Five Common Mistakes in Grain Marketing

Third Thursday: 2021-22 Crop Marketing Series



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The Baseball Team Trying to Prove That Defense Doesn't Win Championships

The Phillies have one of the worst fielding teams in the league. They think they can score enough to overcome any amount of errors, flubs and miscues.



GRAIN MARKETING IS SIMPLE

Behold some seasonal price patterns that have held true for decades!



Iowa Corn Prices, 1990-2020



Iowa Soybean Prices, 1990-2020



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.



FIVE COMMON MISTAKES IN GRAIN MARKETING

- I. 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



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MISTAKE #1: THE RELUCTANCE TOWARDS PRE-HARVEST PRICING

Are there any seasonal tendencies in futures prices that would favor pre-harvest pricing?



Terry Timer



Terry knows that seasonal highs in new crop futures often occur in the spring. For corn and soybeans, she prices 20% increments, March-June. For wheat, Feb-May. Prices must be above production costs.



Terry Timer



Minimum prices in 2022... ✓ Corn \$4.60 December futures ✓ Soybeans \$10.50 November Futures



CBOT DECEMBER CORN FUTURES, 2000-2021

- I6 years (73%) the market declined
- ✓ 6 years (27%) the market improved

Year	1-May	1-0ct	Change
2000	2.62	1.99	(0.63)
2001	2.27	2.11	(0.16)
2002	2.20	2.56	0.36
2003	2.33	2.20	(0.13)
2004	3.17	2.06	(1.11)
2005	2.27	2.06	(0.21)
2006	2.72	2.68	(0.04)
2007	3.79	3.69	(0.10)
2008	6.32	4.84	(1.48)
2009	4.33	3.41	(0.93)
2010	3.92	4.66	0.74
2011	6.61	5.93	(0.69)
2012	5.39	7.57	2.18
2013	5.51	4.39	(1.12)
2014	5.00	3.21	(1.78)
2015	3.80	3.89	0.09
2016	3.97	3.37	(0.60)
2017	3.95	3.52	(0.43)
2018	4.20	3.66	(0.54)
2019	3.86	3.93	0.06
2020	3.37	3.83	0.46
2021	5.64	5.42	(0.22)
Average	3.96	3.68	(0.29)



Chicago December Corn Futures, 2000-2021



CBOT NOVEMBER SOYBEAN FUTURES, 2000-2021

- I3 years (59%) the market declined
- ✓ 9 years (41%) the market improved

Year	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	4.34	4.52	0.18
2002	4.56	5.42	0.86
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
2006	6.26	5.45	(0.81)
2007	7.84	9.92	2.08
2008	11.93	10.53	(1.40)
2009	9.71	9.18	(0.53)
2010	9.76	10.57	0.81
2011	13.74	11.79	(1.95)
2012	13.93	15.60	1.68
2013	12.09	12.68	0.59
2014	12.26	9.17	(3.09)
2015	9.41	8.77	(0.64)
2016	10.18	9.54	(0.64)
2017	9.65	9.57	(0.07)
2018	10.51	8.58	(1.93)
2019	8.73	9.20	0.47
2020	8.55	10.24	1.69
2021	13.40	12.47	(0.93)
average	9.17	8.91	(0.26)



PRICING TARGETS

Choose your **minimum**^{*} price threshold

Soybeans show the need for a minimum price!



CBOT NOVEMBER SOYBEAN FUTURES, 2000-2021

- ✓ Soybeans needs a minimum price!
- Exclude 4 years when the selling price on May I was less than production costs.

Year	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2001	1.34	1.52	0.18
2002	4.56	5.42	0.86
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2019	8.73	9.20	0.47
2020	8.55	10.24	1.69
2021	13.40	12.47	(0.93)
average	9.78	9.29	(0.49)



CBOT NOVEMBER SOYBEAN FUTURES, 2000-2021

- I3 years (72%) the market declined
- ✓ 5 years (28%) the market improved

Year	1-May	1-Oct	Change
2000	5.80	4.90	(0.90)
2003	5.53	6.87	1.34
2004	7.45	5.35	(2.10)
2005	6.22	5.73	(0.49)
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2021	13.40	12.47	(0.93)
average	9.78	9.29	(0.49)



Chicago November Soybean Futures, 2000-2021



IOWA AVERAGE CORN PRICES, 1989-2021





IOWA AVERAGE SOYBEAN PRICES, 1989-2021





Grain Marketing is Simple* *it's just not easy

2nd Edition



Edward Usset

Companion book to Winning The Game workshops & Commodity Challenge

www.cffm.umn.edu/simple/

- 2nd Edition
- Completely revised and updated
- Written for producers
- Five common mistakes in marketing, pre- and postharvest marketing plans
- New section on pricing tools!
- Meet Covered Cal and other celebrity producers

