Launch Your Preharvest Marketing Plan

Grain Marketing Webinar July 15, 2022

KANSAS FARM BUREAU
The Voice of Agriculture

K-STATE
Research and Extension

NORTH CENTRAL EXTENSION RISK MANAGEMENT EDUCATION

Developed by Ed Usset, University of Minnesota

Launch Your Preharvest Marketing Plan

Roughly Four-Hour Workshops focusing on three common marketing concepts

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

- Corn, Soybeans or Grain Sorghum Dec-Jan-Feb
- Wheat Aug-Sep-Oct

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.

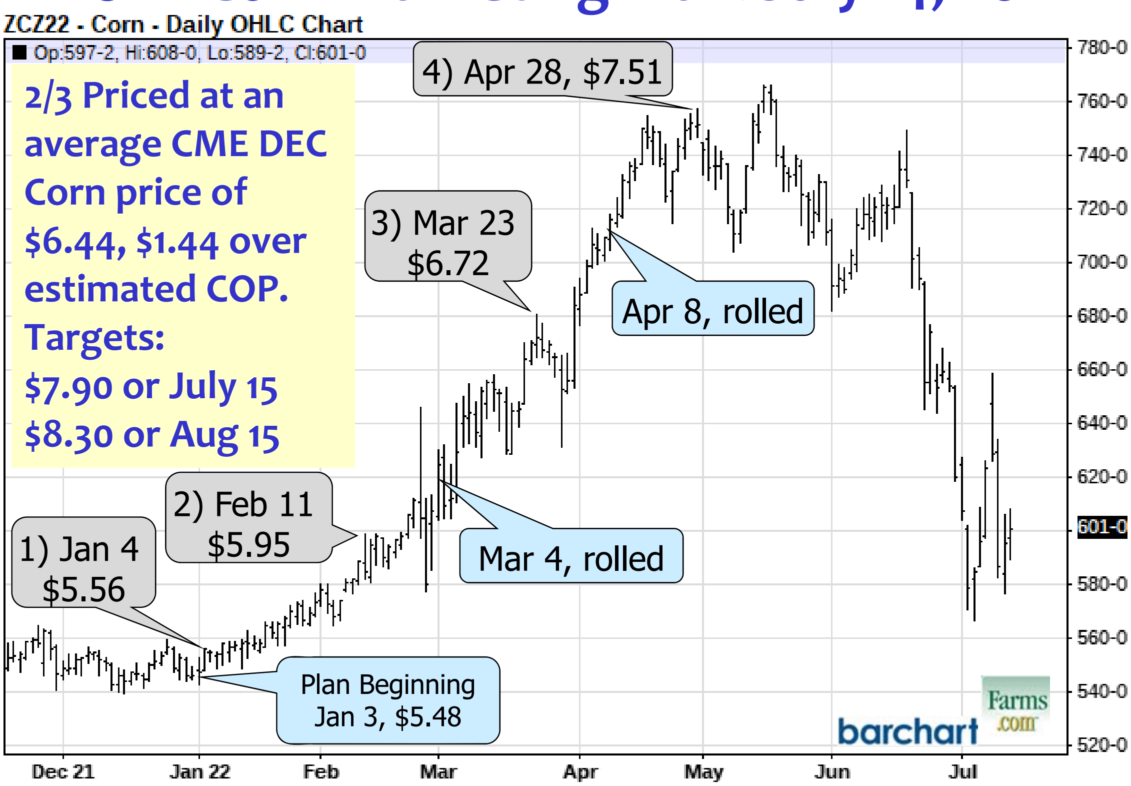
Three “Sample” Preharvest Marketing Plans

