



Launch Your Preharvest Marketing Plan

Crop Marketing Risk Management in 2022



Developed by Ed Usset, University of Minnesota
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Launch Your Preharvest Marketing Plan

Roughly Four-Hour Workshops focusing on
three common marketing concepts

- a) Pricing targets
- b) Incremental sales
- c) Decisions dates

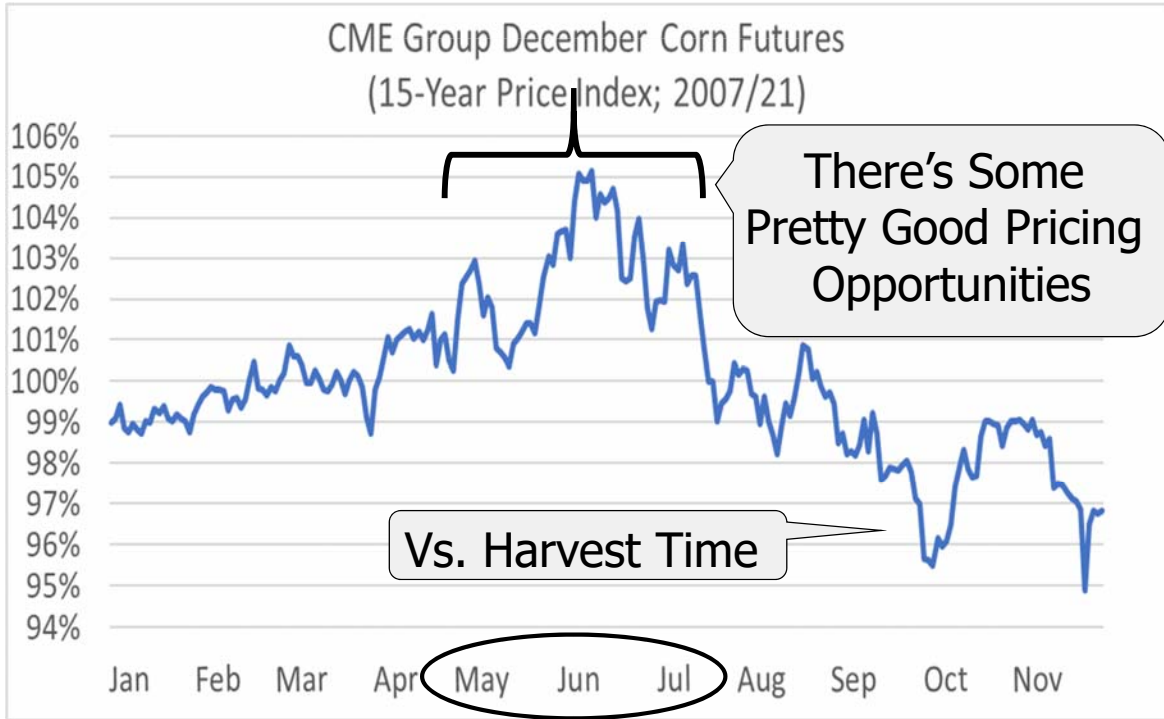
*Goal of providing you information and the
confidence to develop and implement your
own preharvest marketing plan.*

*Using the 15-year Seasonal Index to help identify both decision dates and
potential maximum price targets.



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What Do the “Seasonals” Tell Us?



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OUR Pre-Harvest Marketing Plan

Decision dates

Objective: Buy crop insurance to protect production risk. Price 75% of our APH yield (i.e. 60,000 bu.), 63% of exp. prod.

Using six, 10,000-bushel Increments

- Price 10,000 bushels at \$5.50 December futures
- Price 10,000 bushels at \$5.90 futures, or by April 15
- Price 10,000 bushels at \$6.30 futures, or by May 15
- Price 10,000 bushels at \$6.70 futures, or by Jun 15
- Price 10,000 bushels at \$7.10 futures, or by Jul 15
- Price 10,000 bushels at \$7.50 futures, or by Aug 15

Pricing increments

Plan starts on January 1, 2022.

