

# New Era Marketing 2015

**It's Not A Game Anymore  
Using Seasonal Trends to improve  
returns**



Carrying Charge

Options

Target Price

Storage Cost

Futures

Corn

Wheat

Soybeans

Basis  
Cash Flow

Cost of Production

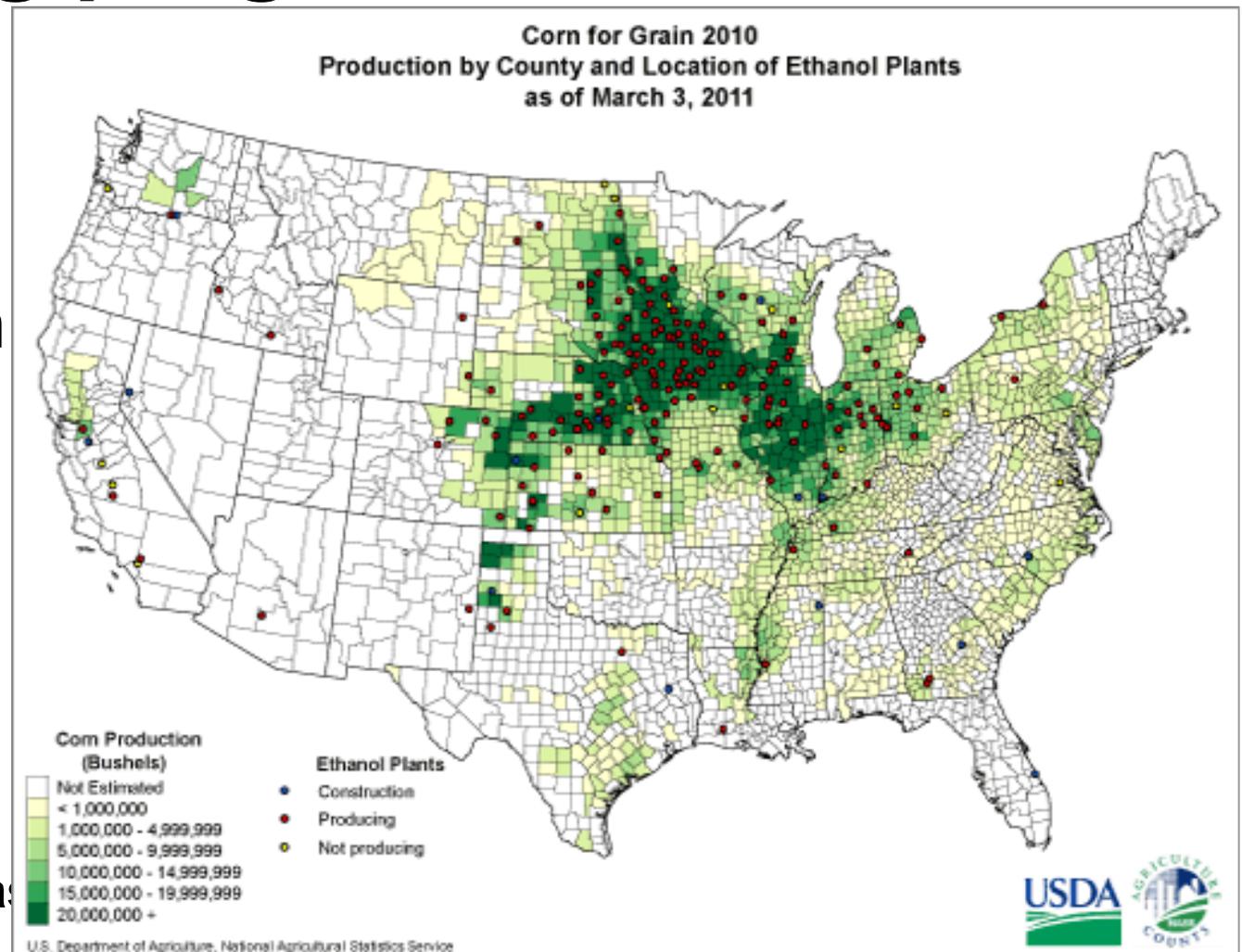
Breakeven  
Contract





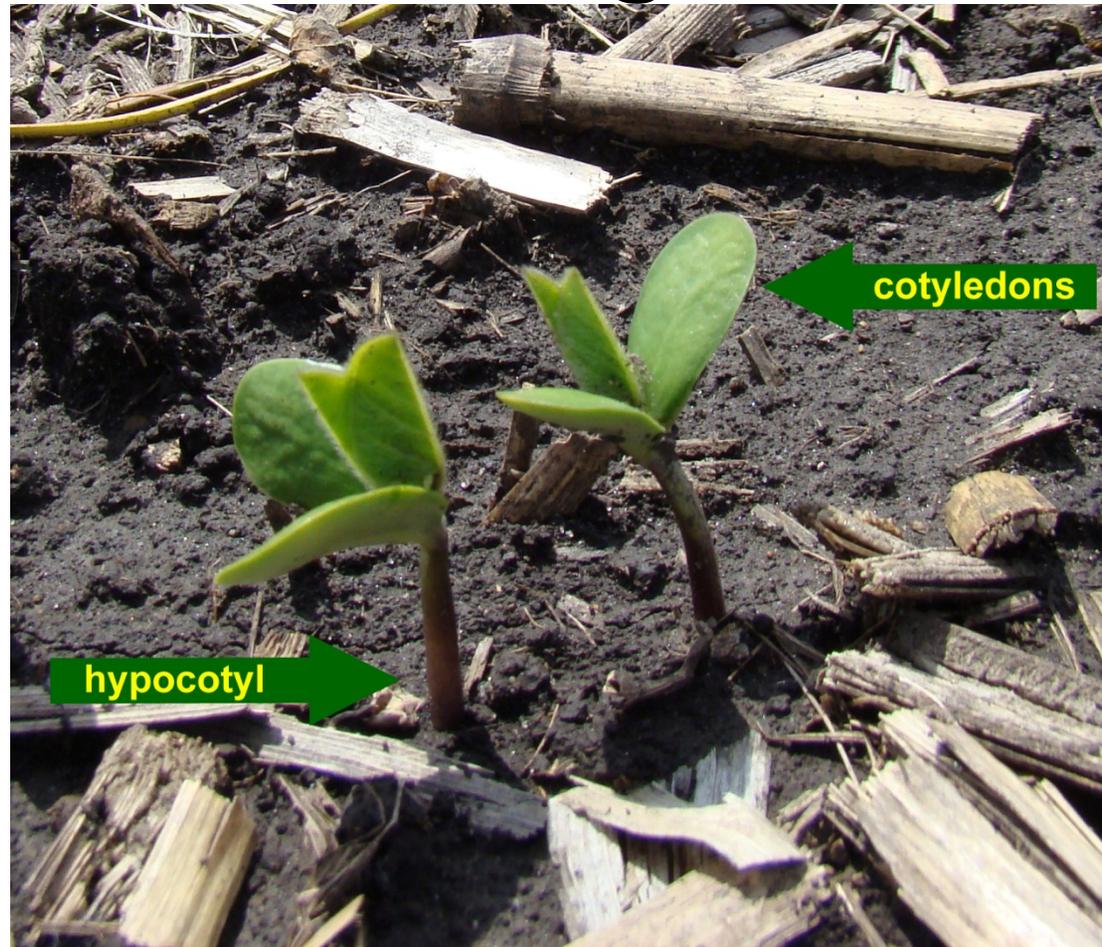
# Why another grain marketing program?

- The grain marketing industry changed in the mid-2000's





# What hasn't changed?



# What else has changed?



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# Rules for Forward pricing:

- Purchase crop insurance – stay within insurance coverage
- Estimate cost of production
- Sell in increments
- Know penalty for nonperformance
- Start slow, 20%-30% is enough if you have not done it before
- Utilize technical or fundamental triggers

**2013 Non-Irrigated Corn Budget**

Item	Rate	Price	Total
Seed	3	\$260.36	\$86.79
Burndown			\$0.00
Pre Emerg	0.347	\$32.19	\$11.17
Post Emerg	22	\$0.22	\$4.84
Additive/Sp	0.095	\$16.51	\$1.57
Nitrogen 3	0.2	\$415.00	\$83.00
Phos, 11-5	100	\$0.35	\$42.66
Insecticide	4	\$0.34	\$1.38
Application	1	\$7.00	\$7.00
Application	2	\$6.25	\$12.50
Agrotain+	0.21	\$55.40	\$11.63
Machinery cost			\$150.00
Cash Rent			<b>\$200.00</b>
Crop Insurance-80 % RV			\$18.84
Other			\$0.00
APH Yield		<b>143</b>	
Owners share variable cost			\$0.00
Total variable cost		\$292.54	
Total Cost		\$631.38	
Cost / Bushel			<b>\$4.42</b>
Current Bid: basis -.30			\$4.34

**2013 Non-Irrigated Soybean Budget**

Item	Rate	Price	Total
Seed	1.25	\$52.16	\$65.20
Burndown-Rou	22	\$0.22	\$4.84
Authority/oz	0.21	\$56.57	\$11.88
Post Emergenc	22	\$0.22	\$4.84
Additive			\$1.57
2,4-D	8	\$0.17	\$1.36
Phosphate, 11-	100	\$0.35	\$34.17
Insecticide			\$0.00
Application, dry	1	\$7.00	\$7.00
Application, sp	2	\$6.25	\$12.50
			\$0.00
Machine cost			\$150.00
Cash rent			\$200.00
Crop Insurance-70% RV			\$7.07
			\$0.00
APH Yield		<b>53.5</b>	
Owners share variable cost			\$0.00
Total variable cost		\$173.36	
Total cost		\$500.43	
Cost / Bushel			<b>\$9.35</b>
Current Bid: basis -.65			\$11.02

