



# Grain Marketing Webinar 8/30/22

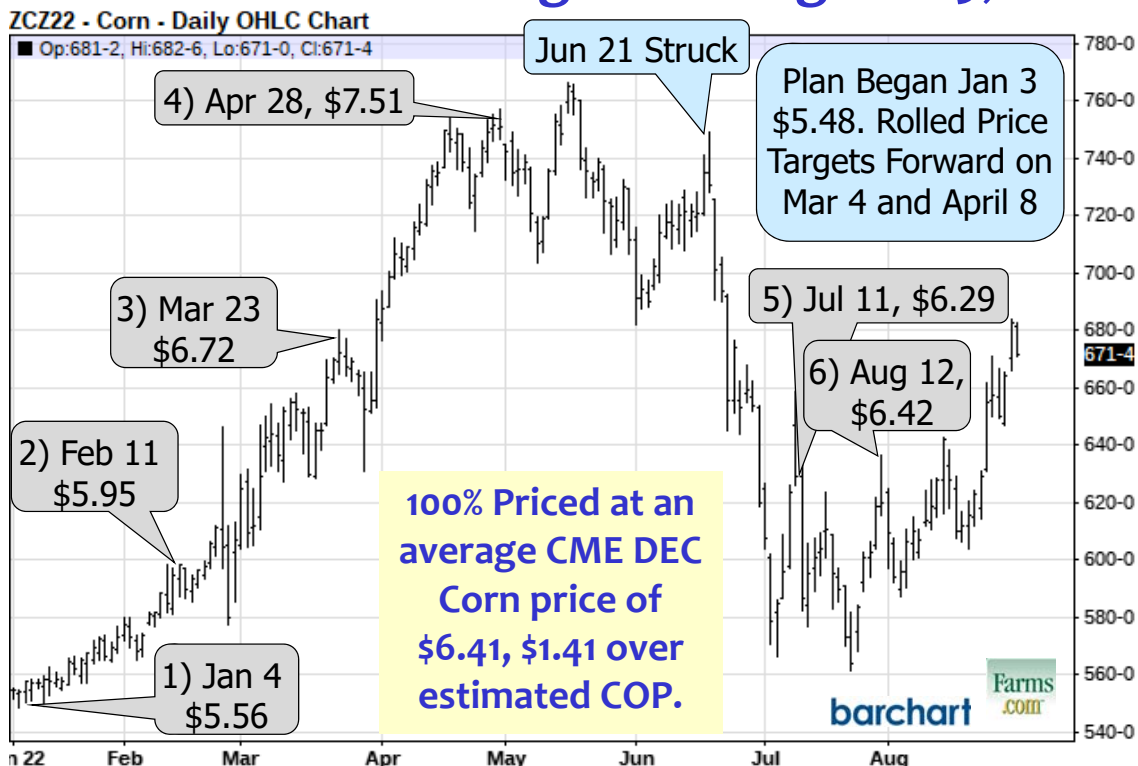
**Wrap Up 2022 Corn & Bean Demo  
Preharvest Plans,  
Examine 2023 Wheat**

