Launch Your Preharvest Marketing Plan

WOW! What a year to be talking preharvest marketing plans.

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

Three common marketing concepts

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

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

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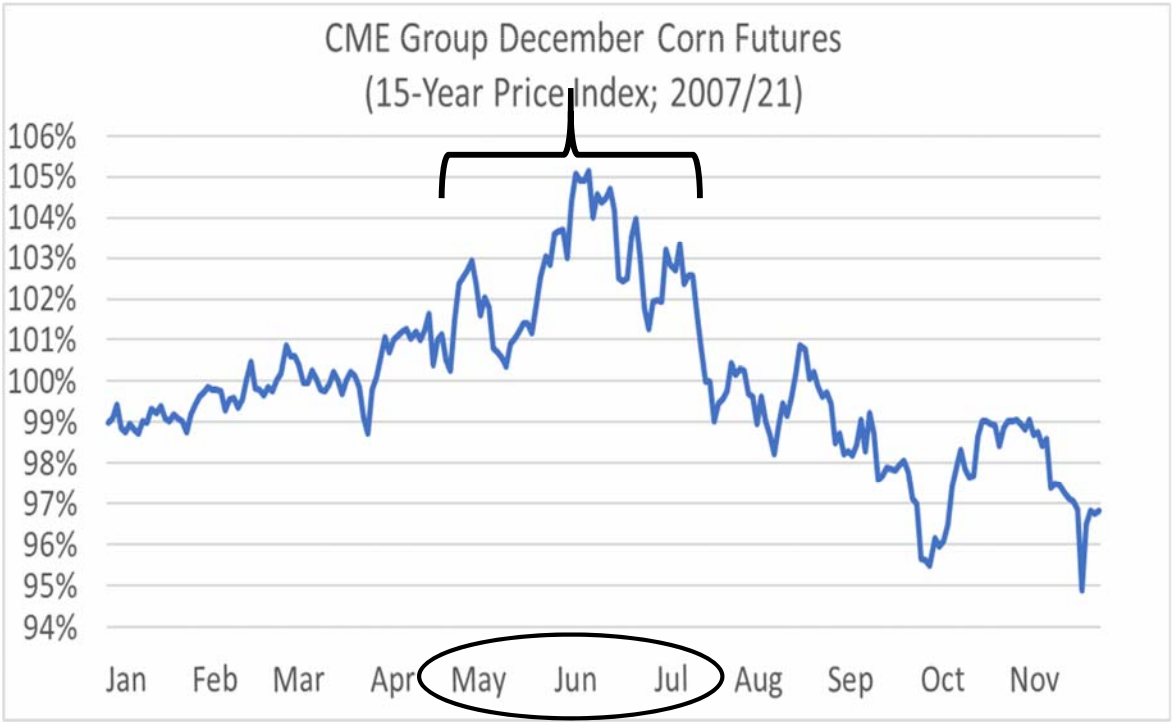
What Do the "Seasonals" Tell Us?



WINNING THE GAME

✓What's a Realistic Max Price Target?

Let's start with the seasonals

Assuming we simply use the January 1 price as our Min Price, $5.475

Fifteen Years: CME December Corn Futures

2007/21	Jan 1 Price	Preharvest Max Price	Change	Percent Change
2007	$3.62	$4.28	$0.66	18%
2008	$4.80	$7.88	$3.08	64%
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%

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✓Price Targets

2022	$5.48	$7.16	$1.68	31%

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

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2008	$4.80	$7.88	$3.08	64%
2012	$5.90	$8.39	$2.49	42%
2011	$5.53	$7.75	$2.23	40%
2021	$4.35	$6.37	$2.02	46%
2010	$4.45	$5.22	$0.77	17%
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2020	$4.05	$4.05	$0.00	0%

27% of the time; prices rise $2.00 or more (>40%)

67% of the time; prices rise $0.40 or more (>10%)