# Goals

# Date Goals

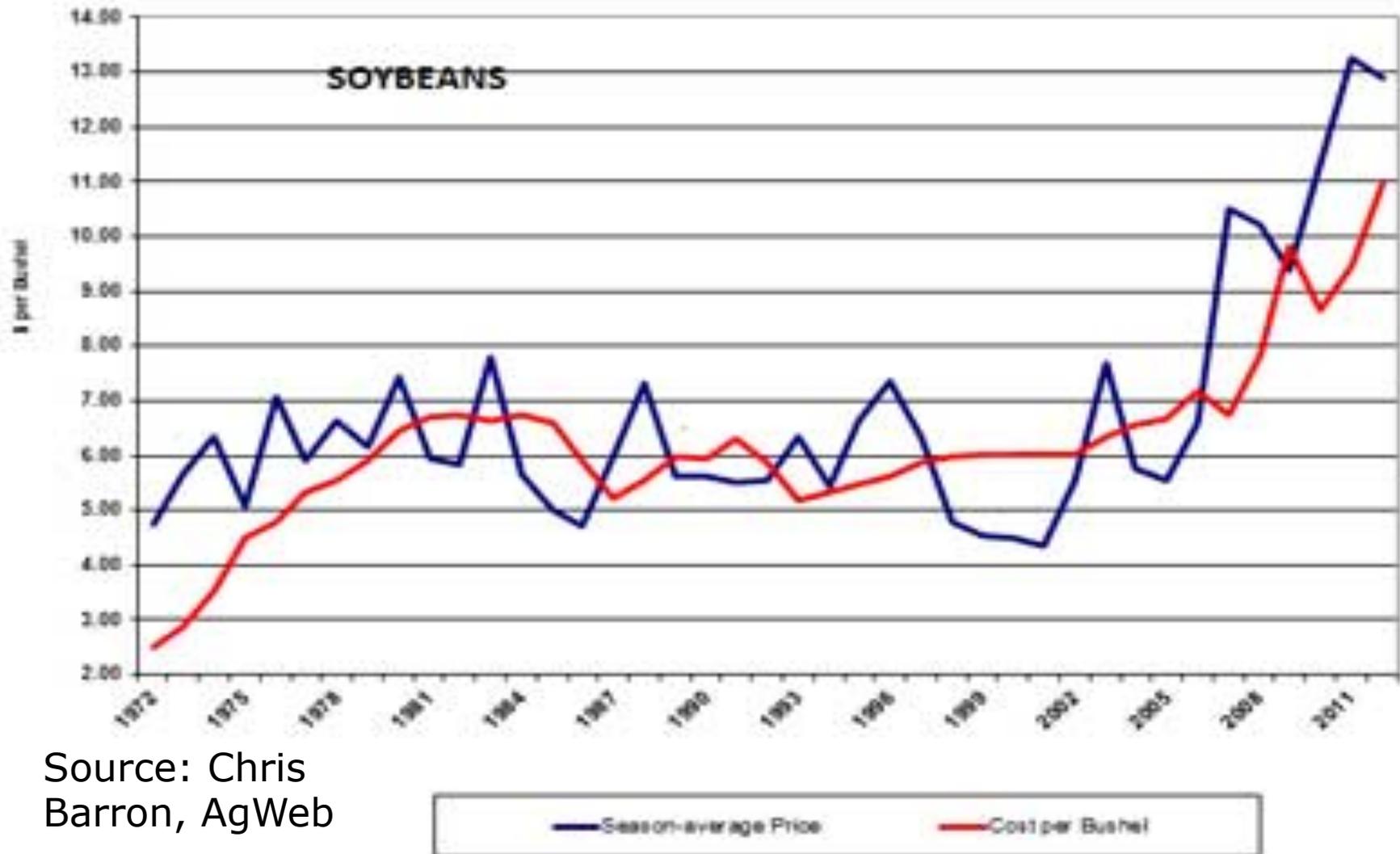
- Meet cash flow needs
  - Operating Loan
  - Rent
  - Input Expenses

# Price Goals

- How much can this crop contribute to your income this year?
  - Market Outlook
    - Cornhusker Economic Outlook Series
    - Marketing Service
    - USDA (July 10th WASDE)
      - Wheat \$4.75-\$5.75
      - Corn \$3.45-\$4.05
      - Soybeans \$8.50-\$10.00