**Preharvest Pricing Alternatives/Tools  
that Maintain  
Upside Potential**



Developed by Ed Usset, University of Minnesota  
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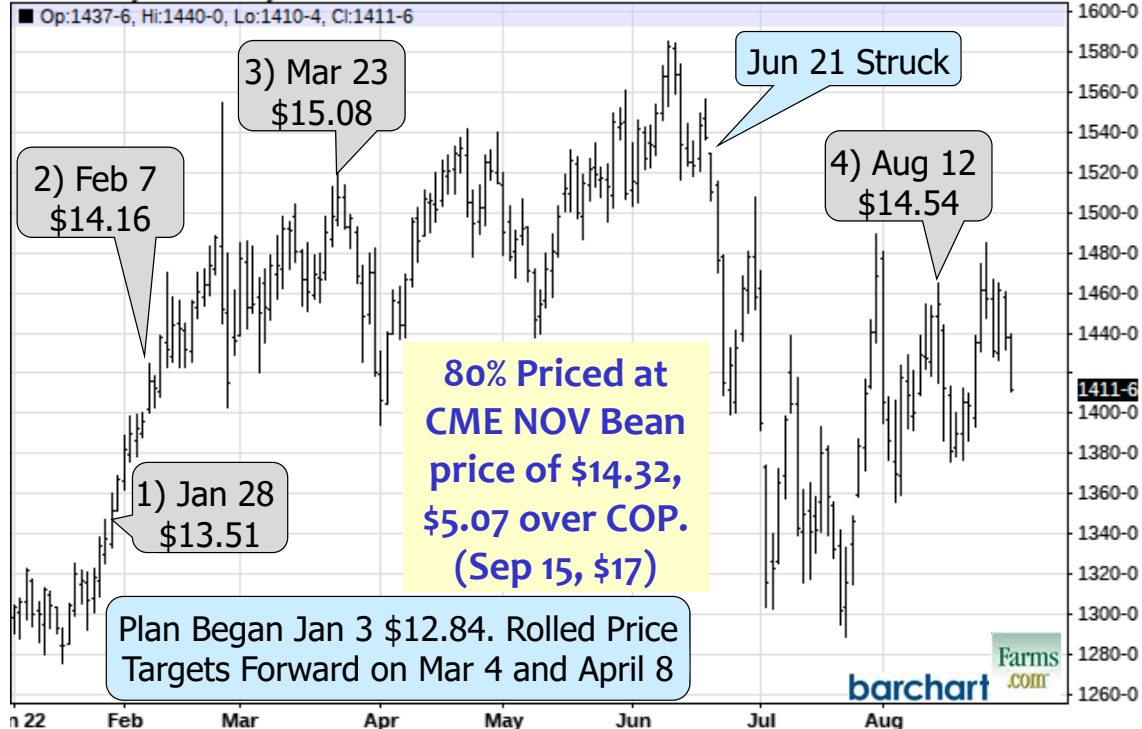
## 2022 Corn Marketing Plan: August 29, 2022



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# 2022 Soybean Preharvest Plan: Aug 29, 2022

ZSX22 - Soybean - Daily OHLC Chart



WINNING THE GAME

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## Wrapping up 2022 Preharvest Corn and Soybean Marketing Plans (\$1.41 and \$5.07 over COP)

### OUCH!

1. Carefully consider midstream plan changes.
  - Rolling Forward Mar 4 was good, Apr 8 not so much.
  - Instead, consider alternatives that maintain upside potential.
2. Don't get in a hurry early in the season, be a little more aggressive with pricing targets.

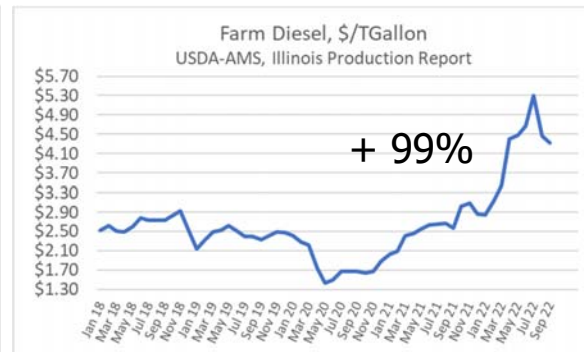
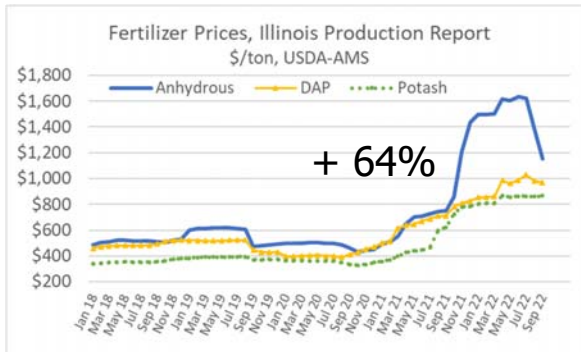
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# All Preharvest Marketing Plans Should Be Based on YOUR Cost of Production



## ~~2022~~ Wheat (Rotation) Cost-Return Budget in South Central KS -----Average yield



July to July



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# All Preharvest Marketing Plans Should Be Based on YOUR Cost of Production



	<u>2022</u>	<u>2023</u>
Direct Expenses/bu.	\$3.76	\$5.83
Total Expenses/bu.	\$5.58	\$7.91

Diesel + 100%  
Fertilizers + 75%  
Herbicides + 25%

... What are **YOUR** costs of production?



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# Setting Futures-Based, Preharvest Pricing Targets

- | Hays KS  | July 2023 Futures |
|--|-------------------|
| ✓ Min Price: \$8.00 - (\$0.50) basis                           | = \$8.50          |
| ✓ Max Price: July 2023 Futures in the fall + \$5.00 or \$6.00, | = \$14.50         |

Use your min and max futures price targets to form "bookends," with incremental sales in between.