FIVE COMMON MISTAKES IN GRAIN MARKETING

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MISTAKE #2: FAILURE TO UNDERSTAND AND TRACK YOUR BASIS

None of my celebrity producers speaks to the importance of basis and the impact it can have on grain marketing decisions.



cash price - futures price = basis

In the grain trade, cash prices are quoted as a basis of so many cents "under" or "over" the futures price. This practice goes back over 100 years.



MISTAKE #2: FAILURE TO UNDERSTAND AND TRACK YOUR BASIS

- Basis links the general (futures price) to the specific (local cash price)
- ✓ Key basis factors include....
 - transportation costs and availability
 - local supply and demand for the grain, and for grain storage
- Grain basis patterns are broadly similar from one year to the next



Iowa July Corn Basis, 1990-2019 (September - end of June)



Iowa Corn Prices, 1990-2020



Basis continues to evolve and change.Keep up with the changes.You must have an opinion!



Soybean and corn processing margins are great!





All figures based on CBOT closing prices as of October 1 for November soybeans and December meal and oil futures.

THE SOY CRUSHING INDUSTRY IS EXPANDING!

- 1. March 2021: CHS to invest \$475 mil. to modernize plants
- 2. May: Shell Rock Soy Proc. to construct \$270 mil. Shell Rock, IA
- 3. August: Epitome Energy to build 42 mb soybean crush facility in Crookston, MN
- 4. September: CHS \$60 mil. increase refined soybean oil Mankato
- 5. September: Platinum Crush, LLC \$350 mil. crushing plant in Iowa
- 6. September: Chevron/Bunge nearly double capacity at Destrehan, LA and Cairo, IL by 2024
- 7. October: Bartletts to build soy crushing in Kansas, 38.5 mb \$325 mil. 110K bpd
- 8. October: ADM \$350 mil. crush and refining in Spiritwood, ND
- 9. October: Marquis Inc. soy crushing facility in Hennepin, IL
- 10. December: ND Soybean Processors to construct 42.5 mb \$400 mil. plant Casselton, ND
- 11. Jan 2022: AGP new soybean processing plant near David City, NE
- 12. February: Bowdish to build a \$375 mil. soybean crushing plant near Norfolk, NE
- 13. February: SDSP to construct a new 35 mby plant near Mitchell, SD

...adding 400 mb in new crush demand by the start of 2025!

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MISTAKE #3: LACK OF AN EXIT STRATEGY

Do you have unpriced grain in the bin?





May Sellers

May has on-farm storage. After harvest, she holds her corn and soybeans in the bin to sell late May. Her final price is net of variable storage costs.


Iowa Corn Prices, 1990-2020



Iowa Soybean Prices, 1990-2020



IOWA AVERAGE CORN PRICES, 1989-2020





IOWA AVERAGE SOYBEAN PRICES, 1989-2020









Since 1989 and relative to Barney's harvest price...

What was May's worst year in corn? 2019/20

...and her best year in corn? 2020/21





We enjoyed a strong post harvest rally at the end of 2021.

What might this say about the first half of 2022?

Iowa average prices



Year	1 st day Oct	last day Dec	Change (%)	
2021	\$5.18	\$5.80	12.0%	
2020	\$3.50	\$4.66	33.1%	
2010	\$4.10	\$5.78	41.0%	
2007	\$3.15	\$4.19	33.0%	
2006	\$2.22	\$3.48	56.7%	
2005	\$1.55	\$1.79	15.5%	
2003	\$1.92	\$2.23	16.3%	
2000	\$1.59	\$1.96	23.8%	
1999	\$1.53	\$1.70	11.2%	
1995	\$2.71	\$3.31	22.2%	
1993	\$2.11	\$2.67	26.4%	
1987	\$1.46	\$1.62	10.9%	
1982	\$1.96	\$2.22	13.1%	
1980	\$2.79	\$3.15	13.0%	