# Seasonality still in the market

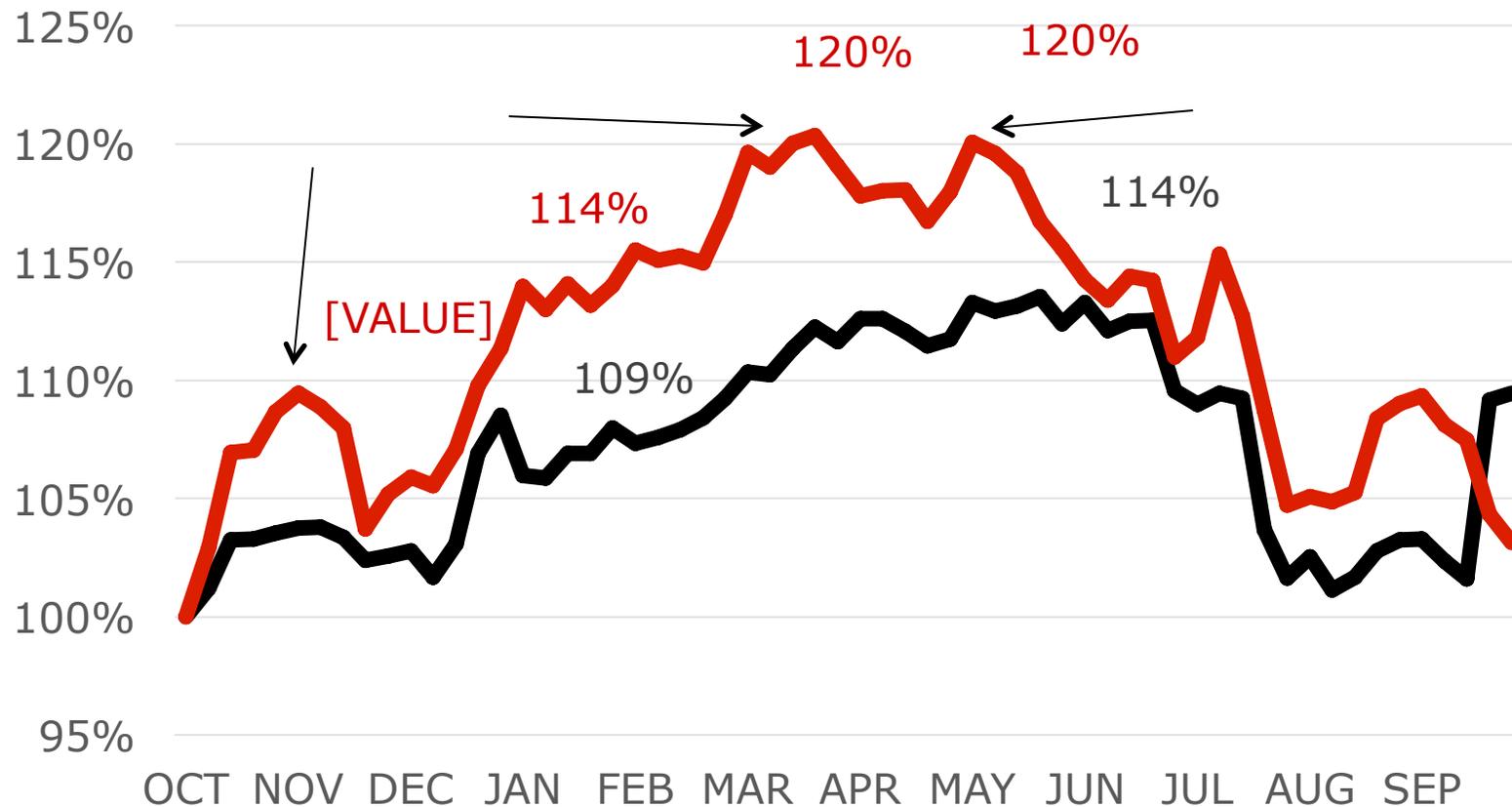
# Establish Price Objectives



Source: Chris Barron, AgWeb

# Price Goals: CORN

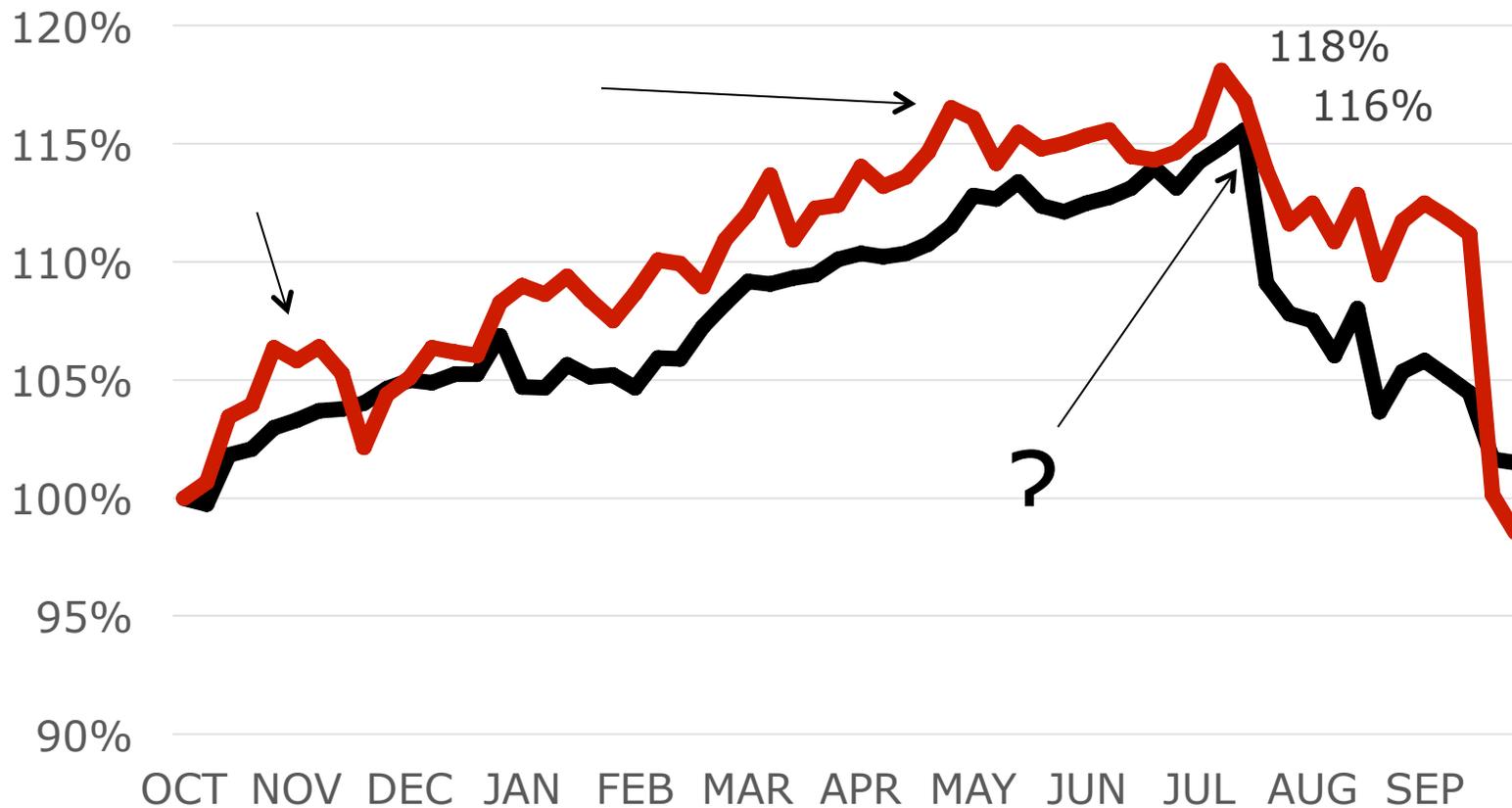
## % of Oct. 1 Price, 1995-2014



— 1995-2014 — 2010-2014