✓2022 Corn Plan
- Six, $0.40/bu. increments
- Currently 67% priced

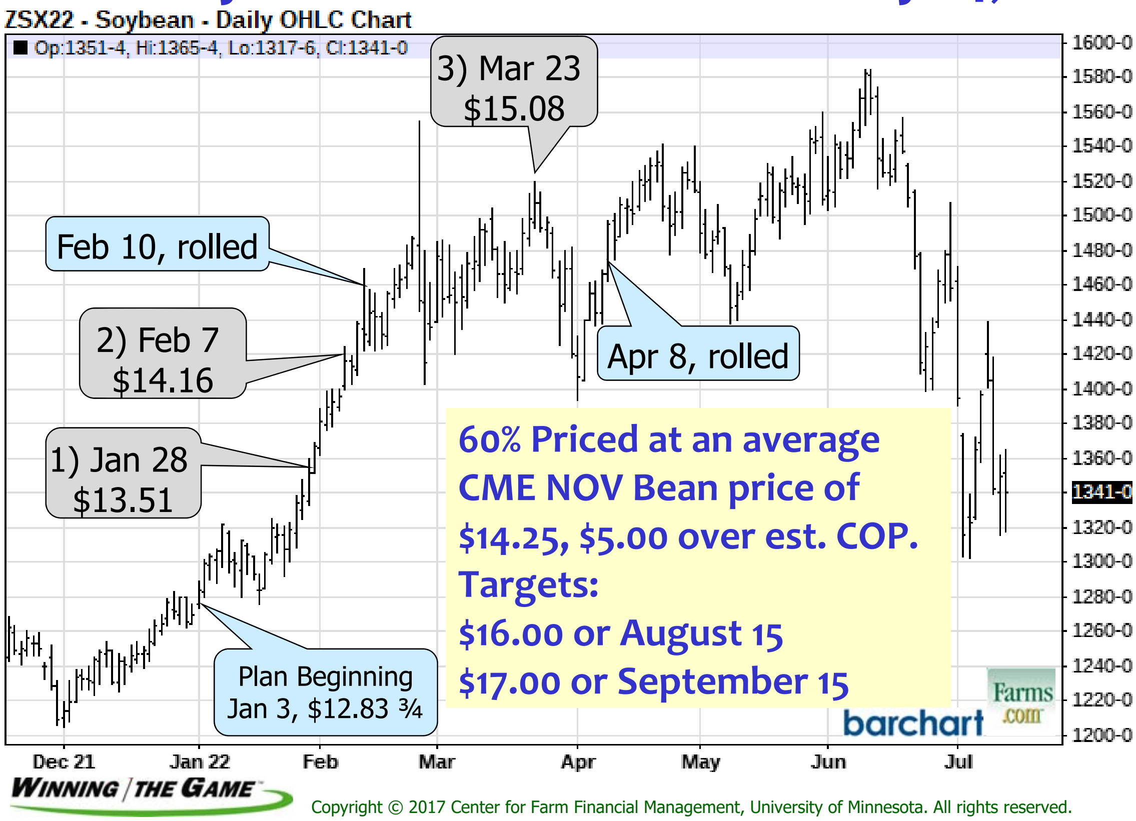
✓2022 Soybean Plan
- Five, $0.50/bu. increments
- Currently 60% priced

✓2023 Tentative Wheat Plan
- Five, $0.50/bu. increments
- Currently 20% priced

2022 Corn Marketing Plan: July 14, 2022



2022 Soybean Preharvest Plan: July 14, 2022



2023 Wheat Preharvest Plan: July 14, 2022

Preharvest Price Risk

Where will December Corn Futures be when you harvest?

How can I price today, yet take advantage of any major price rallies?

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Preharvest Pricing

Fixed Price Alternatives / Tools
(All three work similarly)

- ❑ Short Futures Hedges (broker, sell futures)
- ❑ Forward Cash Contracts (local buyer, who sells fut.)
- ❑ Hedge-to-Arrive Contracts (local buyer, who sells fut.)

- Selling futures allows you to market grain post harvest, FCCs and HTAs require you to deliver.
- Selling futures, puts you at risk of rising prices (margin calls); FCCs and HTAs shift that risk to the buyer.
- Selling futures, subjects you to basis risk at harvest (i.e. weaker than expected); FCCs “lock” you into the basis offered, and HTAs allow you to set the basis later.
- What are your postharvest plans and what is BASIS now, versus what you expect it to be at harvest?

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Basis

- ❑ What are your postharvest plans and what is BASIS now, versus what you expect it to be at harvest?

NC KS Example

Crop		Basis FUT	Price	3-Yr Basis
Corn	Old	$0.85 SEP	$6.90	($0.12) wk 26
Corn *2022*	New	($0.45) DEC	$5.56	($0.27) wk 38
Soybeans	Old	$0.80 NOV	$14.21	($0.56) wk 26*
Soybeans'22	New	($0.70) NOV	$12.71	($0.83) wk 41
Wheat	Old	($0.45) SEP	$8.04	($0.33) wk 26
Wheat *2023*	New	($0.60) JUL	$7.86	($0.34) wk 24

$0.61 SEP

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Preharvest Pricing

Fixed Price Alternatives / Tools
(They all work similarly)

- ❑ Basis
  - Often, the 3 or 5 year average basis at the expected time of sale is our best estimate of what to expect and can be adjusted, based on expectations for demand.
  - Note: BUYERS offering forward contracts, typically in turn sell futures, making them subject to volatile markets, which may contribute to weaker FCC bids.

