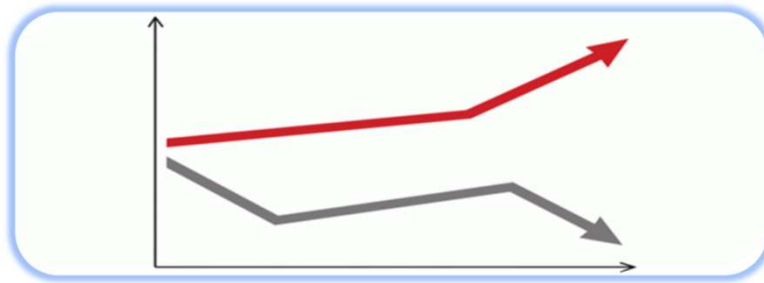


Third Thursday: 2021-22 Crop Marketing Series



Ed Kordick
Farmer Education Program Manager
ekordick@ifbf.org
www.iowafarmbureau.com

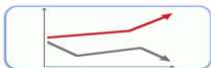


3

Third Thursday: 2021-22 Crop Marketing Series

Each webinar will include:

1. Educational topic from “Five Common Mistakes in Grain Marketing”
2. Corn and soybean market update (futures, cash, basis)
3. 2021-22 Iowa Commodity Challenge marketing plan update



4

FIVE COMMON MISTAKES IN GRAIN MARKETING

1. The reluctance towards pre-harvest pricing
2. Failure to understand and track your basis
3. Lack of an exit strategy
4. Holding grain in storage too long
5. Thinking you avoid storage costs when you sell grain and buy a call

Third Thursday: 2021-22 Crop Marketing Series

Live at 1:00 pm, also recorded for later viewing

Nov. 18, 2021: Thinking you avoid storage costs when you sell grain and buy a call

Dec. 16, 2021: Failure to understand and track your basis

Jan. 20, 2022: The reluctance towards pre-harvest pricing

Feb. 17, 2022: Lack of an exit strategy

March 17, 2022: Holding grain in storage too long

April 21, 2022: Five Common Mistakes in Grain Marketing:
Wrap-up with Ed Usset.



ABOUT THE DATA...

Data and methodology...

- ✓ Iowa average corn and soy prices, 1989-2021
- ✓ Monthly prices: USDA/NASS
- ✓ Look for strong tendencies (nothing is 100%)
- ✓ Consider large differences (>10%)

A DIFFERENT APPROACH TO MARKETING

What is a Marketing Plan?

A marketing plan is a **proactive strategy** to price your grain that considers your financial goals, cash flow needs, price objectives, storage capacity, crop insurance coverage, anticipated production, and appetite for risk

Proactive, not reactive, not overactive



...and not inactive

Barney Binless

Barney has no marketing plan, no storage and no interest in early pricing. He is our benchmark. His price is the harvest price each year.

THINKING YOU AVOID STORAGE COSTS WHEN YOU SELL GRAIN AND BUY A CALL

Are you a “paper” farmer?

Peter Paperfarmer



Peter has no storage, but he is convinced that it pays to “re-own” his crop with call options. He gets the harvest price each year, plus any profit or loss from buying an at-the-money call option at harvest and holding to expiration.

Peter Paperfarmer

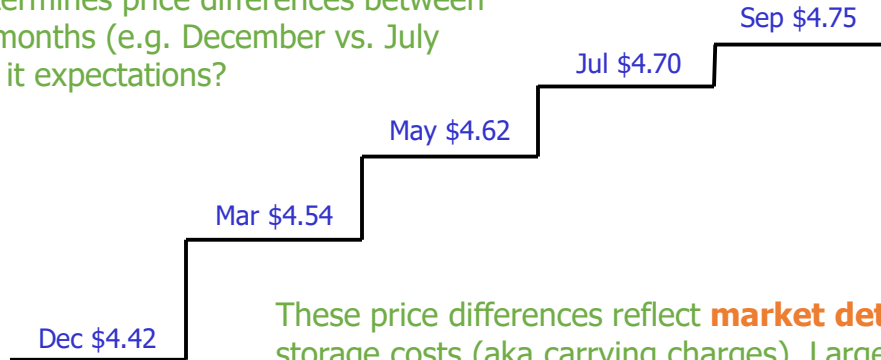


To understand the mistake in “paper farming” demands a clear understanding of carrying charges in the market.

What are carrying charges?

CBOT corn futures: October 18, 2013

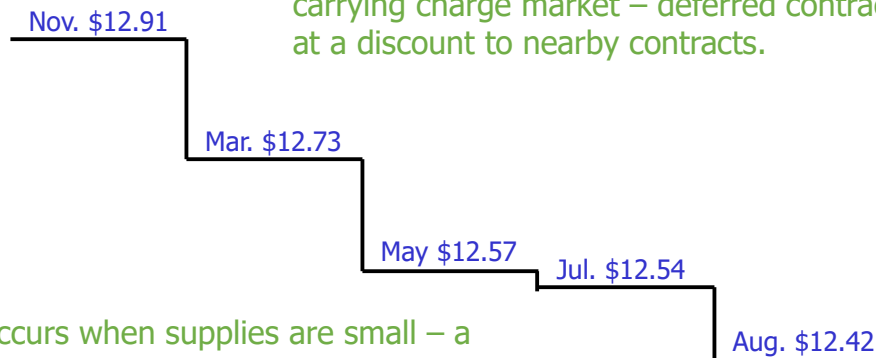
What determines price differences between delivery months (e.g. December vs. July corn)? Is it expectations?