Year	1 st day Oct	last day Dec	Change (%)	1 st day Jun	Dec-Jun (%)
2021	\$5.18	\$5.80	12.0%		
2020	\$3.50	\$4.66	33.1%	\$6.90	48.0%
2010	\$4.10	\$5.78	41.0%	\$7.37	27.4%
2007	\$3.15	_ 10 of 13	10 of 13 years		34.6%
2006	\$2.22	-(770/c)	ontinued	\$3.62	4.2%
2005	\$1.55		higher into early		14.2%
2003	\$1.92	higher in			34.8%
2000	\$1.59	June		\$1.64	-16.8%
1999	\$1.53	\$1.70	11.2%	\$1.89	11.6%
1995	\$2.71	\$3.31	22.2%	\$4.51	36.3%
1993	\$2.11	\$2.67	26.4%	\$2.62	-1.7%
1987	\$1.46	\$1.62	10.9%	\$1.91	18.1%
1982	\$1.96	\$2.22	13.1%	\$2.96	33.5%
1980	\$2.79	\$3.15	13.0%	\$3.08	-2.3%

Year	1 st day Oct	last day Dec	Change (%)	
2021	\$11.89	\$13.30	11.9%	
2020	\$9.66	\$12.61	30.5%	
2010	\$9.88	\$13.14	33.0%	
2009	\$8.71	\$9.87	13.3%	
2007	\$8.82	\$11.13	26.2%	
2006	\$4.77	\$6.32	32.5%	
2003	\$6.50	\$7.67	18.0%	
1997	\$5.85	\$6.40	9.5%	
1995	\$5.89	\$6.91	17.4%	
1993	\$5.85	\$6.79	16.1%	
1987	\$5.00	\$5.68	13.5%	
1982	\$4.85	\$5.32	9.6%	

Year	1 st day Oct	last day Dec	Change (%)	1 st day Jun	Dec-Jun (%)
2021	\$11.89	\$13.30	11.9%		
2020	\$9.66	\$12.61	30.5%	\$15.36	21.8%
2010	\$9.88	\$13.14	33.0%	\$13.51	2.8%
2009	\$8.71	8 of 11 ve	ars	\$8.99	-8.9%
2007	\$8.82	(720() seeting		\$12.85	15.4%
2006	\$4.77	(73%) CO	ntinued	\$7.35	16.3%
2003	\$6.50	higher into early		\$8.71	13.6%
1997	\$5.85	June		\$5.96	-6.9%
1995	\$5.89	Ş6.91	17.4%	\$7.29	5.4%
1993	\$5.85	\$6.79	16.1%	\$6.75	-0.6%
1987	\$5.00	\$5.68	13.5%	\$7.51	32.3%
1982	\$4.85	\$5.32	9.6%	\$5.81	9.2%

(Past performance is no guarantee of future results)

MISTAKE #3: LACK OF AN EXIT STRATEGY

Do you have unpriced grain in the bin? **May Sellers has an exit strategy.** Do you have an exit strategy?



Did you watch the Olympics?



Emily Usset and Jussi Olkinuora February 21, 2022

Aito lonkero vuodesta 1952

Finland Men's Hockey 2022 Olympic Champions

OT THE REAL

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MISTAKE #4: HOLDING GRAIN IN STORAGE TOO LONG

How long do you store grain?





Hank Holder

Hank is our perennial bull, always convinced that prices are about to surge higher. But Hank only has enough storage for one crop, so each year he is forced to sell last years' crop before harvest, to make room for the new crop. His price is the following harvest price, less storage costs.





Hank Holder

Hank breaks The 11th Commandment of Grain Marketing

"Thou shall not hold unpriced corn or soybeans in the bin beyond July 1"



Iowa Corn Prices, 1990-2020



Price index (crop year average = 100)





Barney may be our benchmark, but let's compare Hank to May – two producers doing the same thing.



IOWA AVERAGE CORN PRICES, 1989-2020

	May	Hank	May's advantage
corn	3.14	2.72	0.42
years >Hank	23		
years >10%	19	4	



IOWA AVERAGE SOYBEAN PRICES, 1989-2020







So, if we enjoy a rally in the first-half of 2022...

What might this say about Hanks prospects this summer?

Iowa average prices



Year	Change (%)	1 st day Jun	Dec-Jun (%)	
2021	12.0%			
2020	33.1%	\$6.90	48.0%	
2010	41.0%	\$7.37	27.4%	
2007	33.0%	\$5.64	34.6%	
2006	56.7%	\$3.62	4.2%	
2005	15.5%	\$2.04	14.2%	
2003	16.3%	\$3.00	34.8%	
2000	23.8%	\$1.64	-16.8%	
1999	11.2%	\$1.89	11.6%	
1995	22.2%	\$4.51	36.3%	
1993	26.4%	\$2.62	-1.7%	
1987	10.9%	\$1.91	18.1%	
1982	13.1%	\$2.96	33.5%	
1980	13.0%	\$3.08	-2.3%	