...What will **YOUR** pricing targets be?



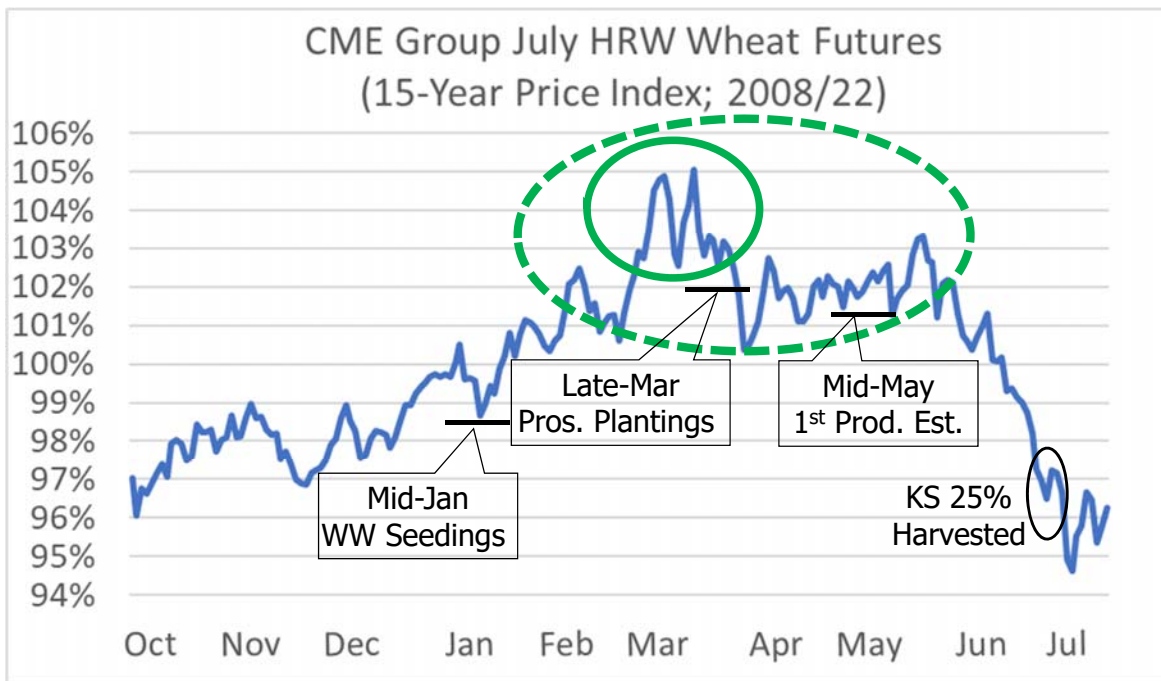
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## Tentative Futures-Based Preharvest Pricing Targets

KEN23 - Hard Red Wheat - Daily OHLC Chart



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## 2023 Wheat Preharvest Marketing Plan

Step 1. Determine the #bushels to include in the preharvest plan

Step 2. Set your pricing targets

Step 3. Set dates for incremental sales (July 2023 HRW futures)

Increment 1 - Price at \$10.00 futures, or by Feb 1, 2022

Increment 2 - Price at \$11.00 futures, or by Mar 15, 2023

Increment 3 - Price at \$12.00 futures, or by Apr 15, 2023

Increment 4 - Price at \$13.50 futures, or by May 1-20, 2023

Increment 5 - Price at \$14.50 futures, or by Jun 1-20, 2023

Increments	Price Targets	Decision Dates
------------	---------------	----------------

a) **Increments.** The percentage PH Plan, or bushels to price

b) **Price Targets.** Prices at which you WILL price an increment

c) **Decision Dates.** Dates you'll WILL act regardless of price

d) **Make NO Sales.** If prices are less than \$8.50 local cash



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## Preharvest Pricing

### *Fixed Price vs. Minimum Price Alternatives / Tools*

#### Fixed Price Alternatives

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

Each of these essentially “set” price, so price direction and basis largely impact your satisfaction.