These price differences reflect **market determined** storage costs (aka carrying charges). Large carrying charges, where deferred contracts trade at a premium to nearby contracts, are common when *free supplies* are large.

CBOT soybean futures: October 18, 2013

An inverted market represents the opposite of a carrying charge market – deferred contracts trade at a discount to nearby contracts.



This occurs when supplies are small – a scarcity of stocks. The market says "*we will pay a premium if you deliver now!*"

WHAT IS A “LARGE” CARRY?

>**140%** of interest: **large** - sell the carry

<**140%** of interest: **small** - don't sell the carry

WHAT IS A “LARGE” CARRY?

The best assessment of carrying charges must consider interest rates and the cost of financing grain in storage.

Step 1: calculate the carrying charge

Step 2: calculate a per bushel interest cost for grain storage

Step 3: compare the size of the carry to your interest costs

CARRYING CHARGES

Step 1: calculate the carrying charge...

CBOT CORN
October 20, 2021

carrying charge

$$\text{\$5.52 (Jul'22)} - \text{\$5.39 (Dec'21)} = \text{13 cents}$$

This analysis can be applied to any commodity, any time frame for storage and any carrying charge (e.g., Dec-Mar corn, Nov-May soybeans, Sep-Dec wheat, etc.)

CARRYING CHARGES

Step 2: calculate a per bushel interest cost for grain storage...

cash grain price * interest rate * mos. storage / 12 months

October 20, 2021

$$\text{\$5.07} * 4.25\% * 7 / 12 = \text{12.6 cents}$$

December to July is 7 months
(adapt to the carry in question)

CARRYING CHARGES

Step 3: compare the size of the carry to your interest costs...

October 20, 2021

carrying charge / interest cost

Corn example 13 cents / 12.6 cents = 103%

Soybean example 33 cents / 33.4 cents = 99%

A carrying charge >140% is generally large enough to cover all variable costs of storage (interest and shrink).

CARRYING CHARGES

Do it yourself!

Step 1: calculate the carrying charge...

carrying charge
_____ cents

Step 2: calculate a per bushel interest cost for grain storage...

cash grain price * interest rate * mos. storage / 12 months
_____ * _____ * _____ / 12 = _____ cents

Step 3: compare the size of the carry to your interest costs...

carrying charge / interest cost

_____ cents / _____ cents = _____%

PAPER FARMING TO AVOID STORAGE?

32 years of data (1989-2020) and 2
different crops (corn and soybeans) =
64 chances to “re-own” with options
after harvest

PAPER FARMING TO AVOID STORAGE?

64 opportunities to “re-own” with options
after harvest - How often did it pay?

6 of 32 years in corn **19%**

14 of 32 years in soybeans **44%**

22 of 64 years total (**34%**)

PAPER FARMING TO AVOID STORAGE?

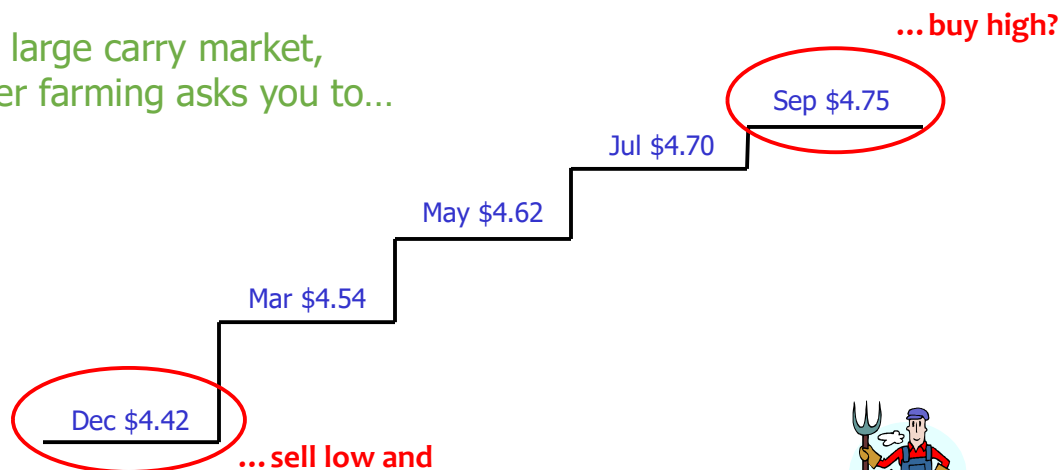
How about years when the **carry is large** at harvest?

25 corn years

3 soybean years

Paper farming in 28 “large carry” years: Will this increase or decrease our odds for success with paper farming?

In a large carry market,
paper farming asks you to...



PAPER FARMING TO AVOID STORAGE?

28 opportunities to “re-own” with options
in large carry years...

