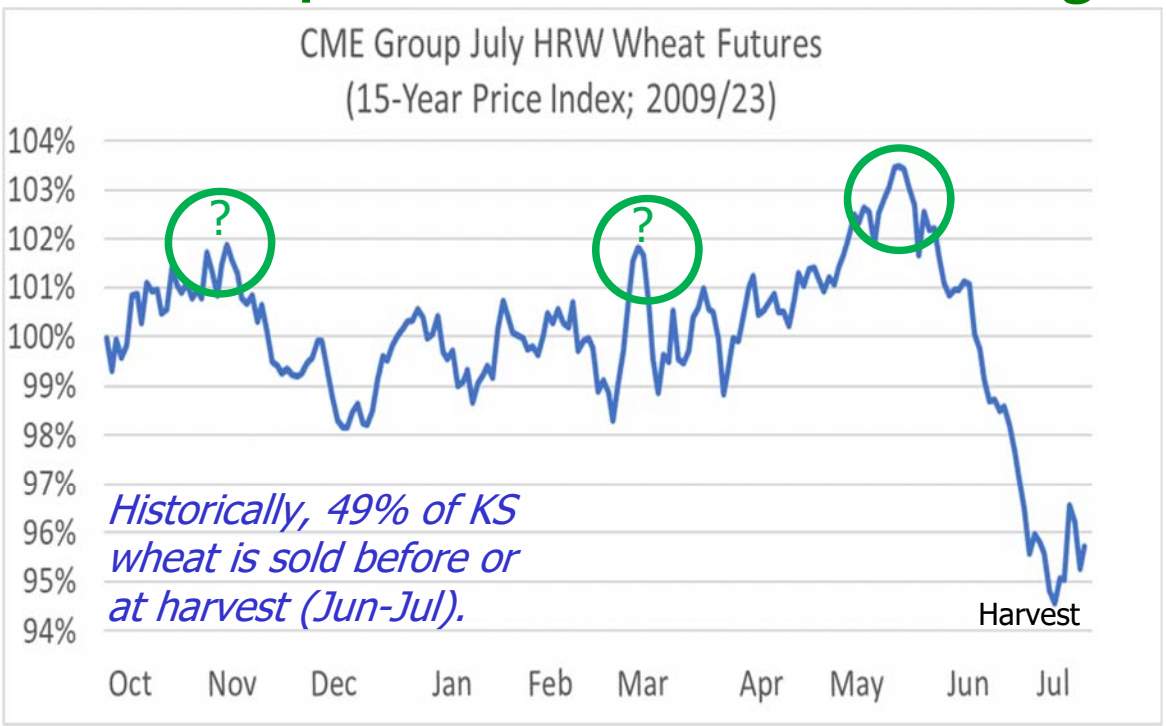
2024 Crop Preharvest Wheat Marketing



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Pricing Targets v. October 1

Let's start with the past 15 years

Oct 1, 2023
2024 Crop
$6.92

Oct 1 thru Sep 30 New Crop Futures Analysis

On average, harvest begins in June and is 75% complete by July 7

Fifteen Years: CME July HRW Wheat Futures

2009/23 Crop	Oct 1 Price	Preharvest Max Price	Change	Percent Change
2009	$7.45	$7.45	$0.00	0%
2010	$5.08	$6.14	$1.06	21%
2011	$7.08	$10.08	$3.01	42%
2012*	$7.32	$7.71	$0.39	5%
2013	$8.82	$9.43	$0.61	7%
2014	$7.20	$8.46	$1.26	17%
2015	$5.61	$6.88	$1.28	23%
2016	$5.42	$5.50	$0.08	2%
2017*	$4.45	$4.93	$0.48	11%
2018	$4.88	$5.68	$0.80	16%
2019	$5.52	$5.73	$0.21	4%
2020	$4.42	$5.15	$0.72	16%
2021	$5.28	$7.37	$2.09	40%
2022	$7.50	$13.68	$6.18	82%
2023	$9.60	$9.96	$0.36	4%

* Prices continued higher

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Pricing Targets v. October 1

Let's sort'em by rally size

Oct 1, 2023
2024 Crop
$6.92

20% of the time, at least a $2.00 rally

40% of the time, at least a $1.00 rally

60% of the time, at least a $0.60 rally

Fifteen Years: CME July HRW Wheat Futures

2009/23 Crop	Oct 1 Price	Preharvest Max Price	Change	Percent Change
2022	$7.50	$13.68	$6.18	82%
2011	$7.08	$10.08	$3.01	42%
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2023	$9.60	$9.96	$0.36	4%
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2016	$5.42	$5.50	$0.08	2%
2009	$7.45	$7.45	$0.00	0%

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A Sample Pre-Harvest 2024 Wheat Plan

Objective: Buy crop insurance to protect production risk.
Maximize the price received on bushels sold before or at harvest.

Pricing three increments of total expected APH production
1 Price 10% at $7.50 July futures or by Apr 15
2 Price 20% at $8.00 July futures or by Jun 1
3 Price 20% at $9.00 July futures
4 Price 25% at $10.00 July futures

- Be patient; Don't ignore $0.50/$0.60 rallies but be aggressive with price targets;
- Plan is designed to price at least **30%** of APH production, but IF we see a significant rally of $2.00+, we'll price up to **75%**.
- If using a "cash" marketing alternative, **NEVER** price at less than your expected production cost per bushel.

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Call Spread

A "Retained Ownership" Position
*With **LIMITED** UPSIDE potential*

This alternative involves selling the physical commodity. You benefit from overall market rallies but not basis gains.

The call spread involves buying a call (ATM) and selling another call at a different strike price (OTM), but with the same expiration and underlying contract.

At or prior to harvest, you exit ALL futures & options positions and deliver/sell your grain.

✓**This strategy establishes a higher floor** than other minimum price alternatives (via call premium received).

✓**It also establishes a ceiling** at the OTM call strike. You **pay margin as futures rise,** offsetting ATM call gains.

https://www.cmegroup.com/education/courses/option-strategies/bull-spread.html

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