Ignore decision dates and **make no sale if prices are lower than your plan's minimum price.** Pricing targets

Exit all options positions by October 1, 2022.



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Adjusting Our Marketing Plans

- Keep it simple.
- Focus on what you can control.
 - Keep our lenders informed.
 - Work with your broker/market consultant.
 - Slow down our preharvest marketing?
 - Adjust your pricing targets?
 - Swap out futures positions for forward contracts? Noting local basis volatility.



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Swapping Out Early Sales, 4/8/22

<u>Garden City Corn (1/4/22)</u>	<u>Salina Wheat (11/5/21)</u>
Initial Corn Fut. Sale @ \$5.56	Initial Wheat Fut. Sale \$7.76
plus expected basis (\$0.02)	plus expected basis (\$0.13)
minus fees \$0.01	minus fees \$0.01
Expected Net Hedge of \$5.53	Expected Net Hedge of \$7.62
@ \$7.16 DEC Corn (\$1.60)	@ \$11.10 JUL Wheat (\$3.34)

Keep it Simple (actions on April 8, 2022)

- a) Stay the Course.
- b) Swap out futures positions for forward contracts?

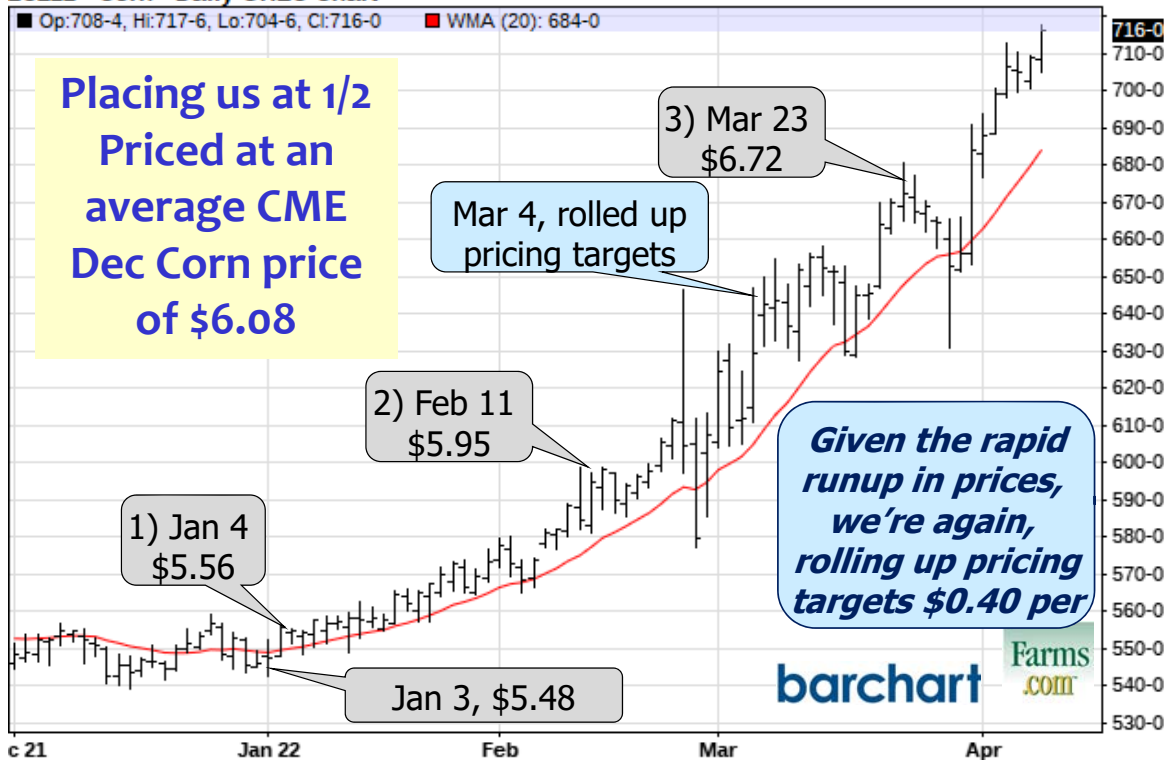
Exit DEC Corn Fut. @ \$7.16	Exit JUL Wheat Fut. @ \$11.10
Futures Loss = (\$1.61)	Futures Loss = (\$ 3.35)
Forward Contract @ \$7.46	Forward Contract @ \$10.80
Net Position of \$5.85	Net Position of \$ 7.45
\$0.30 basis	(\$0.30) basis