3 of 25 years in corn 12%

2 of 3 years in soybeans 66%

5 of 28 years total (18%)

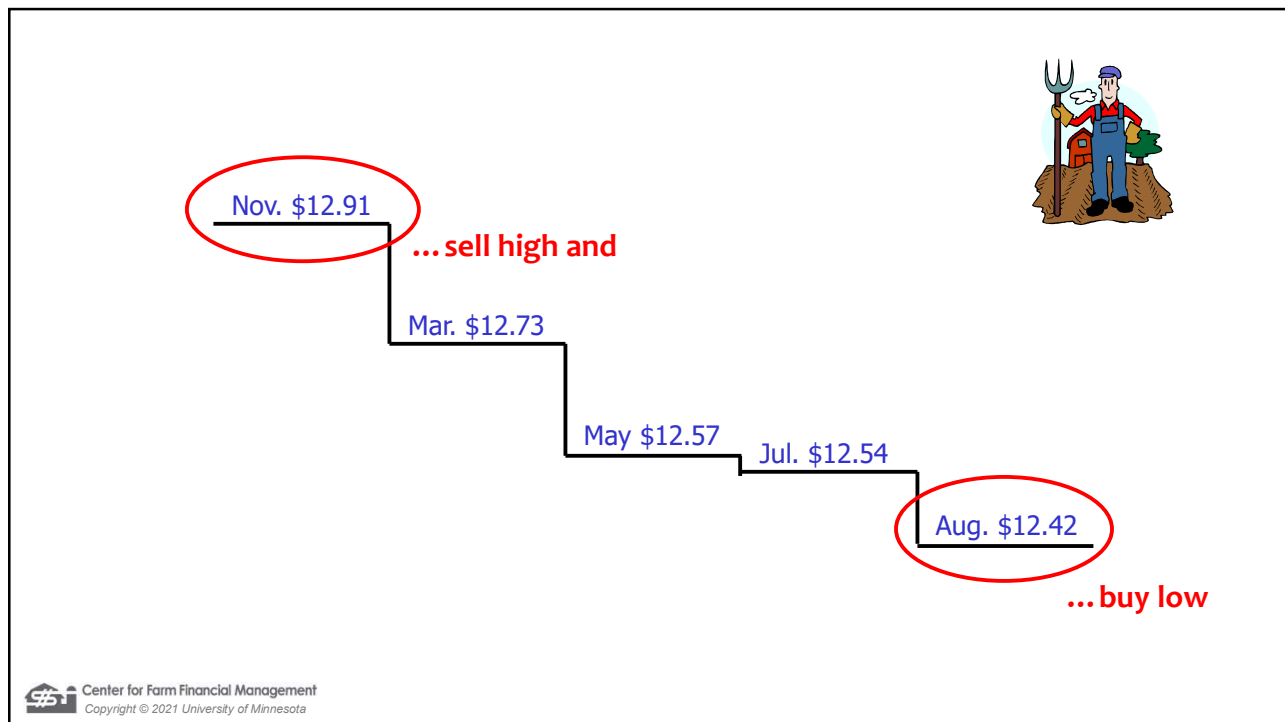
PAPER FARMING TO AVOID STORAGE?

How about years when the **carry is small or inverted** at harvest?

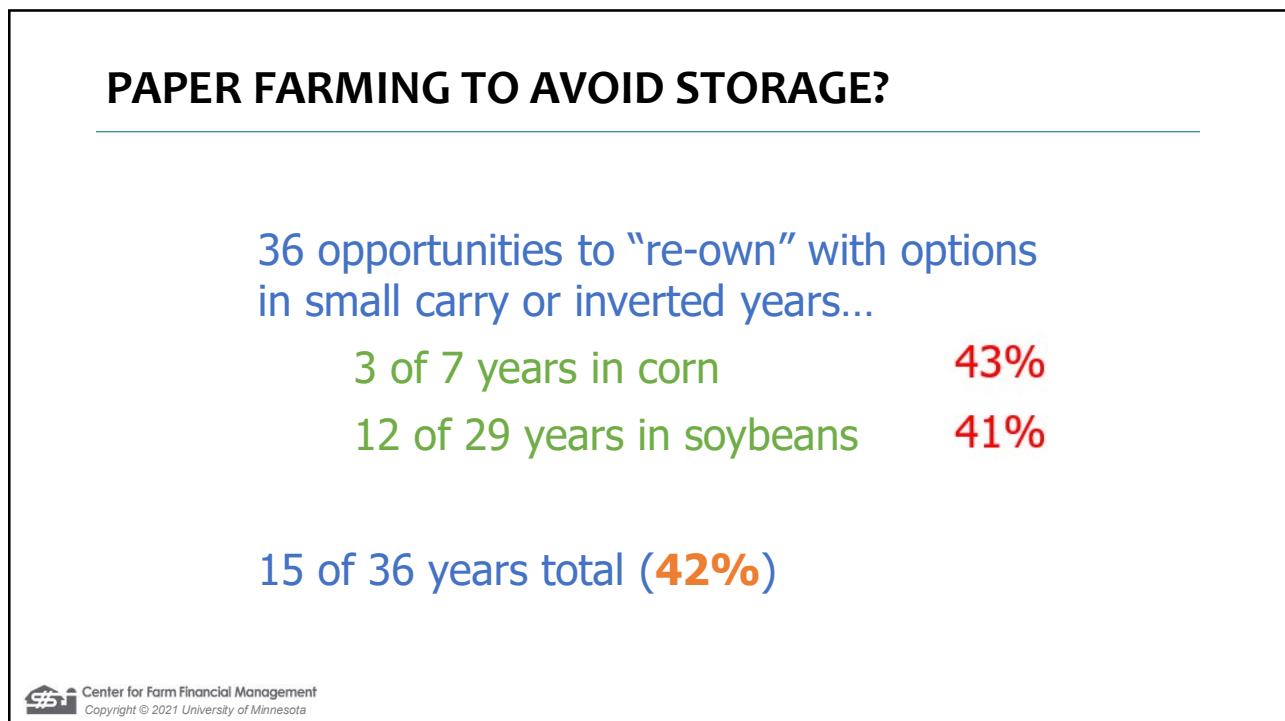
7 corn years

29 soybean years

Paper farming in 36 “small carry or inverted” years:
Will this increase or decrease our odds for success
with paper farming?