87% of the time; prices rise $0.17 or MORE

13% of the time; there was no change

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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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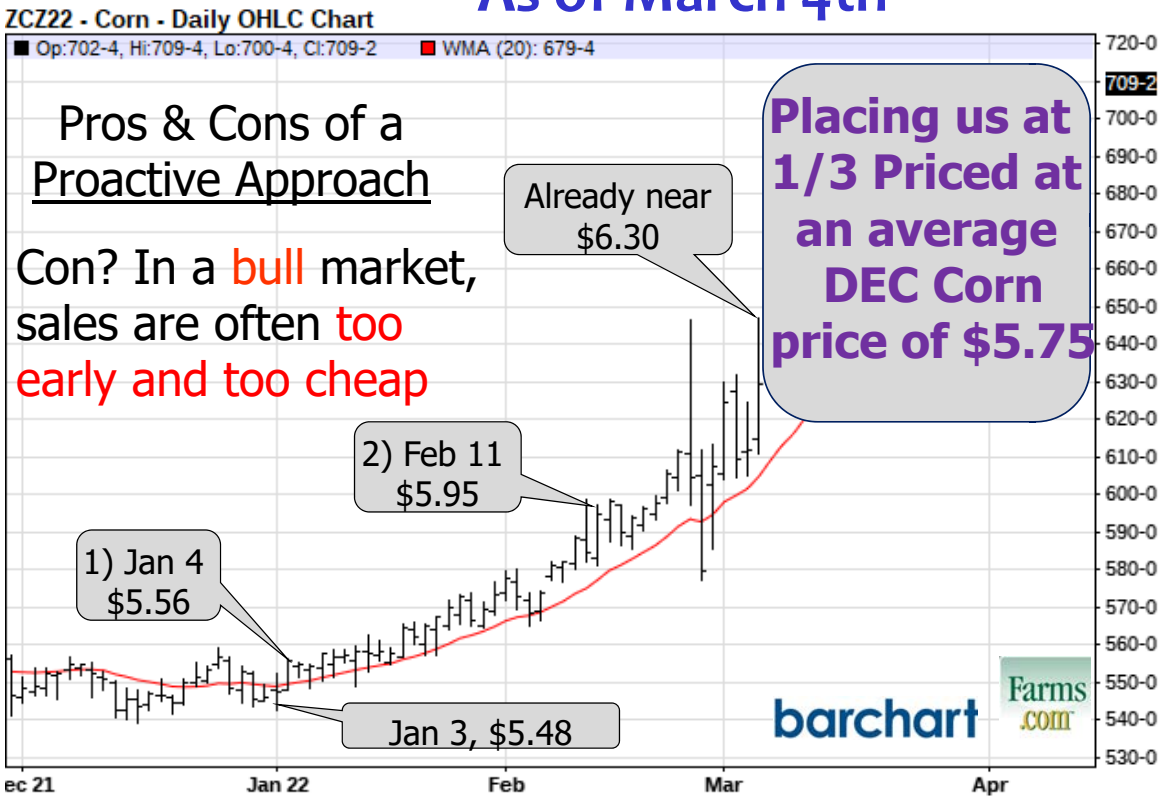
As of March 4th



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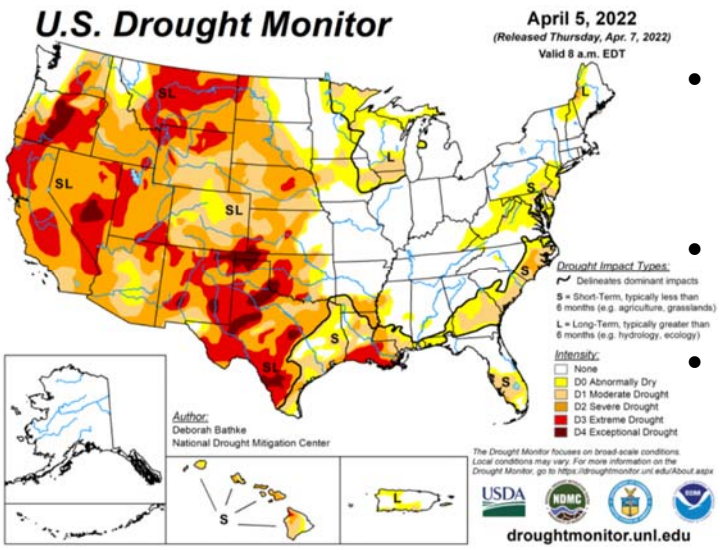
Can I change my preharvest plan?