Year	Change (%)	1 st day Jun	Dec-Jun (%)	last day Sep	Jun-Sep
2021	12.0%				
2020	33.1%	\$6.90	48.0%	\$5.15	-25.4%
2010	41.0%	\$7.37	27.4%	\$5.59	- 24.1%
2007	33.0%	\$5.64	34.6%	\$5.02	-11.1%
2006	56.7%	\$3.62	4.2%	\$3.19	-11.8%
2005	15.5%	9 of 13 years lost		\$2.15	5.5%
2003	16.3%	it by the	it by the ond of		-41.4%
2000	23.8%	it by the		\$1.73	5.7%
1999	11.2%	summer		\$1.49	- 21.1%
1995	22.2%	\$4.51	36.3%	\$2.99	-33.8%
1993	26.4%	\$2.62	-1.7%	\$1.87	-28.7%
1987	10.9%	\$1.91	18.1%	\$2.50	30.7%
1982	13.1%	\$2.96	33.5%	\$3.24	9.6%
1980	13.0%	\$3.08	-2.3%	\$2.23	-27.5%

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2020	33.1%	\$6.90	48.0%	\$5.15	-25.4%
2010	41.0%	\$7.37	27.4%	\$5.59	-24.1%
2007	33.0%	\$5.64	34.6%	\$5.02	-11.1%
2006	56.7%	\$3.62	4.2%	\$3.19	-11.8%
2005	15.5%	\$2.04	14.2%	\$2.15	5.5%
2003	16.3%	\$3.00	34.8%	\$1.76	-41.4%
2000	23.8%	\$1.64	-16.8%	\$1.73	5.7%
1999	11.2%	\$1.89	11.6%	\$1.49	-21.1%
1995	22.2%	\$4.51	36.3%	\$2.99	-33.8%
1993	26.4%	\$2.62	-1.7%	\$1.87	-28.7%
1987	10.9%	- 1092	d 1000 d	roughte	30.7%
1982	13.1%	1303 dl		Jugiits	9.6%
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1997	9.5%	\$5.96	-6.9%	
1995	17.4%	\$7.29	5.4%	
1993	16.1%	\$6.75	-0.6%	
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2020	30.5%	\$15.36	21.8%	\$11.99	-21.9%
2010	33.0%	\$13.51	2.8%	\$10.99	-18.6%
2009	13.3%	7 of 11 ve	ars lost	\$10.39	15.6%
2007	26.2%			\$9.54	-25.8%
2006	32.5%	it by the e	end of	\$8.82	20.0%
2003	18.0%	summer		\$4.86	-44.3%
1997	9.5%	\$5.96	-6.9%	\$4.75	-20.3%
1995	17.4%	\$7.29	5.4%	\$7.24	-0.7%
1993	16.1%	\$6.75 -0.6%		\$4.92	-27.1%
1987	13.5%	\$7.51	32.3%	\$7.66	2.0%
1982	9.6%	\$5.81	9.2%	\$8.21	41.2%

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2020	30.5%	\$15.36	21.8%	\$11.99	-21.9%
2010	33.0%	\$13.51	2.8%	\$10.99	-18.6%
2009	13.3%	\$8.99	-8.9%	\$10.39	15.6%
2007	26.2%	\$12.85	15.4%	\$9.54	-25.8%
2006	32.5%	\$7.35	16.3%	\$8.82	20.0%
2003	18.0%	\$8.71	13.6%	\$4.86	-44.3%
1997	9.5%	\$5.96	-6.9%	\$4.75	-20.3%
1995	17.4%	\$7.29	5.4%	\$7.24	-0.7%
1993	16.1%	\$6.75	-0.6%	\$4.92	-27.1%
1987	13.5%	1092	d 1099 d.	oughte	2.0%
1982	9.6%	1303 di	U 1900 UI	Jugiils	41.2%

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MISTAKE #5: 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







CBOT soybean futures: October 18, 2013


32 years of data (1989-2020) and 3 different crops (corn, soybeans and wheat) = **96 chances** to "re-own" with options after harvest



96 opportunities to "re-own" with options after harvest - How often did it pay? 6 of 32 years in corn 14 of 32 years in soybeans 8 of 32 years in HRS wheat 28 of 96 years total (29%)



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

- 25 corn years
- 3 soybean years
- 15 wheat years

Paper farming in 43 "large carry" years: Will this increase or decrease our odds for success with paper farming?







43 opportunities to "re-own" with options in large carry years...