34



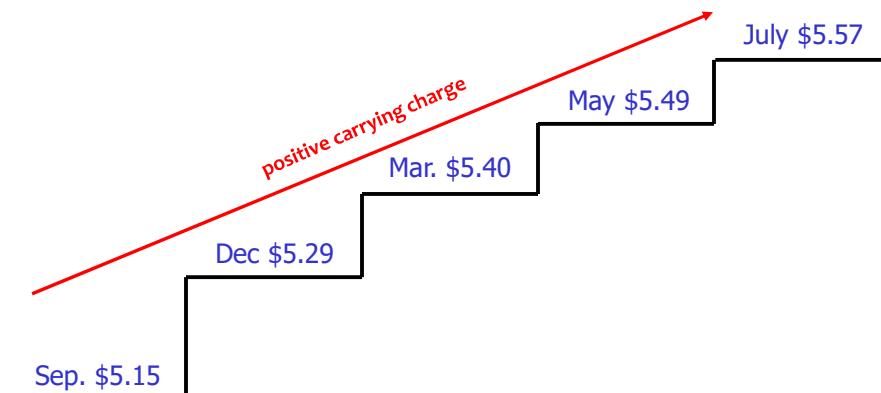
36

IOWA AVERAGE PRICES, 1989-2020

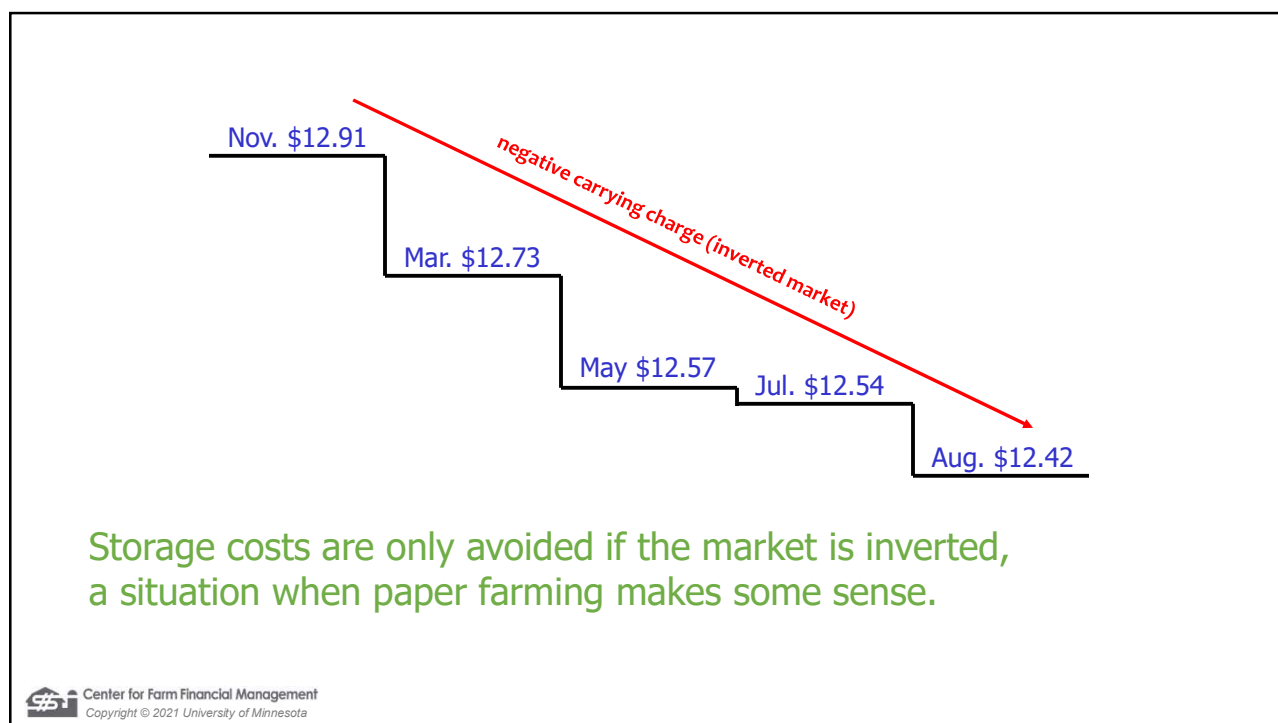
Peter purchases ATM July corn and soy calls on Nov. 1 and holds to expiration. Results are net of premiums and fees.

				
	Peter	Barney	Peter's advantage	Years > Barney
corn	2.92	2.91	0.01	6
soybeans	7.50	7.21	0.29	14

Carrying charges are market determined storage costs.



You cannot avoid storage costs by selling nearby and buying deferred futures contracts when carrying charges are positive.