- **Prices decrease . . . you’re a “genius.”**
- **Prices increase . . . you’re a “#!%@.”**



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## Preharvest Pricing

### *Minimum Price Alternatives (Maintain UPSIDE potential)*

- Buying a Put Option
- Minimum Price Contract (DIY)
  - ❖ Selling Futures or Forward Cash Contracting, along with Buying a Call Option
- Minimum Price Contract (via a local buyer)
  - Each provides a minimum price that will be less than the minimums from the Fixed Price Alternatives available.
  - Each involve commodity options, helping to set a price yet allowing you to take advantage of any price rallies.
  - Buying a Put, or a MPC (DIY/selling futures) both allow you to market your grain post harvest, MPCs that involve FCCs will require you to deliver.

**Options can be expensive**



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## Preharvest Pricing

*More Advanced Minimum Price Alternatives With Greater Minimums, but **LIMITED UPSIDE** potential*

- ❑ Options Collar
- ❑ Bull Call Spread (With a Fixed Price Alternative)
  - Both strategies aim to set greater minimum prices but at the “cost” of limiting your upside potential.
  - These strategies work best when you believe there is a limit to the potential upside and can be managed to capture that perceived amount.



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## Options “Collar”

*Minimum Price Alternatives With **LIMITED UPSIDE** potential*

Initiating this strategy involves buying a PUT option (similar to the “Short Options Hedge”) **and** selling an OTM CALL option (**offsetting the cost of the PUT**)

At or prior to harvest, you exit both positions then deliver/sell your grain wherever you choose.

- ✓ **This strategy establishes a higher floor** than the short options hedge (by the amount of call premium).
- ✓ **It also establishes a ceiling** (call strike). Because **you’ll incur margin calls as futures rise beyond the call strike price**, offsetting any cash market gains.

<https://www.cmegroup.com/education/courses/option-strategies/collars.html>



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# Bull Call Spread

## Minimum Price Alternatives With **LIMITED UPSIDE** potential

This strategy **begins** with a fixed price alternative such as selling futures or forward cash contracting.

**And then** 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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## Examining Selected Preharvest Marketing Alternatives

JUL 2023 Wheat	(A)	(A2)	(B)	(B2)	(C)	(C2)
Preharvest minimum price alternatives, that maintain upside potential	Sell Fut. & Buy a Call Option	Sell Fut. & Bull Call Spread	FCC & Buy a Call Option	FCC & Bull Call Spread	Buy a Put Option	Put/Call Option Collar
Futures** Price	\$9.01	\$9.01				
Expected Basis	(\$0.50)	(\$0.50)	(\$0.54)	(\$0.54)	(\$0.50)	(\$0.50)
Expected Price	\$8.50	\$8.50	\$8.47	\$8.47		
Buy an Option**	Call	Call	Call	Call	Put	Put
A-T-M Strike	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00
Option Premium	\$1.12	\$1.12	\$1.12	\$1.12	\$1.13	\$1.13
Sell an Option**		Call		Call		Call
O-T-M Strike		\$12.00	↔Max upside?↔	\$12.00		\$12.00
Option Premium		\$0.42		\$0.42		\$0.42
Minimum Price	\$7.37	\$7.78	\$7.34	\$7.75	\$7.36	\$7.77

Fixed price portions

Min price alternatives all 6 are less than the FPAs

Min Pricing Alternatives

\$8.50  
- \$1.12  
- \$0.01

\$7.37  
+\$0.42  
- \$0.01

These provide upside potential, but do the minimums cover my costs of production?



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## Minimum Price Alternatives with Upside!

### Results when prices DECREASE

Results/Compare	(--- Base Line ---)	(A)	(A2)	(C)	(C2)	
What IF Futures Go To  <b>\$8.00</b>	<b>(\$0.50)</b> <== Basis -- Cash -- Price @ Harvest =  <b>Net Price \$7.50</b>	Futures adjusted for basis	Futures gains + local cash price	Futures result + option results	Cash result + optionS results	Cash result + option results
Futures	Gain (adj. for comsns.)					
Buy	Call Gain (adj. for commissions)		(\$0.01)	(\$0.01)		
	Premium \$9.00 Call		(\$1.12)	(\$1.12)		
Sell	Call Gain (adj. for commissions)			(\$0.01)		(\$0.01)
	Premium \$12.00 Call			\$0.42		\$0.42
Buy	Put Gain (adj. for commissions)			\$0.99		\$0.99
	Premium \$9.00 Put			(\$1.13)		(\$1.13)

(Base Line) = The results of two fixed price alternatives. Doing nothing and receiving the harvest price, or short hedge.  
 (A) = DIY Min Price Contract {selling futures and **buying** a call}. (A2) = (A) plus selling a call to raise floor/cap gains.  
 (C) = Buying a put option. (C2) = Options Collar, buying a put and selling a call to raise floor/cap gains.