# Price Goals: Soybeans

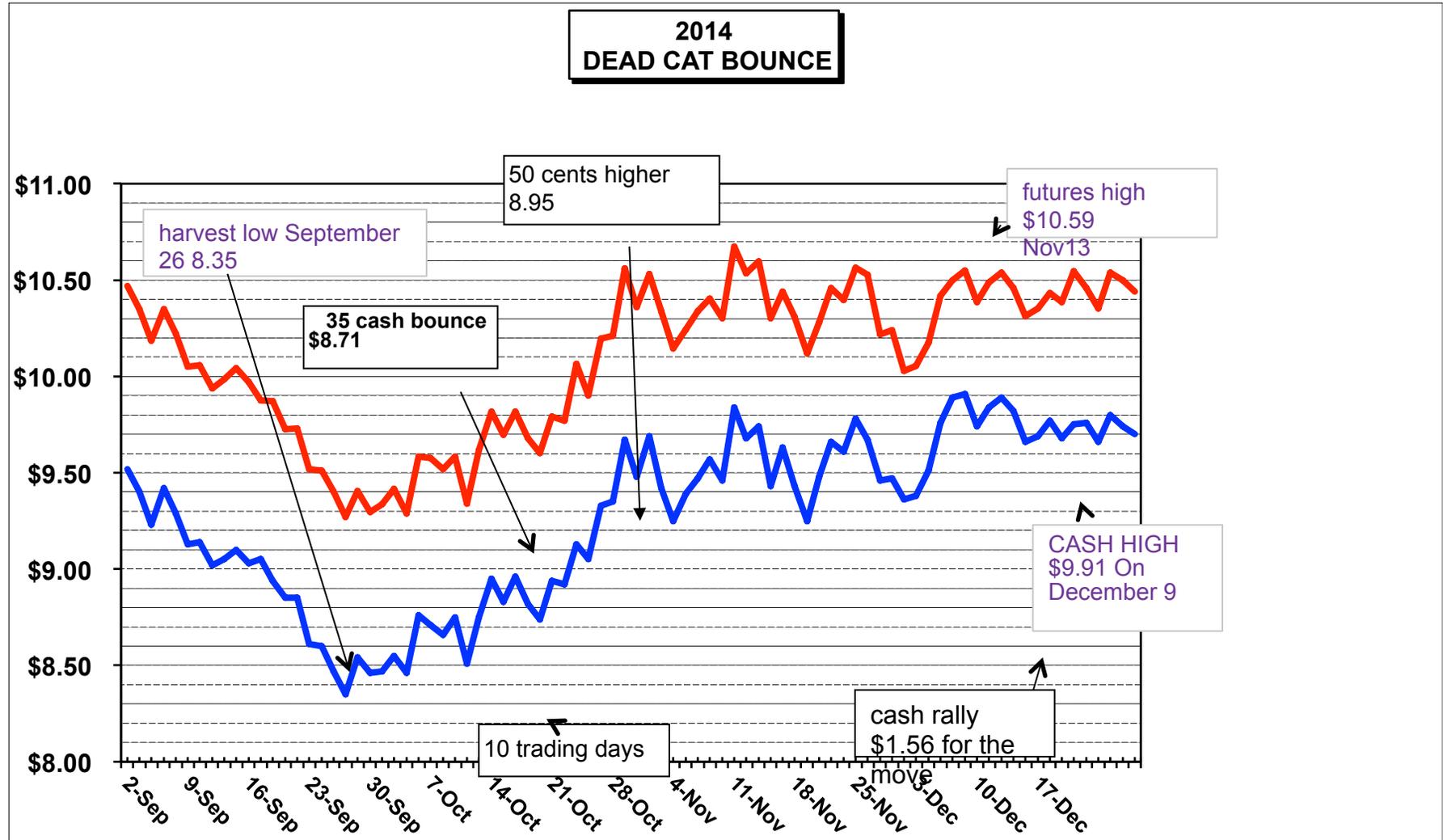
## % of OCT 1 Price, 1995-2014

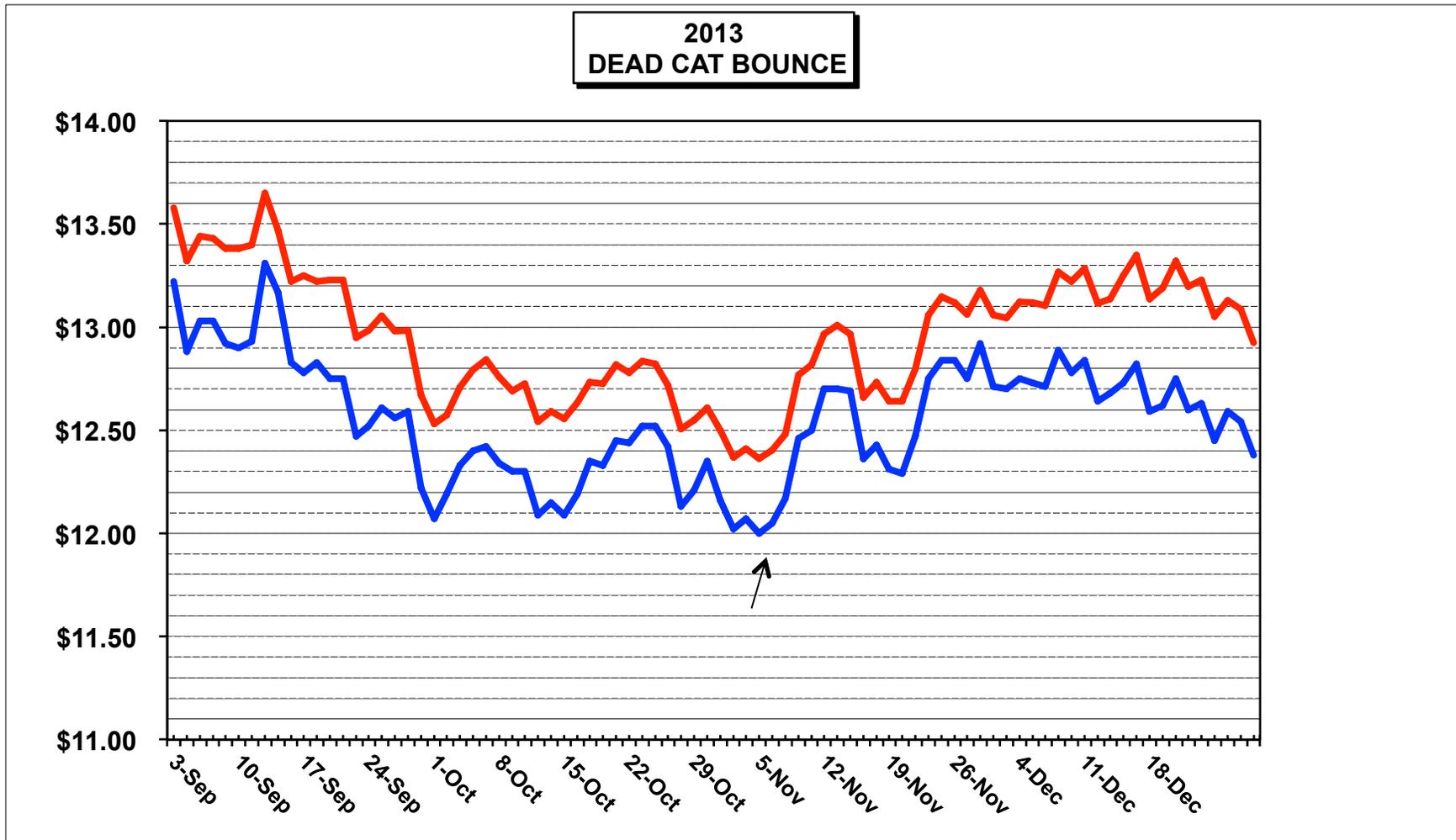


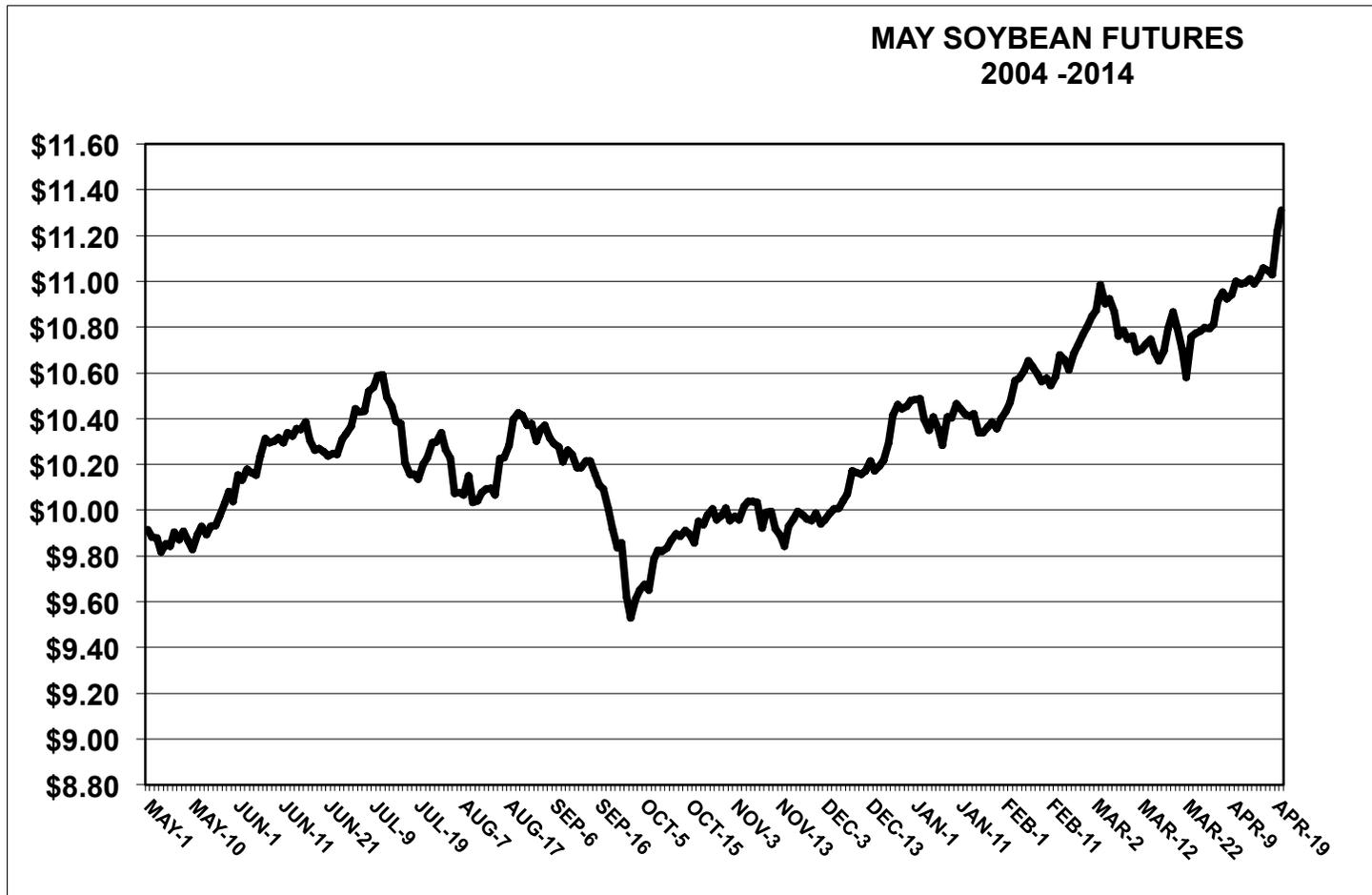
# Date Goals

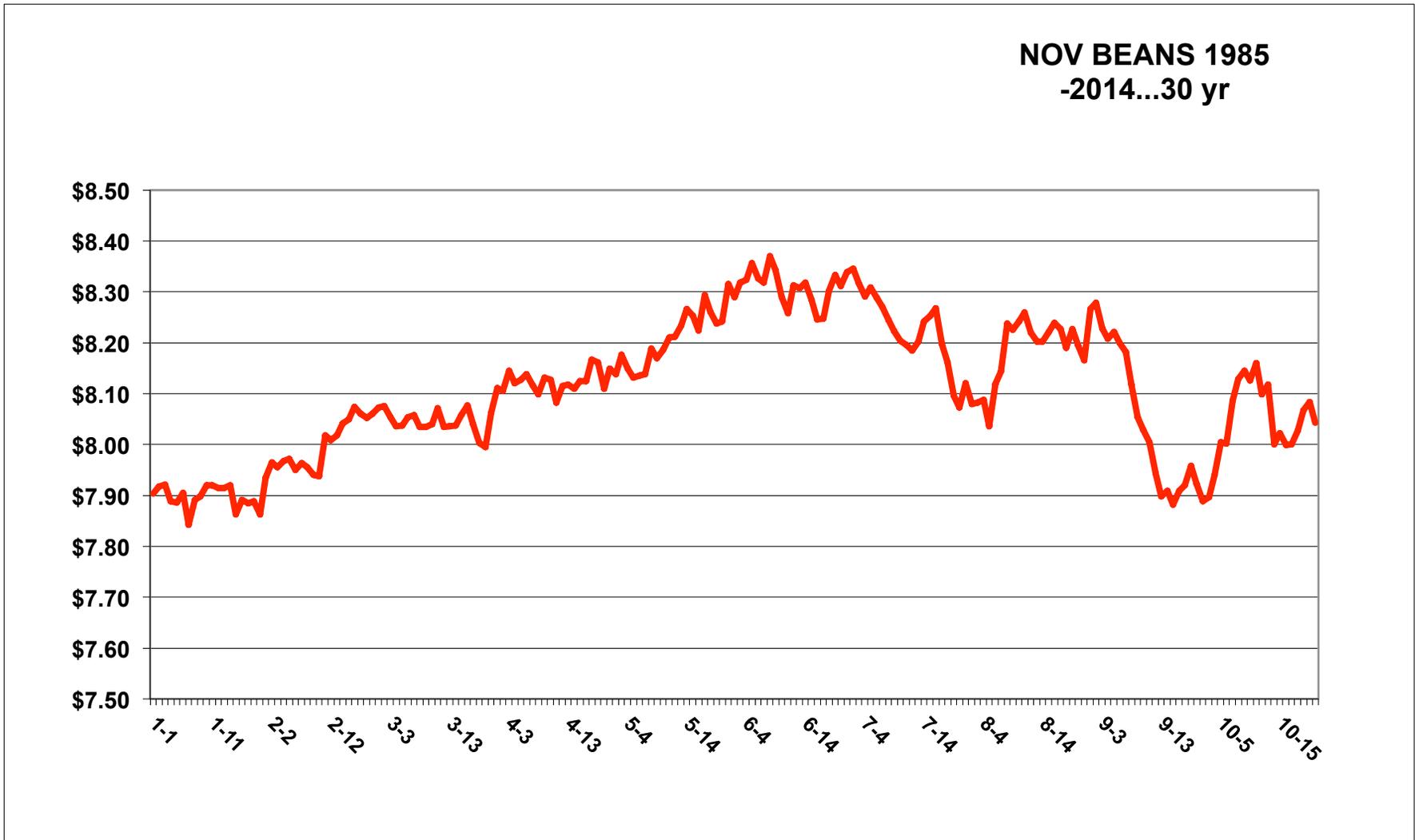
- Meet cash flow needs
  - Operating Loan
  - Rent
  - Input Expenses