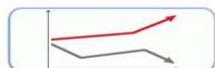
39

Third Thursday: 2021-22 Crop Marketing Series

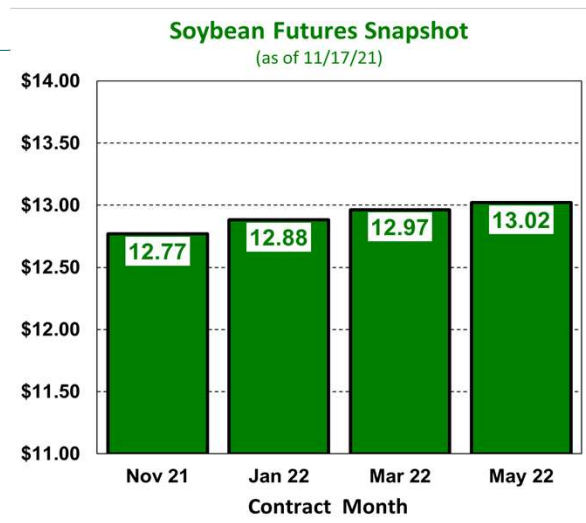
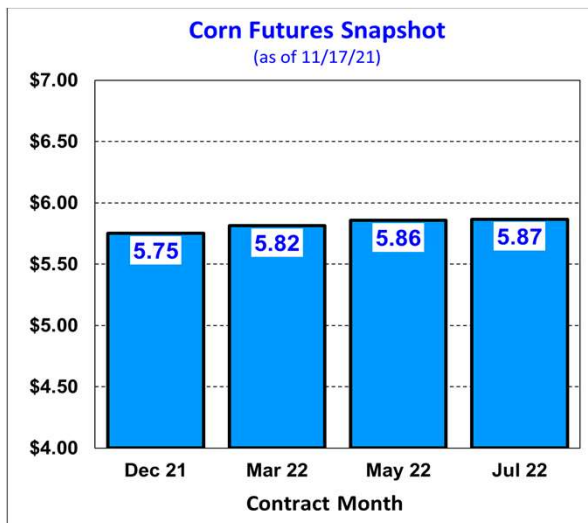
Thinking you avoid storage costs when you sell grain and buy a call

Summary Points:

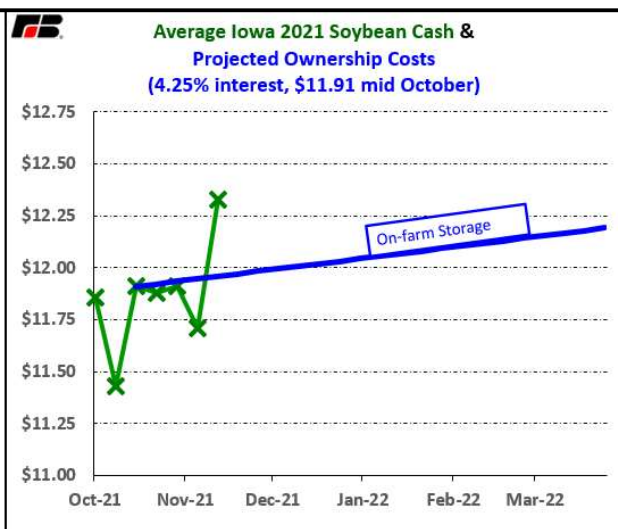
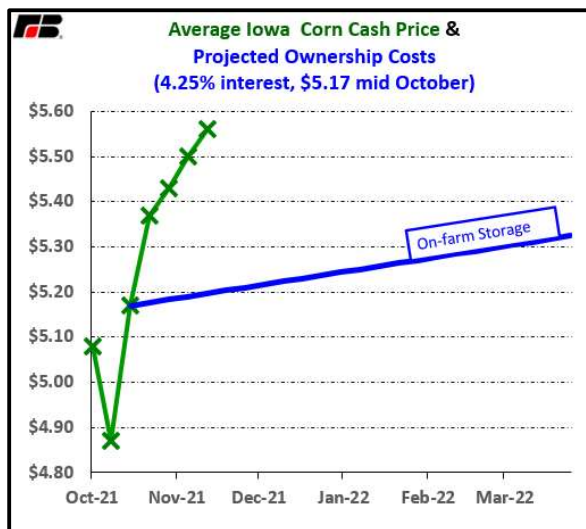
- Certain conditions make this strategy more likely to succeed.
 - Small carry (or an inverse): selling cash based on a “relatively high” market and buying a call based on a “relatively low” market
 - Narrow or strong basis at harvest
- As with all marketing tools, worth consideration as a strategy of a variety of tools (not all eggs in one basket).



40



41



42

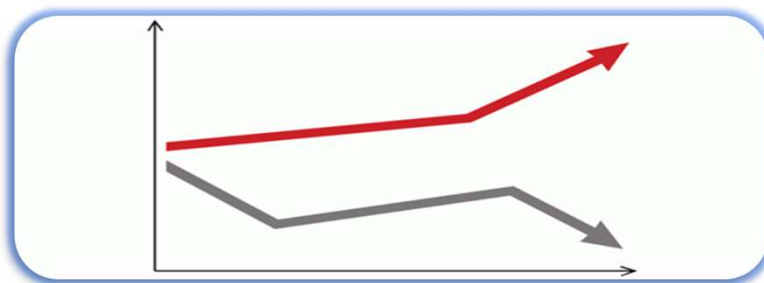
MARKETING IS NOT EASY!

An approach that works **over** time is
not guaranteed to work **every** time.