Yes, if something changes and the market develops a trend that was unexpected.



- Increasing US drought
- Decreasing expectations for South America
- Continual supply chain issues
- The war in Ukraine

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Adjusting Our Plans

- Keep it simple.
- Focus on what you can control.
  - Maximize efficiency of inputs (note: crop insurance asks us to follow BMP's).
  - We don't want to hoard, but "managing" your input inventories will be vital!
  - Keeping our lenders informed is important.
  - Position your cowherd for success in 2025.

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?
  - Swap out futures positions for forward contracts? Noting local basis volatility.
  - Adjust your pricing targets?

March 4: Adjusting our Pricing Targets

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, or by May 15
Price 10,000 bushels at ~~$6.70~~, $7.10 futures, or by Jun 15
Price 10,000 bushels at ~~$7.10~~, $7.50 futures, or by Jul 15
Price 10,000 bushels at ~~$7.50~~, $7.90 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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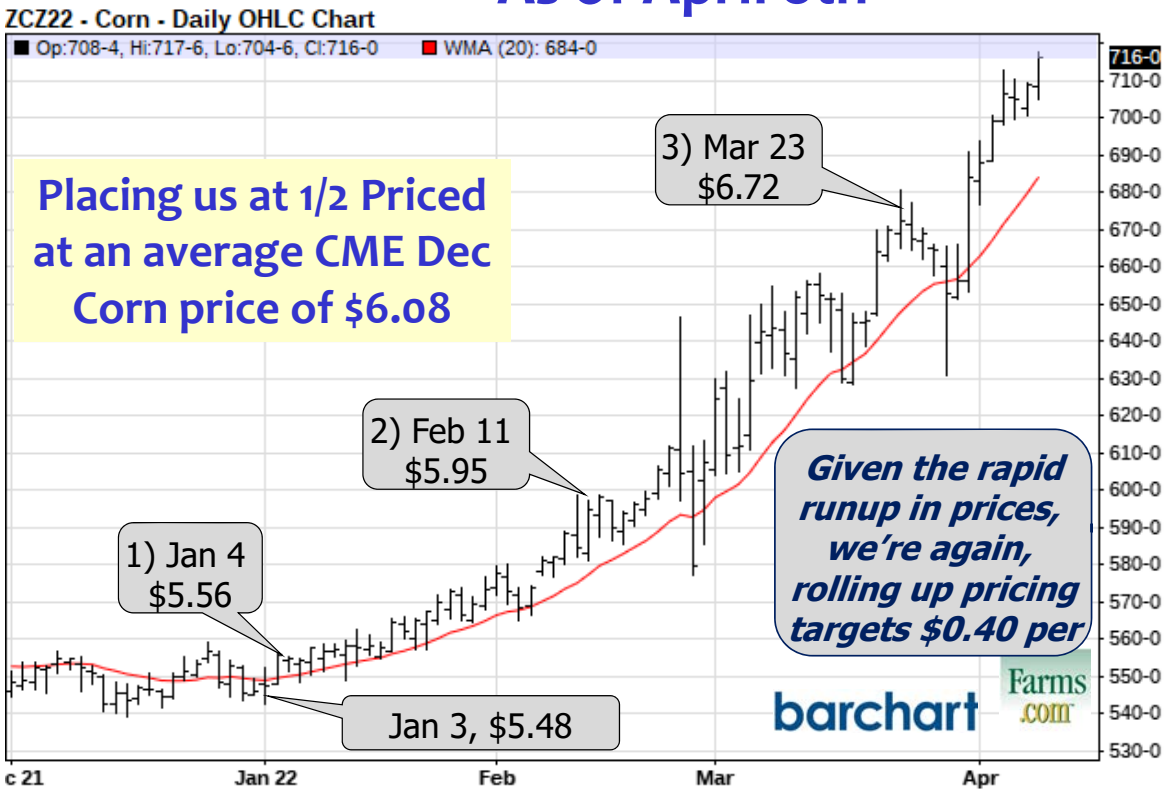
As of April 8th



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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