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As of April 8th

ZCZ22 - Corn - Daily OHLC Chart



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Ex. Rolling your price targets up

Objective: Buy crop insurance to protect production risk. Price 75% of anticipated crop, based on APH yield (i.e. 60,000 bu.).

Using six, 10,000-bushel Increments

~~Price 10,000 bushels at \$5.50 December futures @ \$5.56~~

~~Price 10,000 bushels at \$5.90 futures, or by April 15 @ \$5.95~~

~~Price 10,000 bushels at \$6.30, \$6.70 futures @ \$6.72~~

~~Price 10,000 bushels at \$6.70, \$7.10, \$7.50 futures, @ \$7.51~~

Price 10,000 bushels at \$7.10, \$7.50, \$7.90 futures, or by Jul 15

Price 10,000 bushels at \$7.50, \$7.90, \$8.30 futures, or Aug 15

Plan starts on January 1, 2022.

Ignore decision dates and **make no sale if prices are lower than your plan's minimum price.**

Exit all options positions by October 1, 2022.

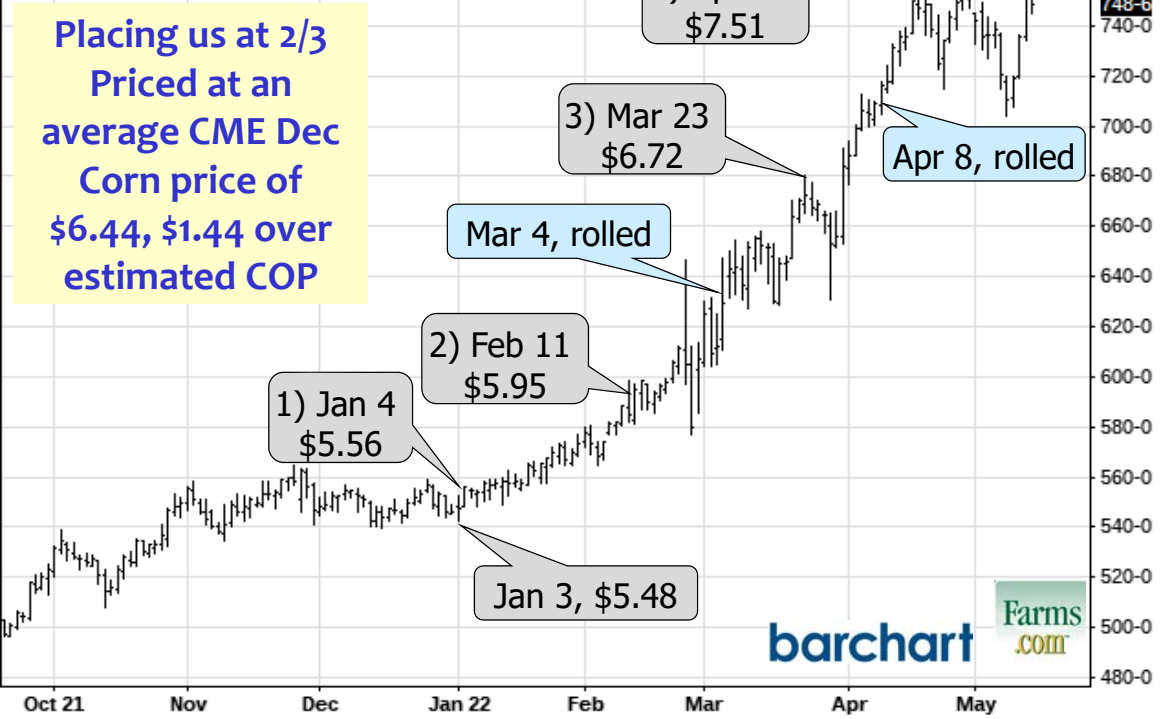
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As of Friday, May 13