MARKETING WILL NEVER BE EASY!

Nothing is 100%

Corn and Soybean Market Update: Futures, Cash, Basis



Weekly Tracking Table (Old Crop)

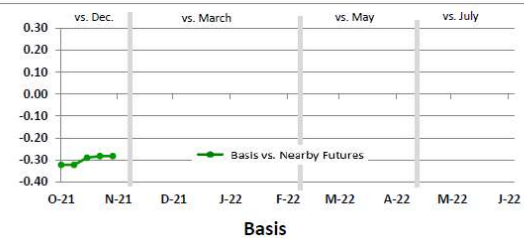
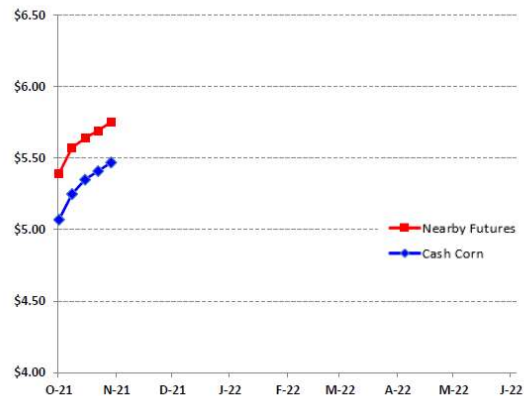
Corn Location: Bondurant

Date	Spot Cash Price	NEARBY Futures Price	BASIS	March Cash Contract	March Contract Basis	March Futures Price	May Futures Price	July Futures Price
10/20/21	5.07	5.39 Dec	-0.32	5.22	-0.26	5.48	5.52	5.52
10/27/21	5.25	5.57 Dec	-0.32	5.38	-0.28	5.66	5.70	5.70
11/03/21	5.35	5.64 Dec	-0.29	5.48	-0.24	5.72	5.77	5.77
11/10/21	5.41	5.69 Dec	-0.28	5.57	-0.22	5.79	5.84	5.85
11/17/21	5.47	5.75 Dec	-0.28	5.59	-0.23	5.82	5.86	5.87
11/24/21		Dec						
12/01/21		Mar						

Tables and graphs updated weekly at the Iowa Commodity Challenge website: <http://tinyurl.com/iacrops> (link at bottom of webpage)



Corn Markets



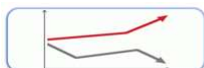
46

Weekly Tracking Table (Old Crop)

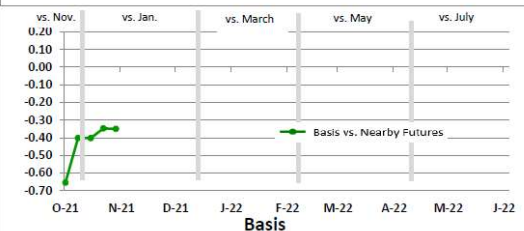
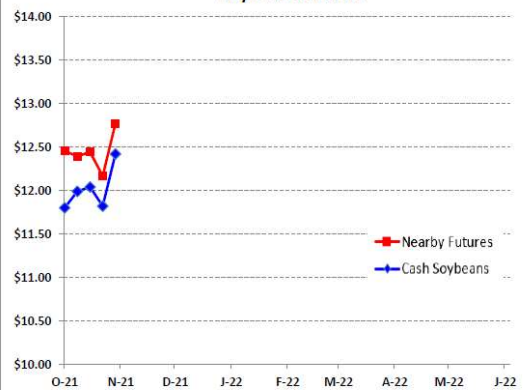
Soybean Location: Bondurant

Date	Spot Cash Price	NEARBY Futures Price	BASIS	March Cash Contract	March Contract Basis	March Futures Price	May Futures Price	July Futures Price
10/20/21	11.80	12.46 Nov	-0.65	12.09	-0.55	12.64	12.73	12.79
10/27/21	11.99	12.39 Nov	-0.40	12.19	-0.40	12.59	12.68	12.73
11/03/21	12.04	12.44 Jan	-0.40	12.20	-0.35	12.55	12.64	12.72
11/10/21	11.82	12.17 Jan	-0.35	11.99	-0.30	12.29	12.40	12.47
11/17/21	12.42	12.77 Jan	-0.35	12.58	-0.19	12.77	12.97	13.02
11/24/21		Jan						
12/01/21		Jan						

Tables and graphs updated weekly at the Iowa Commodity Challenge website: <http://tinyurl.com/iacrops> (link at bottom of webpage)

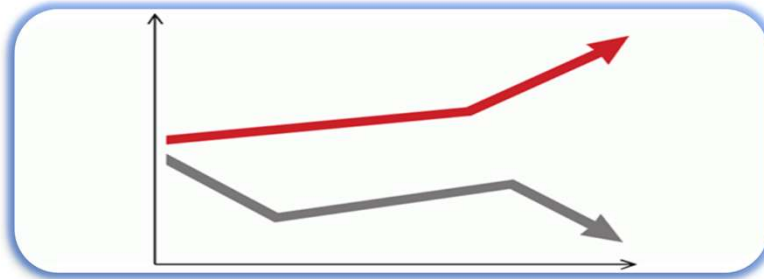


Soybean Markets



47

Example 2021-22 Crop Marketing Plans



48

2021-22 Iowa Commodity Challenge: Example Marketing Plans

2021-22 Corn Marketing Plan

Diverse Marketer (+10% vs. harvest cash)