Commodity options can help set a price today, yet allow you to take advantage of any price rallies.

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Options

Setting a Minimum Price

Options are contracts giving the buyer the RIGHT but not the obligation to a position (at a "strike price") in the futures market.

- **Puts** provide a *"sell"* futures position
- **Calls** provide a *"buy"* futures position

- ❑ **Options are flexible like futures, available ahead of harvest, w/ standardized contract size & quality.**
  - Options manage futures price risk but ***NOT*** basis risk.
- ❑ **Must open a trading account & pay the option premium "up front"** *& they can be expensive*

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Options

Setting a Minimum Price

1. Put Options alone, can provide a minimum price with upside price potential by providing a *"sell"* futures position at a set, "strike" price.

❑ Call Options (which gain in value as prices rise) can provide a minimum price with upside price potential when COMBINED with a fixed price alternative, i.e.

2. Short Hedge (sell futures) **and** buy a Call Option
3. FCC **and** buy a Call Option
4. HTA **and** buy a Call Option

❑ Each of the four above listed marketing alternatives will work similarly with the prior discussed "basis," "premium cost," and "delivery" issues impacting which to use.

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Examining Selected Preharvest Marketing Alternatives

DEC 2022 Corn	(A)	(B1)	(B2)	(B3)	(B4)
Preharvest strategies	Sell Futures i.e. Short Hedge	Buy a Put Option	Buy a Put Option	Buy a Put Option	Buy a Put Option
Futures** Price	$6.01				
Expected Basis	$0.00	$0.00	$0.00	$0.00	$0.00
Expected Price	$6.00				
Buy a PUT**		$6.00	$6.20	$6.40	$6.80
Option Premium		$0.54	$0.67	$0.80	$1.09
Minimum Price	**$6.00**	**$5.45**	**$5.52**	**$5.59**	**$5.70**
Option Cost (5,000 bu.)		$2,700	$3,350	$4,000	$5,450

Four put options

Mins /w upside potential

Fixed price Short hedge (sell futures)

Can I afford these premiums?
Do these minimums cover my expected costs of production?

Examining Selected Preharvest Marketing Alternatives

"What If," Futures Go To			(A)	(B1)	(B2)	(B3)	(B4)
$7.01	$0.00	<== Basis -- Cash -- Price @ Harvest =	Short Hedge, (Sell Fut.) =	Buy a Put Option	Buy a Put Option	Buy a Put Option	Buy a Put Option
$1.00	*Net Price*	**$7.01**	**$6.00**	**$6.46**	**$6.33**	**$6.20**	**$5.91**
Futures	*Gain* *(adj. for comsns.)*		($1.01)	*(assuming option time value decays to zero)*			
	Strike Prices			$6.00	$6.20	$6.40	$6.80
	Option Gains *(adj. for commissions)*			($0.01)	($0.01)	($0.01)	($0.01)
	Option Premiums			($0.54)	($0.67)	($0.80)	($1.09)

Harvest cash price

Hedge account losses

With rising futures, all the puts expire worthless. So minimizing the premium dollars spent works best.

Examining Selected Preharvest Marketing Alternatives

"What If," Futures Go To			(A)	(B1)	(B2)	(B3)	(B4)
$5.01	**$0.00**	<== Basis **-- Cash -- Price @ Harvest =**	Short Hedge, (Sell Fut.) =	Buy a Put Option	Buy a Put Option	Buy a Put Option	Buy a Put Option
($1.00)	*Net Price*	**$5.01**	**$6.00**	**$5.45**	**$5.52**	**$5.59**	**$5.70**
Futures	*Gain* *(adj. for comsns.)*		$0.99	*(assuming option time value decays to zero)*			
	Strike Prices			$6.00	$6.20	$6.40	$6.80
	Option Gains *(adj. for commissions)*			$0.98	$1.18	$1.38	$1.78
	Option Premiums			($0.54)	($0.67)	($0.80)	($1.09)

Harvest cash price

Hedge account gains

With declining futures, your puts gain in value and you can sell them back at harvest, adding the gains to the cash price received from the elevator

Do these minimums cover your expected costs of production?

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Managing Preharvest Marketing Plans

- Keep it simple.
- Focus on what you can control.
- Has weather impacted expected production?
- Keep our lenders informed & Work with your broker/marketing consultant.

Thank you for your Time!

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