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## Minimum Price Alternatives with Upside!

### Results when prices INCREASE

Results/Compare	(--- Base Line ---)	(A)	(A2)	(C)	(C2)	
What IF Futures Go To  <b>\$12.00</b>	<b>(\$0.50)</b> <== Basis -- Cash -- Price @ Harvest =  <b>Net Price \$11.50</b>	Short Hedge, (Sell Fut.) =	Sell Fut. & Buy a Call Option =	Sell Fut. & Bull Call Spread =	Buy a Put Option =	Put/Call Option Collar =
Futures	Gain (adj. for comsns.)	(\$3.00)				
Buy	Call Gain (adj. for commissions)		\$2.99	\$2.99		
	Premium \$9.00 Call		(\$1.12)	(\$1.12)		
Sell	Call Gain (adj. for commissions)			(\$0.01)		(\$0.01)
	Premium \$12.00 Call			\$0.42		\$0.42
Buy	Put Gain (adj. for commissions)			(\$0.01)		(\$0.01)
	Premium \$9.00 Put			(\$1.13)		(\$1.13)

(Base Line) = The results of two fixed price alternatives. Doing nothing and receiving the harvest price, or short hedge.  
 (A) = DIY Min Price Contract {selling futures and **buying** a call}. (A2) = (A) plus selling a call to raise floor/cap gains.  
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## Minimum Price Alternatives with Upside!

Results when prices INCREASE; a lot

Results/Compare	(--- Base Line ---)	(A)	(A2)	(C)	(C2)	
What IF Futures Go To	<b>(\$0.50)</b> <== Basis -- Cash -- Price @ Harvest =	Short Hedge, (Sell Fut.) =	Sell Fut. & Buy a Call Option =	Sell Fut. & Bull Call Spread =	Buy a Put Option =	Put/Call Option Collar =
<b>\$14.00</b>	<b>Net Price \$13.50</b>	<b>\$8.50</b>	<b>\$12.37</b>	<b>\$10.78</b>	<b>\$12.36</b>	<b>\$10.77</b>
Futures	Gain (adj. for comsns.)	<b>(\$5.00)</b>				
Buy	Call Gain (adj. for commissions)		\$4.99	\$4.99		
	Premium	\$9.00 Call	(\$1.12)	(\$1.12)		
Sell	Call Gain (adj. for commissions)			(\$2.01)	(\$2.01)	
	Premium	\$12.00 Call		\$0.42	\$0.42	
Buy	Put Gain (adj. for commissions)				(\$0.01)	(\$0.01)
	Premium	\$9.00 Put			(\$1.13)	(\$1.13)

(Base Line) = The results of two fixed price alternatives. Doing nothing and receiving the harvest price, or short hedge.  
 (A) = DIY Min Price Contract {selling futures and **buying** a call}. (A2) = (A) plus selling a call to raise floor/cap gains.  
 (C) = Buying a put option. (C2) = Options Collar, buying a put and selling a call to raise floor/cap gains.



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## Managing Preharvest Marketing Plans

- It's time to begin outlining your 2023 Wheat plan
- Current prices may or may not be covering COP
- There are tools that can maintain upside potential
- Keep it simple, focus on what you can control
- Keep our lenders informed & Work with your broker/marketing consultant.

## Thank you for your Time!



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# ✓ What's a Realistic Max Price Target?

Let's start with the seasonals

Fifteen Years: CME July HRW Wheat Futures				
2008/22	Oct 1 Price	Preharvest Max Price	Change	Percent Change
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%
2022	\$7.50	\$13.68	\$6.18	82%

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



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# ✓ Price Targets

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

Fifteen Years: CME July HRW Wheat Futures				
2008/22	Oct 1 Price	Preharvest Max Price	Change	Percent Change
2022	\$7.50	\$13.68	\$6.18	82%
2008	\$7.01	\$12.78	\$5.77	82%
2011	\$7.08	\$10.08	\$3.01	42%
2021	\$5.28	\$7.37	\$2.09	40%
2015	\$5.61	\$6.88	\$1.28	23%
2014	\$7.20	\$8.46	\$1.26	17%
2010	\$5.08	\$6.14	\$1.06	21%
2018	\$4.88	\$5.68	\$0.80	16%
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%

27% of the time;

40% of the time;

33% of the time;



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