Details: 75,000 corn bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 30,000 bushels cash corn at the market: \$5.00
- October 20: Sell 15,000 bushels cash corn at the market: \$5.00
Buy 3 July corn futures contracts at \$5.45; Goal: \$5.96 (+10%) or June 1.
- October 20: Sell 15,000 bushels cash corn at the market: \$5.00
Buy 3 July \$5.50 corn call options at \$0.41 premium; Goal \$0.92 (+10%) or June 1.
- October 20: Store 15,000 bushels cash corn; Goal: +10% vs. harvest cash or June 1 (see "Crop Storer" schedule)
Sold on Nov. 1 @ \$5.53 for 50¢ margin

2021-22 Soybean Marketing Plan

Diverse Marketer (+10% vs. harvest cash)

Details: 25,000 soybean bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 10,000 bushels cash soybeans at the market: \$11.76
- October 20: Sell 5,000 bushels cash soybeans at the market: \$11.76
Buy 1 July soybean futures contract at \$12.73; Goal: \$13.91 (+10%) or June 1.
- October 20: Sell 5,000 bushels cash soybeans at the market: \$11.76
Buy 1 July \$12.80 soybean call option at \$0.72 premium; Goal \$1.91 (+10%) or June 1.
- October 20: Store 5,000 bushels cash soybeans; Goal: +10% vs. harvest cash or June 1 (see "Crop Storer" schedule)



50

2021-22 Iowa Commodity Challenge: Example Marketing Plans

2021-22 Corn Marketing Plan

Crop Storer (+10% vs. harvest cash)

Details: 75,000 corn bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Store 75,000 bushels cash corn; Goal: Sell at 50¢ gain above storage or June 1.

	Harvest Cash	+	Gain Goal	+	Storage	=	Price goal
November	\$5.00	+	0.50	+	0.03	=	\$5.53
December	\$5.00	+	0.50	+	0.06	=	\$5.56
January	\$5.00	+	0.50	+	0.09	=	\$5.59
February	\$5.00	+	0.50	+	0.12	=	\$5.62
March	\$5.00	+	0.50	+	0.15	=	\$5.65
April	\$5.00	+	0.50	+	0.18	=	\$5.68
May	\$5.00	+	0.50	+	0.21	=	\$5.71

*((\$5.00 [harvest cash] + 0.50 [gain] + .21 [7 months at 3¢] = \$5.71)

Sold 75,000 bu. Nov. 1 at \$5.53 for 50¢ margin

2021-22 Soybean Marketing Plan

Crop Storer (+10% vs. harvest cash)

Details: 25,000 soybean bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Store 25,000 bushels cash soybeans; Goal: Sell at \$1.18¢ gain above storage or June 1.

	Harvest Cash	+	Gain Goal	+	Storage	=	Price goal
November	\$11.76	+	1.18	+	0.06	=	\$13.00
December	\$11.76	+	1.18	+	0.12	=	\$13.06
January	\$11.76	+	1.18	+	0.18	=	\$13.12
February	\$11.76	+	1.18	+	0.24	=	\$13.18
March	\$11.76	+	1.18	+	0.30	=	\$13.24
April	\$11.76	+	1.18	+	0.36	=	\$13.30
May	\$11.76	+	1.18	+	0.42	=	\$13.36

*((\$11.76 [harvest cash] + 1.18 [gain] + .42 [7 months at 6¢] = \$13.36)

52

2021-22 Iowa Commodity Challenge: Example Marketing Plans

2021-22 Corn Marketing Plan

Futures Buyer (+10% vs. harvest cash)

Details: 75,000 corn bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 75,000 bushels cash corn at the market: \$5.00
Buy 15 July corn futures contracts at \$5.45; Goal: \$5.96 (+10%) or June 1.

Update: 11/17/21
Cash up 47¢ at \$5.47
Futures up 43¢ at \$5.87

2021-22 Soybean Marketing Plan

Futures Buyer (+10% vs. harvest cash)

Details: Details: 25,000 soybean bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 25,000 bushels cash soybeans at the market: \$11.76
Buy 5 July soybean futures contracts at \$12.75; Goal: \$13.94 (+10%) or June 1.

Update: 11/17/21
Cash up 66¢ at \$12.42
Futures up 27¢ at \$13.02

53

2021-22 Iowa Commodity Challenge: Example Marketing Plans

2021-22 Corn Marketing Plan

Call Buyer (+10% vs. harvest cash)

Details: 75,000 corn bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

Update: 11/17/21
Cash up 47¢ at \$5.47
Option up 24¢ at 0.65

- October 20: Sell 75,000 bushels cash corn at the market: \$5.00
Buy 15 July \$5.50 corn call options at \$0.41 premium; Goal \$0.92 (+10%) or June 1.

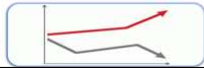
2021-22 Soybean Marketing Plan

Call Buyer (+10% vs. harvest cash)

Details: 25,000 soybean bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

Update: 11/17/21
Cash up 66¢ at \$12.42
Option up 10¢ at 0.82

- October 20: Sell 25,000 bushels cash soybeans at the market: \$11.77
Buy 5 July \$12.80 soybean call options at \$0.72 premium; Goal \$1.91 (+10%) or June 1.