- 3 of 25 years in corn
- 2 of 3 years in soybeans
- 3 of 15 years in wheat
- 8 of 43 years total (19%)



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

- 7 corn years
- 29 soybean years
- 11 wheat years

Paper farming in 53 "small carry or inverted" years: Will this increase or decrease our odds for success with paper farming?







53 opportunities to "re-own" with options in small carry or inverted years... 3 of 7 years in corn 12 of 29 years in soybeans 5 of 17 years in wheat 20 of 53 years total (38%)



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.





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.





Storage costs are only avoided if the market is inverted, a situation when paper farming makes some sense.



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%



FIVE COMMON MISTAKES IN GRAIN MARKETING

What did we learn? Eliminate mistakes!

Terry Timer showed us the value of pre-harvest marketing
Know your local basis
Grain in the bin? May Sellers has an exit strategy. What is your exit strategy?
Hank Holder pays a big price for disobeying the 11 th Commandment
Peter Paperfarmer showed us the power of carrying charges



CORN: 2022 PRE-HARVEST MARKETING PLAN

Objective: Buy crop insurance to protect my production risk and price 75% of my anticipated corn crop (per APH yield) by late June.

Price 15,000 bushels at \$4.10 cash price (\$4.60 Dec. futures) using forward contract/futures hedge/HTA contract

Price 10,000 bushels at \$4.40c/4.90f, or by March 22, pricing tool tbd Price 15,000 bushels at \$4.70c/5.20f, or by April 14, pricing tool tbd Price 10,000 bushels at \$5.00c/5.50f, or by May 17, pricing tool tbd Price 15,000 bushels at \$5.30c/5.80f, or by June 14, pricing tool tbd Price 10,000 bushels at \$5.60c/6.10f, or by June 28, pricing tool tbd

Plan starts on January 1, 2022. Earlier sales may be made at a 40-cent premium and would be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$4.10 local cash price/\$4.60 December futures.

Exit all options positions by mid-September 2022.



SOYBEANS: 2022 PRE-HARVEST MARKETING PLAN

Objective: Buy crop insurance to protect my production risk and price 75% of my anticipated soybean crop (per APH yield) by late June.

Price 5,000 bushels at \$9.75 cash price (\$10.50 Nov. futures) using forward contract/futures hedge/HTA contract Price 2,500 bushels at \$10.50c/11.25f, or April 14, pricing tool tbd Price 5,000 bushels at \$11.25c/12.00f, or by May 17, pricing tool tbd Price 5,000 bushels at \$12.00c/12.75f, or by June 14, pricing tool tbd

Plan starts on January 1, 2022. Earlier sales may be made at a 75-cent premium and would be limited to 10,000 bushels.

Ignore decision dates and make no sale if prices are lower than \$9.75 local cash price/\$10.50 November futures.

Exit all options positions by mid-September 2022.



PRE-HARVEST MARKETING PLAN FOR CORN

Objective: Buy crop insurance to protect my production risk and have _____% of my anticipated **corn** crop (based on APH yield) priced by ______.

Price	bushels at \$	cash price (\$		December futures) using	
Price	bushels at \$	c/	f, or by	, using	
Price	bushels at \$	c/	f, or by	, using	
Price	bushels at \$	c/	f, or by	, using	
Price	bushels at \$	c/	f, or by	, using	
Price	bushels at \$	c/	f, or by	, using	
Price	bushels at \$	c/	f, or by	, using	
Plan starts on noted above and lim	Earli ited to	a cent premium to price targets			
Ignore decision date	s and make no sale if	local cash price/\$			

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December futures.

PRE-HARVEST MARKETING PLAN FOR SOYBEANS

Objective: Buy crop insurance to protect my production risk and have _____% of my anticipated **soybean** crop (based on APH yield) priced by ______.

Price	bushels at \$	cash price (\$		November futures) using
Price	bushels at \$	c/	f, or by	, using
Price	bushels at \$	c/	f, or by	, using
Price	bushels at \$	c/	f, or by	, using
Price	bushels at \$	c/	f, or by	, using
Price	bushels at \$	c/	f, or by	, using
Price	bushels at \$	c/	f, or by	, using
Plan starts on noted above and limi	Earli ited to	er sales ma bushels.	ay be made at a	cent premium to price target
Ignore decision date	s and make no sale if	nrices are	lower than \$	local cash price/\$

Ignore decision dates and make no sale if prices are lower than \$_____ local cash price/\$_____ November futures.



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



Five Common Mistakes in Grain Marketing

Questions?