ZCZ22 - Corn - Daily OHLC Chart

Op:751-4, Hi:758-4, Lo:745-0, Cl:748-6



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Here We Are, May 16, 2022

ZC - Corn - Monthly OHLC Chart

Op:811-4, Hi:822-0, Lo:777-4, Cl:781-2



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Implementing Our Plans (Mark's 2-cents)

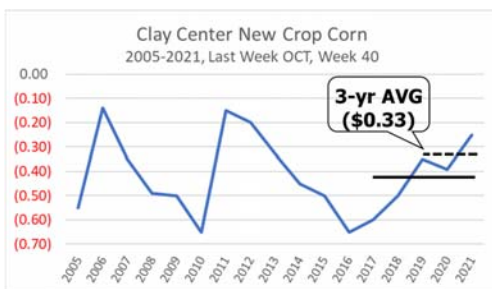
2022 Corn, Grain Sorghum and Soybeans

- Stay the course, follow your preharvest plans
 - “Our” plan has us pricing two more increments over the next two months
- If you have no plan and have priced zero to date, do you really want to pass on current prices?
- Given your perception of upside market risk, consider minimum price tools.



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As of Friday, the 13th



- A & C, you still face significant “basis risk”
- B, locks you into delivering (drought?)
- A has more flexibility than C.

Strategies to Consider, Friday the 13th

	(A)	(B)	(C)
Three preharvest strategies offering a minimum price, with upside potential	DEC 22 Corn Futures	Forward Cash Contract	DEC 22 Corn Put Opt.
Futures* Price	\$7.49		
Basis	(\$0.42)	(\$0.50)	(\$0.42)
Expected Price	\$7.06	\$6.99	
Buy a Option	Call	Call	Put
Option* Strike	\$7.50	\$7.50	\$7.50
Option Premium	\$0.70	\$0.70	\$0.71
Minimum Price	\$6.35	\$6.28	\$6.36

(A) Selling futures and buying a call option.

(B) Forward Cash Contracting and buying a call option

(C) Buying a put option

* Commissions estimated at \$0.01/bu. for both futures and options



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Previewing the 2023 Preharvest Wheat Marketing Plan

KE - Hard Red Wheat - Monthly OHLC Chart



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Preharvest Pricing Targets

Minimum price target

- ✓ Make NO sales at less than this minimum price. Start with your cost of production but focus on average costs. **(\$8.40/bu.?)**

Maximum price target

- ✓ Identify the highest price we can reasonably expect this marketing year.

Together, your minimum and maximum targets can form "bookends," within incremental sales in between.

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✓ What's a Realistic Max Price Target?

Let's start with the seasonals

Fifteen Years: CME July HRW Wheat Futures

2007/21	Oct 1 Price	Preharvest Max Price	Change	Percent Change
2007	\$4.83	\$6.00	\$1.17	24%
2008	\$7.01	\$12.78	\$5.77	82%
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%

Preharvest: On average, 25% of KS wheat is harvested by the last week of June



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✓ Price Targets

Friday the 13th, 4.5 months early, July 2023 HRW was at, \$11.79

Let's put'em in order of "Change"

Fifteen Years: CME July HRW Wheat Futures

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2011	\$7.08	\$10.08	\$3.01	42%
2021	\$5.28	\$7.37	\$2.09	40%
2015	\$5.61	\$6.88	\$1.28	23%
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2020	\$4.42	\$5.15	\$0.72	16%
2013	\$8.82	\$9.43	\$0.61	7%
2017	\$4.45	\$4.93	\$0.48	11%
2012	\$7.32	\$7.71	\$0.39	5%
2019	\$5.52	\$5.73	\$0.21	4%
2016	\$5.42	\$5.50	\$0.08	2%
2009	\$7.45	\$7.45	\$0.00	0%