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Price 10,000 bushels at ~~$6.70~~, ~~$7.10~~, $7.50 futures, or by Jun 15
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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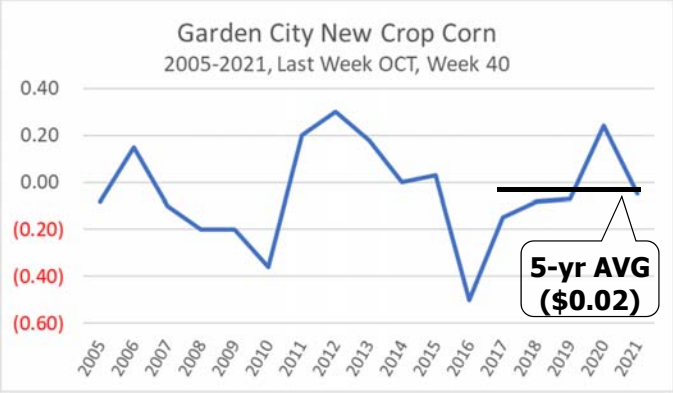
Early Sales are Often Seen as Too Cheap

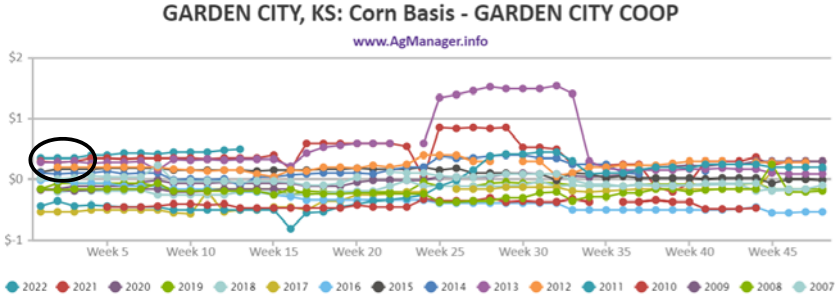
Remember Why We Priced



January 4, 2022

Initial Corn Fut. Sale @	$5.56
plus expected basis	($0.02)
minus fees	$0.01
Expected Net Hedge of	$5.53

$0.53 better than ANY estimate of expected cost of production



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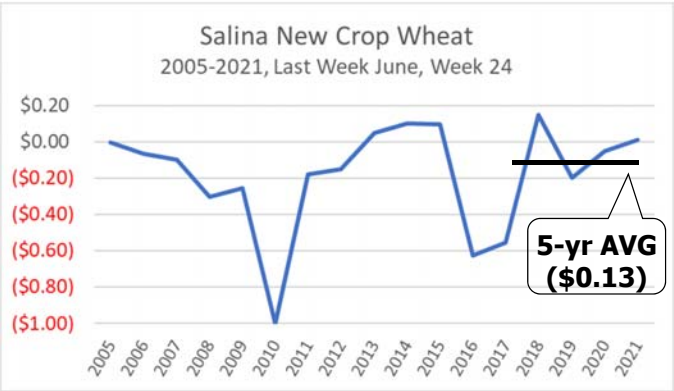
Remember Why We Priced

Today's DEC Corn Futures **$7.1600** 4/8/2022

		Action	Sell Price	Position	Margin
1	**01/04/22**	Sold DEC Corn	$5.56	($1.60)	($16,050)
2	**02/11/22**	Sold DEC Corn	$5.95	($1.21)	($12,150)
3	**03/23/22**	Sold DEC Corn	$6.72	($0.44)	($4,450)
4					
5					
6					
	How am I doing?		$6.08	($1.08)	($32,650)
		My COP	**$5.00**		

$1.08 Over my Cost of Production

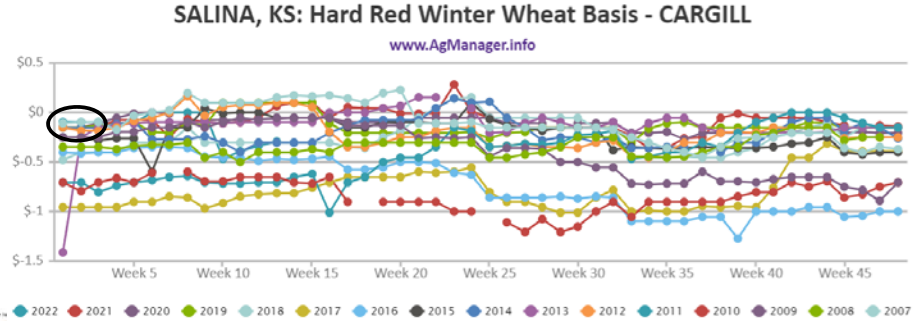
Early Sales of 2022 Crops



November 5, 2021

Initial Wheat Fut. Sale	$7.76
plus expected basis	($0.13)
minus fees	$0.01
Expected Net Hedge of	$7.62

That was a "good" decision!