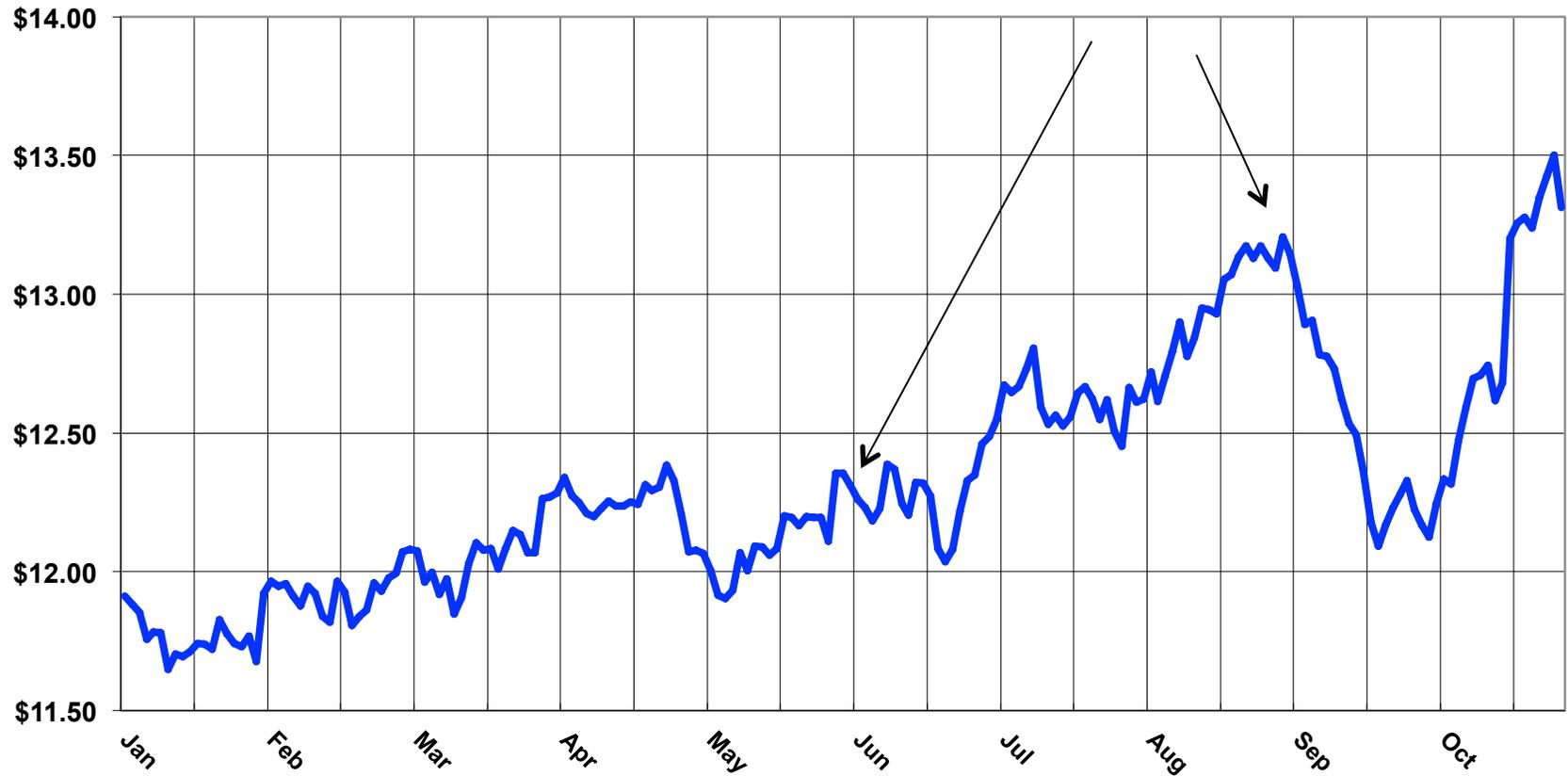


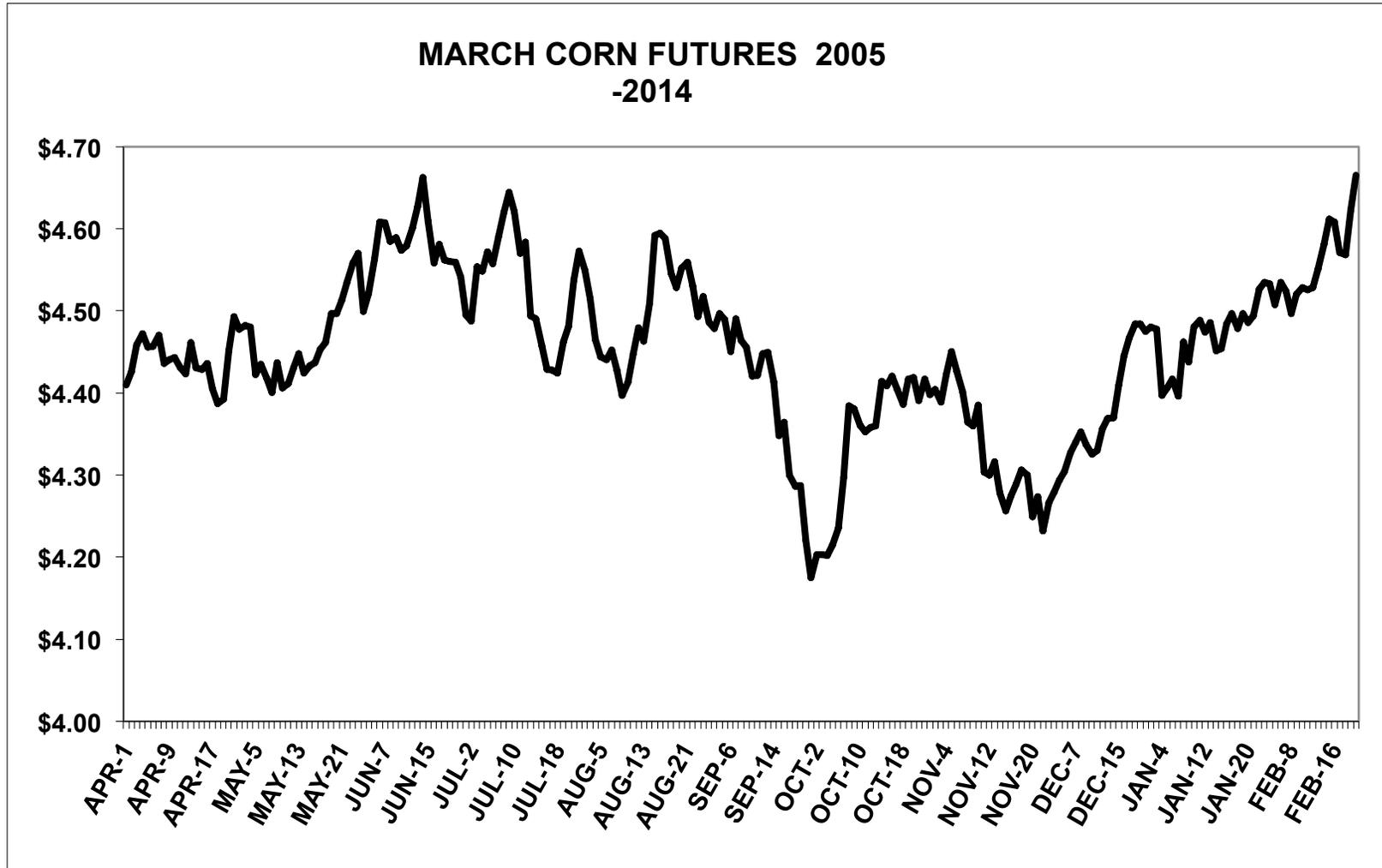


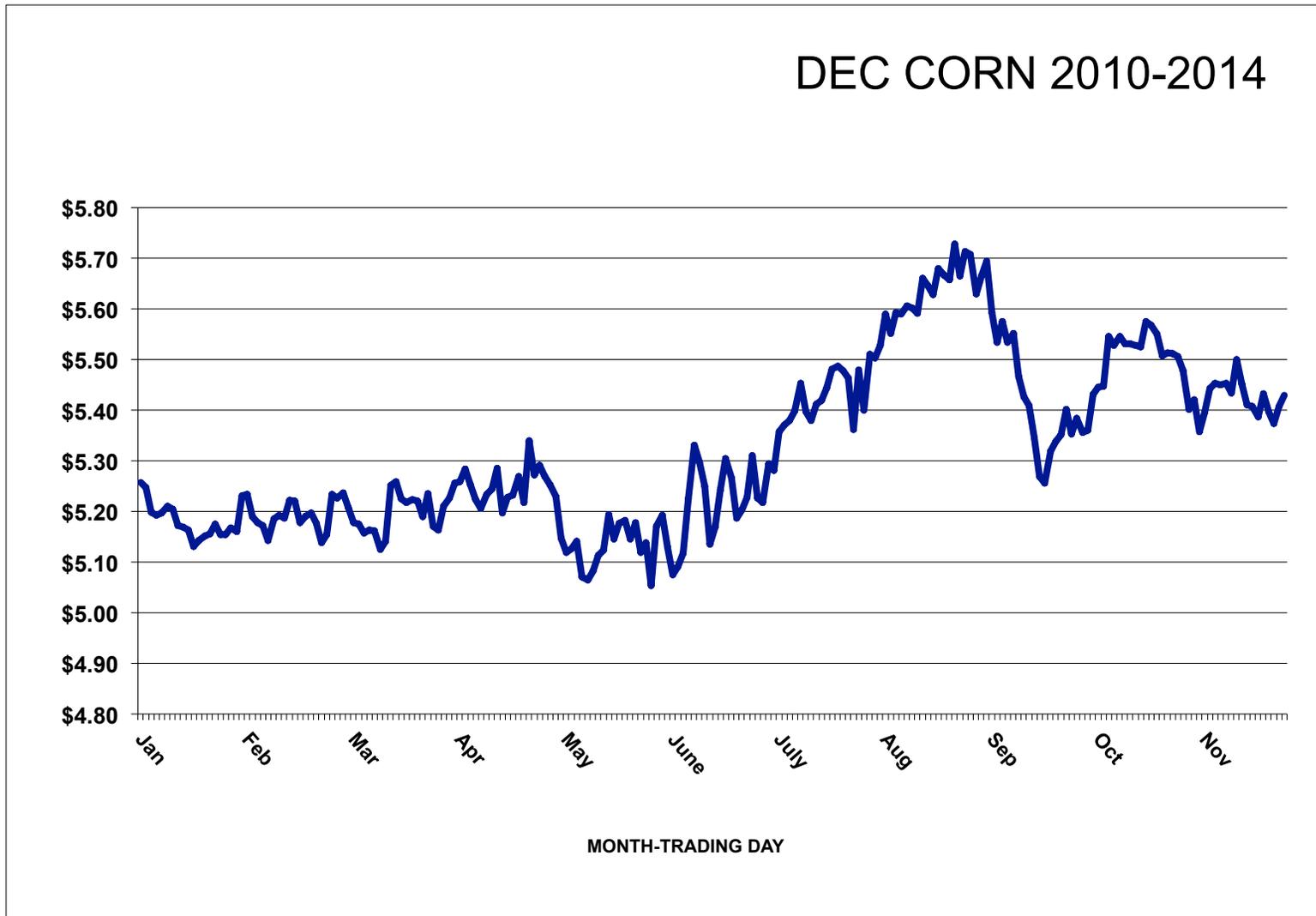




November beans 2005-2014









## Always/Never Strategies

- Always forward contract corn May 1-\$4.54
- Never hold unpriced old crop corn past July 10 \$3.85
- Always sell soybeans September 9
- Always track dead cat bounce September 1 through December 31
- Never sell soybeans in February (\$10.89-\$11.51)

## Sources

- [roy@soyroy.com](mailto:roy@soyroy.com)
- No dedicated fax number
- Newsletter \$30US per year
- All charts and graphs available free on my website



University of N

# Post-Harvest Marketing Plan

- A post-harvest marketing plan is a **written**, proactive, strategic plan to sell your harvested grain.
- Plans should consider
  - Cash flow needs
  - Financial goals
  - Storage capacity
  - Farm logistics
  - Risk appetite
- An effective weapon against emotional sales