54

2021-22 Iowa Commodity Challenge: Example Marketing Plans

2021-22 Corn Marketing Plan

Harvest Seller

Details: 75,000 corn bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 75,000 bushels cash corn at the market: \$5.00

2021-22 Soybean Marketing Plan

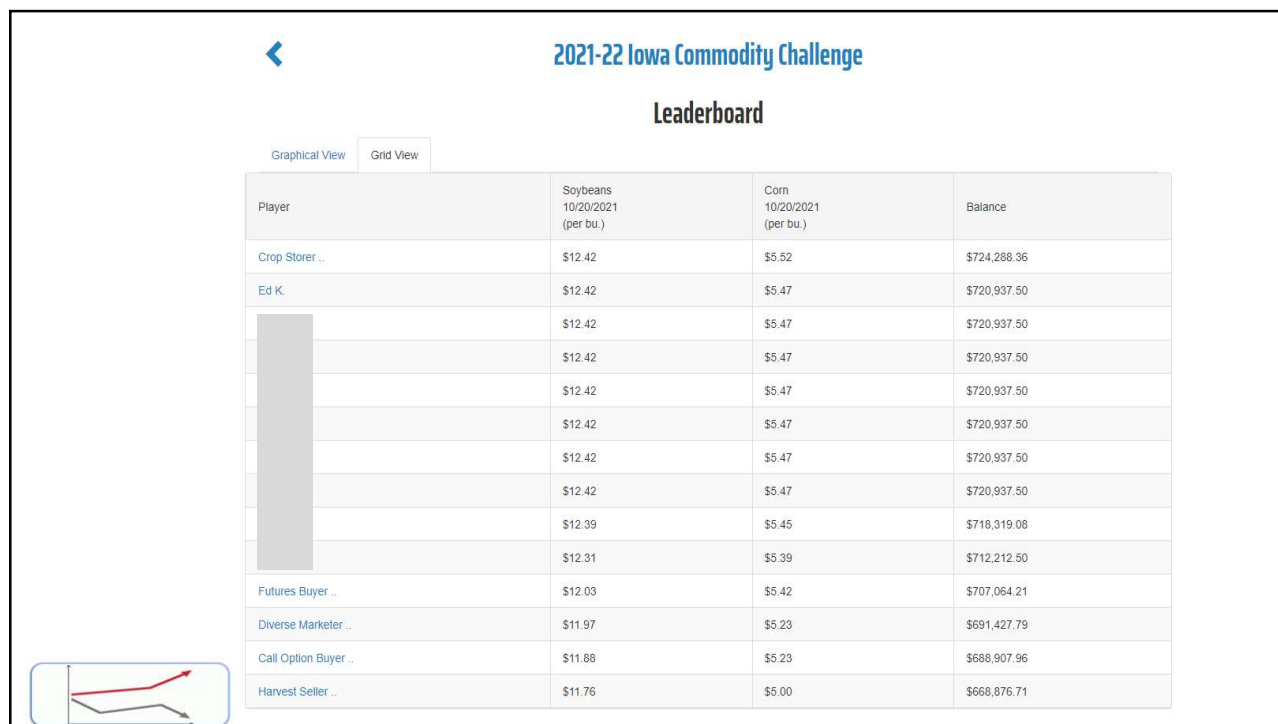
Harvest Seller

Details: 25,000 soybean bushels from the 2021 crop harvested on October 20, 2021
Must be marketed by June 15, 2022

- October 20: Sell 25,000 bushels cash soybeans at the market: \$11.76



55



56

2021-22 Iowa Commodity Challenge

Your invitation:

*Join the 2021-22 Iowa Commodity Challenge simulation to practice with real markets
and
see how the strategies of Diverse Marketer, Crop Storer, Futures Buyer and Call Option Buyer
perform as the crop year continues.*

How to Join:
The follow-up webinar evaluation has question #3 asking if you would like the instructions emailed to you to join the 2021-22 Iowa Commodity Challenge (this also adds you to a group to receive periodic crop marketing education e-mails from Ed Kordick. Just enter your e-mail address in the box!

OR send me an e-mail ekordick@ifbf.org and I will reply with these instructions!

57

Third Thursday: 2021-22 Crop Marketing Series

Live at 1:00 pm, also recorded for later viewing

- Nov. 18, 2021: Thinking you avoid storage costs when you sell grain and buy a call
- Dec. 16, 2021: **Failure to understand and track your basis**
- Jan. 20, 2022: The reluctance towards pre-harvest pricing
- Feb. 17, 2022: Lack of an exit strategy
- March 17, 2022: Holding grain in storage too long
- April 21, 2022: Five Common Mistakes in Grain Marketing: Wrap-up with Ed Usset.



60

WHY IS AN IMPERFECT PLAN BETTER THAN NO PLAN AT ALL?



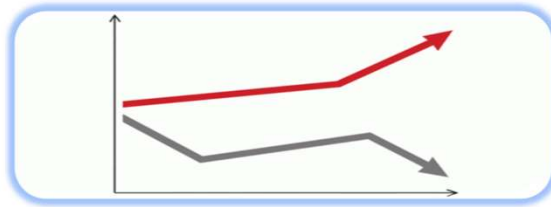
A plan is a benchmark for your goals.

If you have a plan, you have something to adapt in a changing environment

61

Thank you for your participation!

Third Thursday: 2021-22 Crop Marketing Series



Ed Kordick
Farmer Education Program Manager
ekordick@ifbf.org
www.iowafarmbureau.com