20% of the time; prices rise more than \$2.00, or 40%

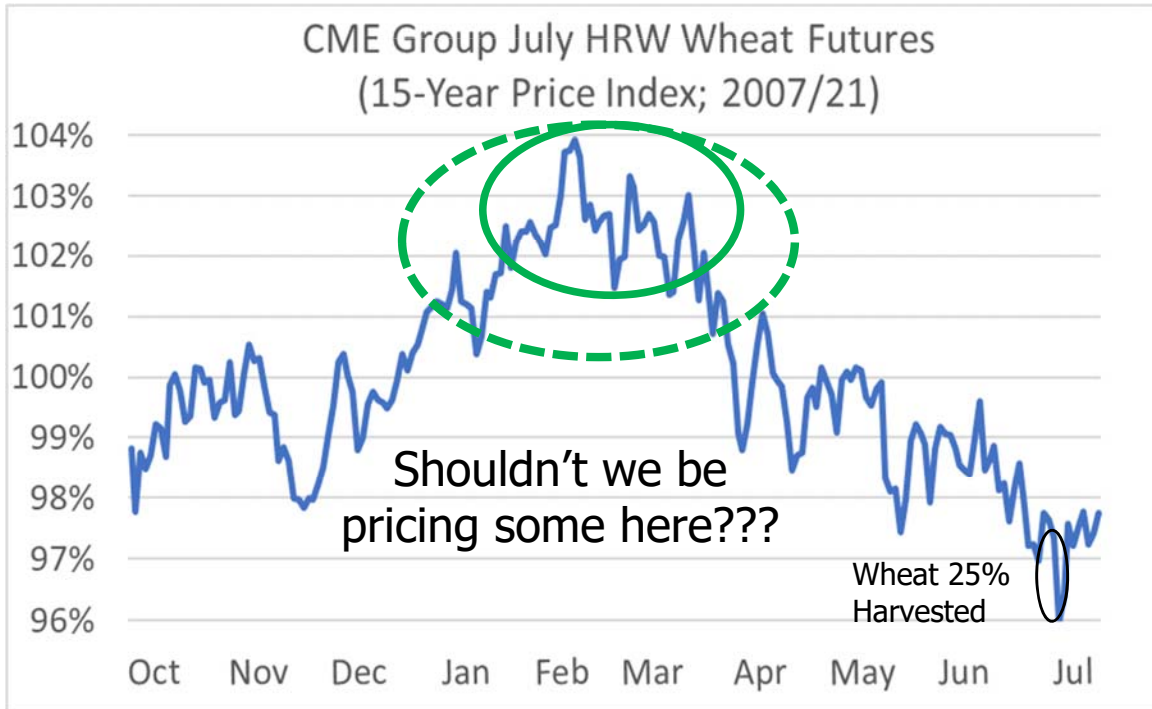
47% of the time; prices rise between \$0.50 & \$1.30, or 10% & 25%

33% of the time; prices rise less than \$0.50 per bushel



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Decision Dates. Dates you'll act regardless of price



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2023 Wheat Preharvest Marketing Plan?

Step 1. Determine the % of anticipated crop/bushels to include

Step 2. Estimate your Cost of Production \$8.40 per bushel ????

Step 3. Outline a Preharvest Plan, July 2023 HRW futures

Increment 1 - Price at \$12.00 futures, or by Jun 15, 2022

Increment 2 - Price at \$12.50 futures, or by Aug 15, 2022

Increment 3 - Price at \$13.00 futures, or by Jan 15, 2023

Increment 4 - Price at \$13.50 futures, or by Feb 15, 2023

Increment 5 - Price at \$14.00 futures, or by Mar 15, 2023

Increments	Price Targets	Decision Dates
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Ignore decision dates and **make no sale if prices are lower than \$9.00 local cash price.**

- Costs = 25% over the 2022 NC KS KSU Budget



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Thank you for your Time!



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