# GOALS



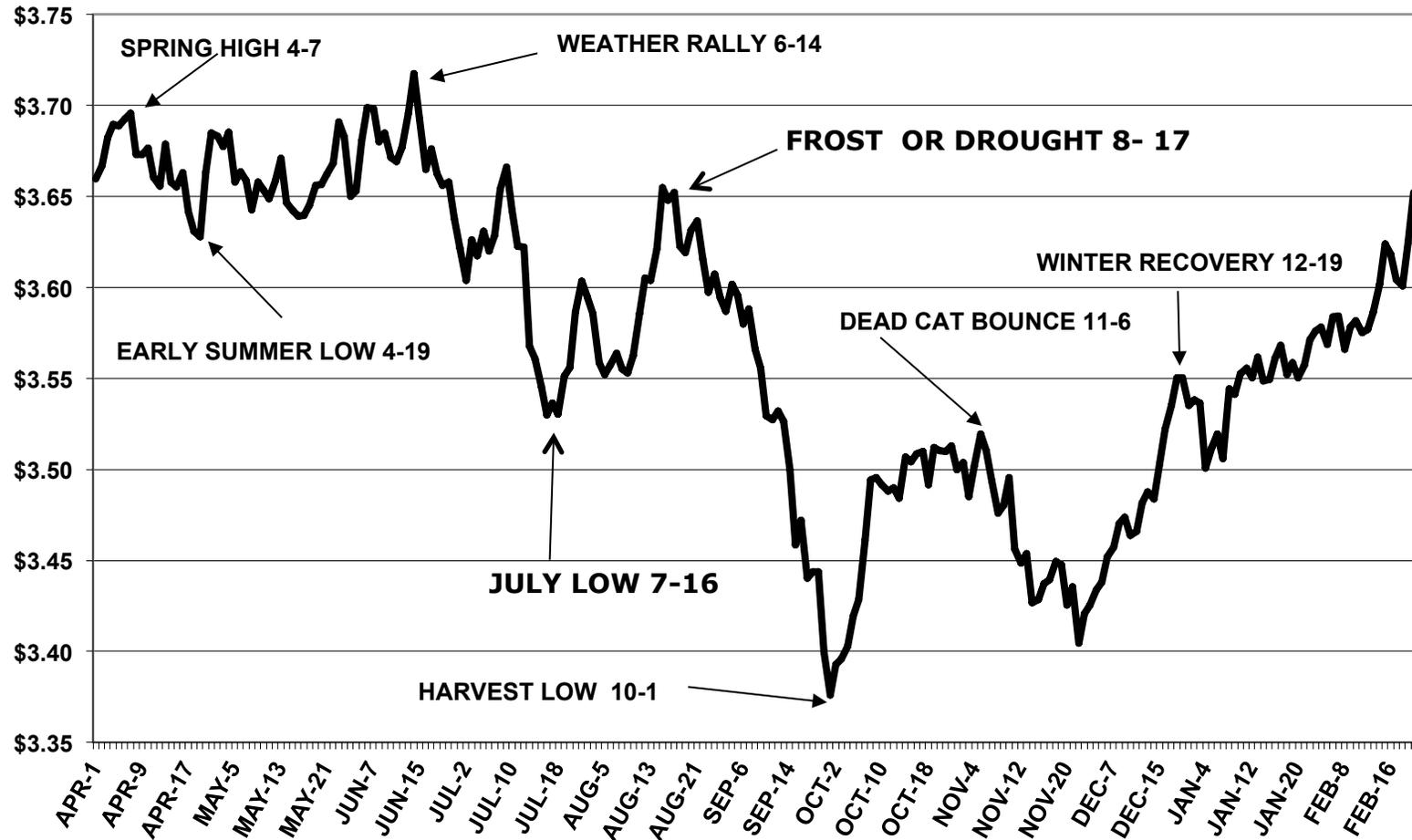
# Price Goals

- Know your cost of production...
  - Establish your own “breakeven”
  - UNL Crop Budgets
  - Bank cash flows
- Know common commodity trends

# Components of a good marketing plan

- Goals
  - Price
  - Date
- Strategies
  - Marketing tools
  - Decision guidelines
  - Exit plan

### MARCH CORN FUTURES, 1996-2015 20 years



# December Corn 1985-2014

Year	1-May	1-Nov	Difference	Positive (1)/ Negative (0)
1985	2.64	2.335	-0.305	0
1986	2.04	1.75	-0.29	0
1987-2007 data condensed to save space				
2008	6.3	3.9	-2.4	0
2009	4.4	3.98	-0.42	0
2010	3.93	5.26	1.33	1
2011	6.62	6.45	-0.17	0
2012	5.28	7.25	1.97	1
2013	5.32	4.26	-1.06	0
2014				
			Count Higher	10
			Count Lower	19
		Average	\$ (0.18)	



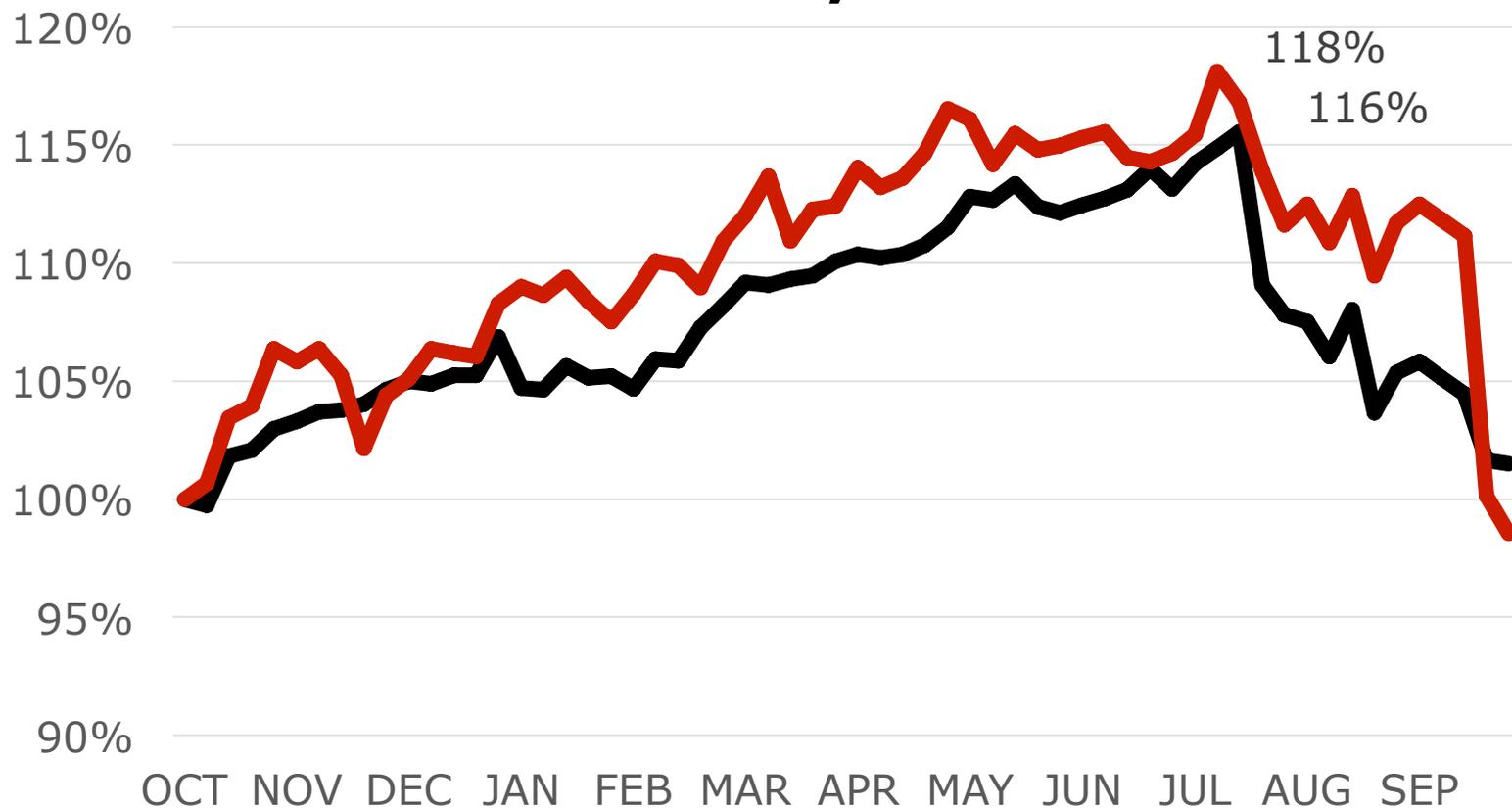
Average Higher \$ 0.58  
 Average Lower \$ (0.57)

Net

YEAR	May 1	November 1	+/-	Total
2014	5.11	3.77	1.34	UP 7/20
2013	5.32	4.26	1.06	DOWN 13/20
2012	5.28	7.26	-1.98	
2011	6.62	6.45	.17	
2010	3.93	5.26	-1.33	
2009	4.40	3.98	.42	
2008	6.30	3.90	2.40	
2007	3.64	3.70	-.06	
2006	2.72	3.29	-.57	
2005	2.30	1.97	.33	
2004	3.10	2.02	1.08	
2003	2.33	2.40	-.07	
2002	2.20	2.47	-.27	
2001	2.27	2.04	.23	
2000	2.62	2.06	.56	
1999	2.32	1.98	.34	
1998	2.62	2.17	.45	
1997	2.77	2.85	.08	
1996	3.37	2.63	.74	
1995	2.66	3.36	-.70	
Average			+.20	

# Price Goals: Soybeans

## % of OCT 1 Price, 1995-2014





## Soybeans – 1985-2014

Year	1-May	1-Oct	Difference	Positive (1) Negative (0)
1985	6.06	5.13	-0.93	0
1986	5.24	4.88	-0.36	0
1987-2007 data condensed to save space				
2008	12.45	9.08	-3.37	0
2009	9.83	9.77	-0.06	0
2010	9.37	11.85	2.48	1
2011	13.19	11.79	-1.4	0
2012	13.4	15.22	1.82	1
2013	12.14	12.73	0.59	1
2014	12.24	9.52	-2.72	0
			Count Higher	11
			Count Lower	19
			Average	(0.275)
			Average Higher \$	1.00
			Average Lower \$	\$(1.01)

YEAR	MAY 1	OCTOBER 1	'+/-	NET
2014	12.24	9.52	+	2.72
2013	12.14	12.73	-	-.59
2012	13.40	15.22	-	-1.82
2011	13.19	11.79	+	+1.40
2010	9.37	11.85	-	-2.48
2009	9.83	9.77	+	+.06
2008	12.45	9.08	+	+3.37
2007	7.77	9.87	-	-2.10
2006	6.24	5.91	+	+.33
2005	6.27	5.88	+	+.39
2004	7.76	5.15	+	+2.61
2003	5.53	6.78	-	-1.25
2002	4.66	5.42	-	-.76
2001	4.34	4.52	-	-.18
2000	5.79	4.89	+	+.90
1999	6.19	4.81	+	+1.38
1998	6.17	5.15	+	+1.02
1997	6.96	6.21	+	+.75
1996	7.85	7.49	+	+.36
1995	6.05	6.37	-	-.32
Average				+ .29