Managing Early Sales of 2022 Crops

Garden City Corn		Salina Wheat	
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

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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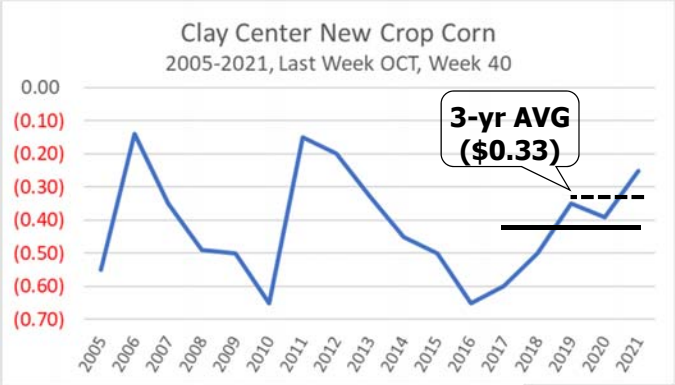
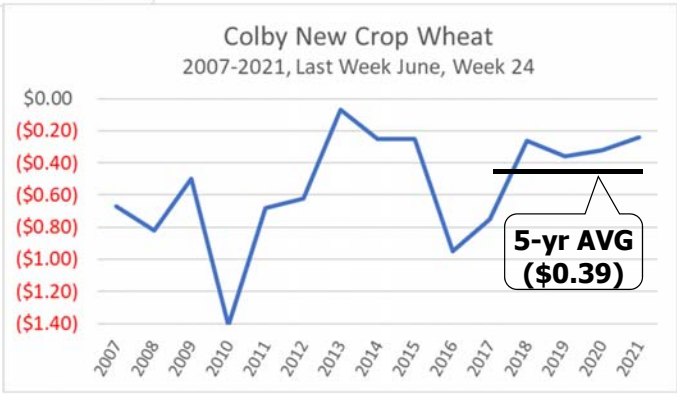


Clay Center Corn (1/4/22)	
Initial Corn Fut. Sale	$5.56
plus expected basis	($0.33)
minus fees	$0.01
Expected Net Hedge of	$5.22

That was a "good" decision!

Colby Wheat (11/5/21)	
Initial Wheat Fut. Sale	$7.76
plus expected basis	($0.39)
minus fees	$0.01
Expected Net Hedge of	$7.36

That was a "good" decision!



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Managing Early Sales of 2022 Crops

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Initial Wheat Fut. Sale	$7.76
plus expected basis	($0.39)
minus fees	$0.01
Expected Net Hedge of	$7.36

That was a "good" decision!

Keep it Simple

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

Exit DEC Corn Fut.	@	$7.16	
Futures Loss	=	($1.61)	
Forward Contract	@	$6.66	
Net Position of		$5.05	
		($0.50) basis	

Exit JUL Wheat Fut.	@	$11.10	
Futures Loss	=	($ 3.35)	
Forward Contract	@	$10.25	
Net Position of		$ 6.90	
		($0.85) basis	

Will Basis Improve by Harvest?

	Expected Basis	Current Basis	Difference VS Expectations
SW KS Corn	($0.02)	$0.30	$0.32 stronger
C KS Corn	($0.33)	($0.50)	$0.17 weaker
C KS Wheat	($0.13)	($0.30)	$0.17 weaker
NW KS Wheat	($0.39)	($0.85)	$0.46 weaker

What's Causing the Basis Volatility/Weakness

a) Grain Stock Levels?
b) Price Uncertainty/Volatility?
c) Little Desire by Elevators to Add to Current Positions?