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## Price Goals

- Establish an **average target price** you are willing to sell at

Average Target \$3.50

Sell equal units at:

\$3.30, \$3.40, \$3.50, \$3.60, \$3.70

# Date Goals

- Meet cash flow needs
  - Operating Loan
  - Rent
  - Input Expenses

# Storage Costs

- Variable costs
  - Interest on money - Opportunity cost on money
- Fixed costs
  - Shrinkage - Changes in weight from in and out bin
  - Storage facility – electricity, labor, etc.
  - Other

# **BASIS**

- Basis – Transportation and handling costs to move product from current location to point of delivery

**Basis = Local Price – Nearby Futures Price**

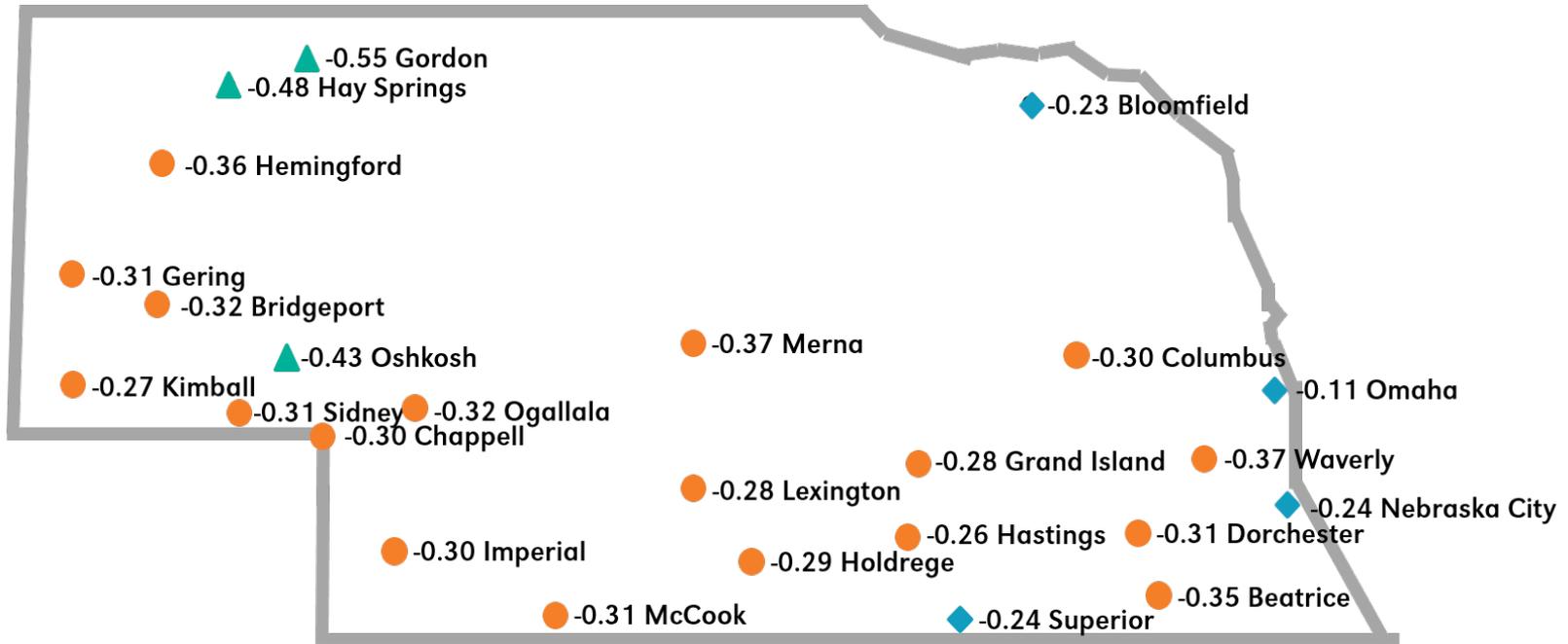


# Local Price vs. Futures Price = BASIS

- Basis – Transportation and handling costs to move product from current location to point of delivery
  - Storage costs
  - Supply & demand of transportation services
  - Variations in grade
  - Unavailability of substitutes
  - **Expected supply & demand**

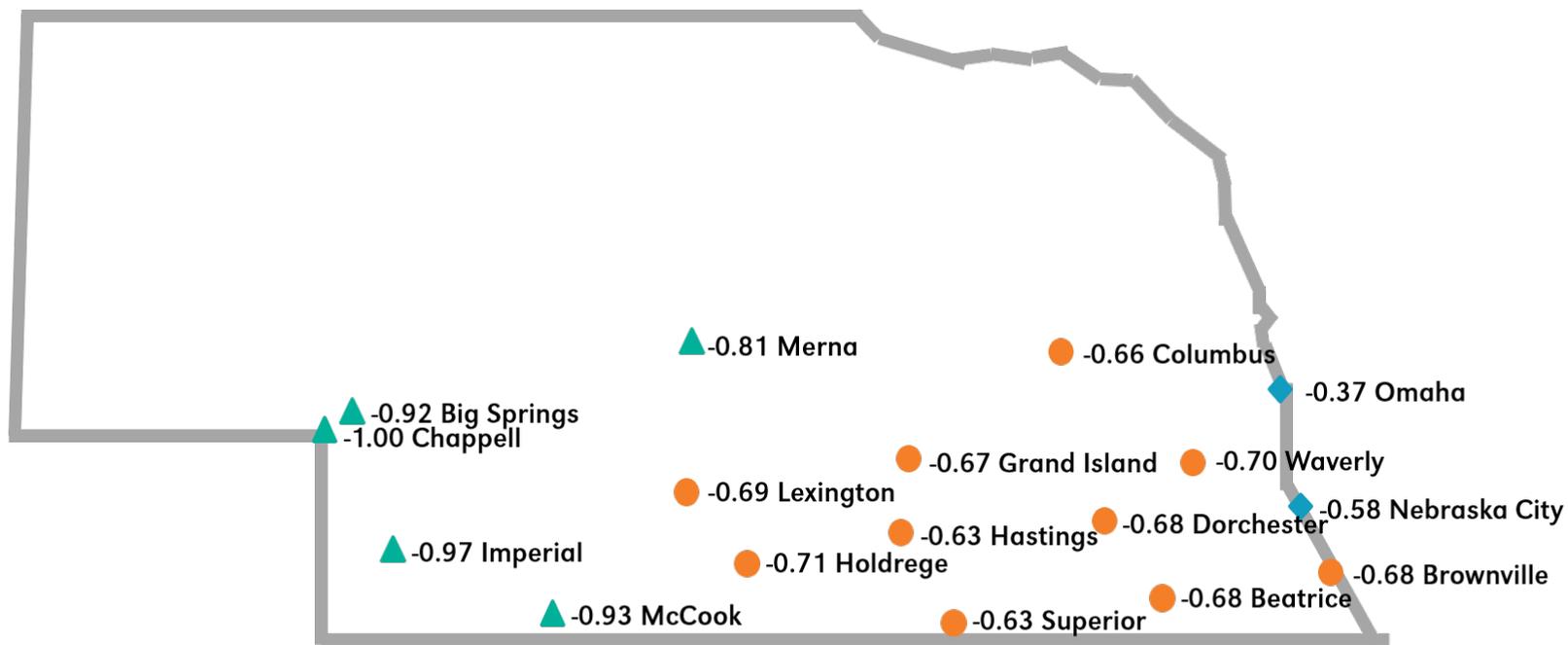


# Basis Map - Corn



Average corn basis at harvest 2010-2014, week 42. ◆ 0 to -0.24, ● -0.25 to -0.37, ▲ -0.38 to -0.55

# Basis Map – Soybeans

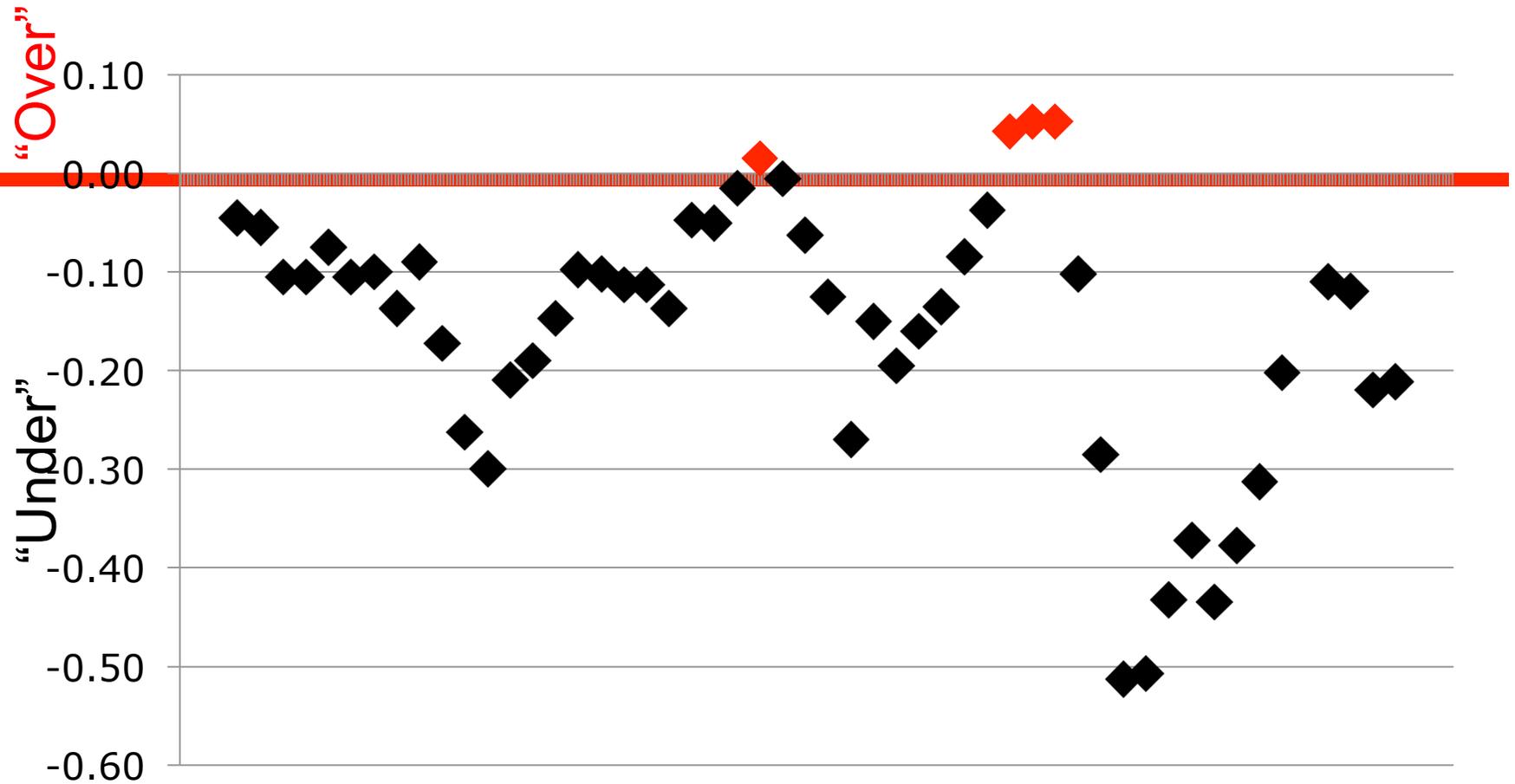


Average soybean basis at harvest 2010-2014, week 40. ◆ 0 to -0.58, ● -0.59 to -0.70, ▲ -0.71 to -1.00

# Local Price vs. Futures Price = BASIS

- **“Under”** – Cash price is less than futures price
  - Basis is Negative
  - Local supply is abundant compared to perceived demand
- **“Over”** – Cash price is above the futures price
  - Basis is Positive
  - Local supply limited compared to perceived demand

# 2014 Corn Basis – Omaha



Closest location to Blair & Freemont  
To view all corn locations visit <http://go.unl.edu/ec846>

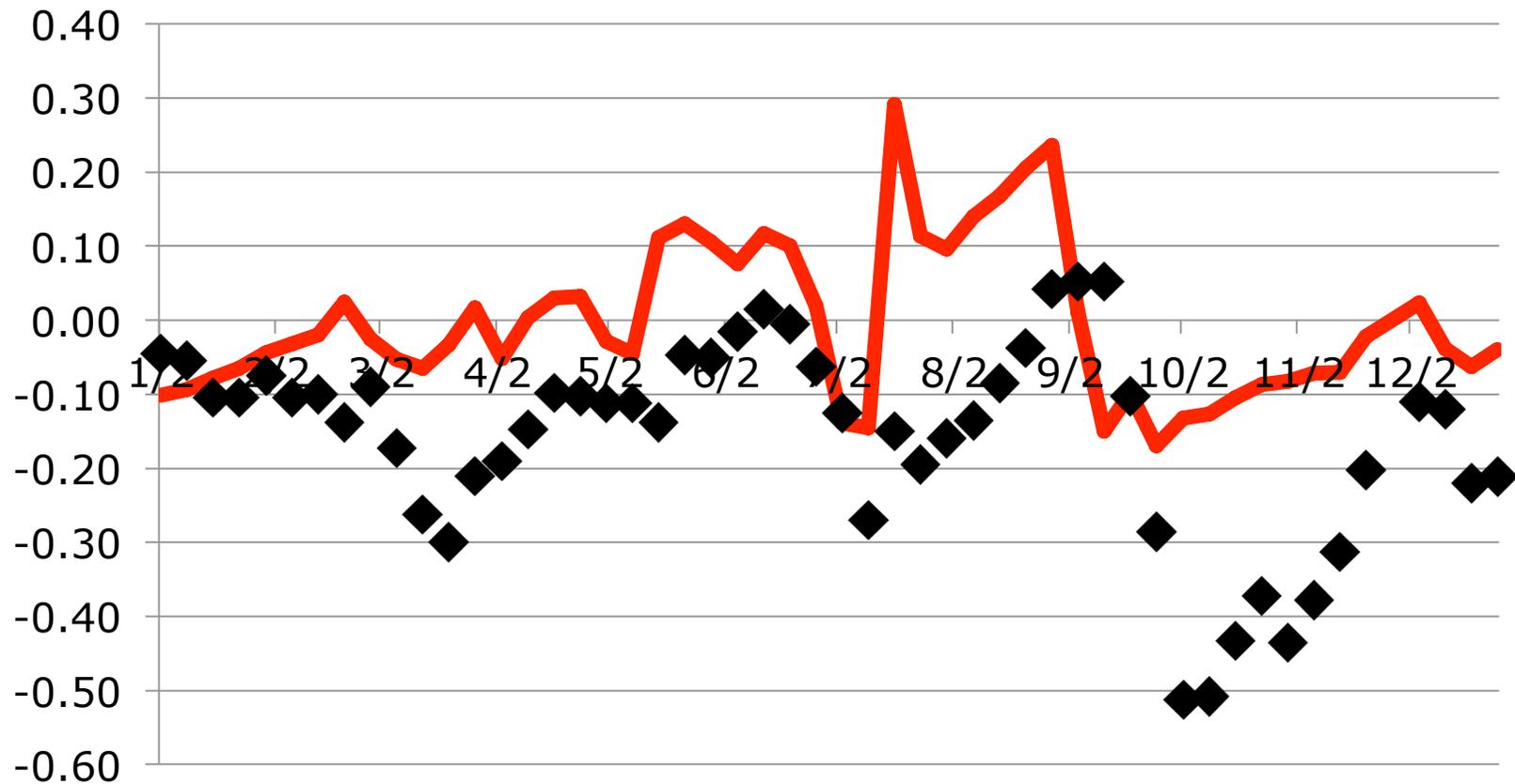


# Local Price vs. Futures Price = BASIS

- **“Strong”**
  - Higher or less negative than expected
  - Market IS demanding grain
  - Perceived demand is higher than supply
- **“Weak”**
  - Lower or more negative than expected
  - Market is NOT demanding grain
  - Perceived demand is lower than supply



# Expected Basis Omaha 2009-13 vs. 2014

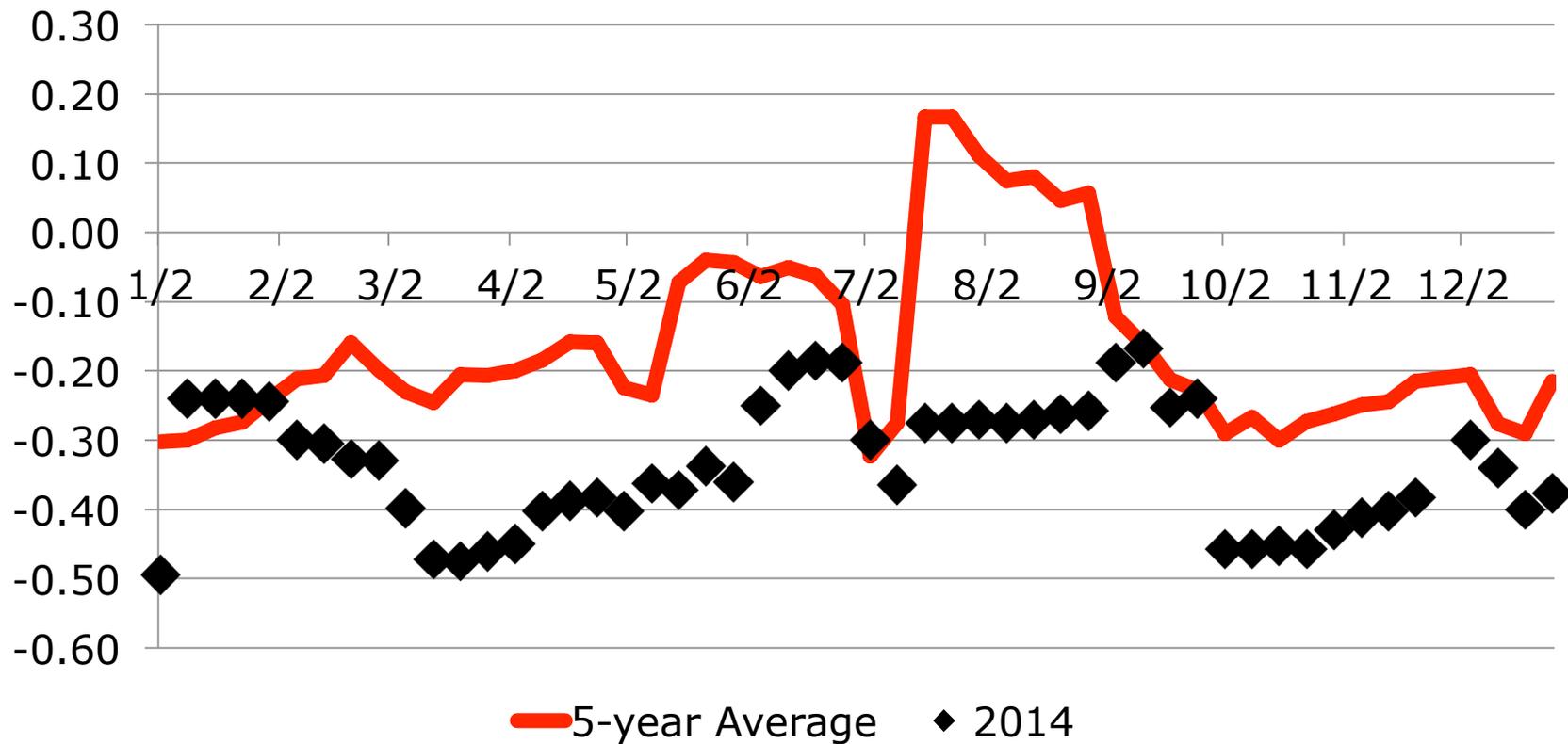


— 5-year Average    ♦ 2014

Closest location to Blair & Freemont

To view all locations visit <http://www.ianrpubs.unl.edu/eublic/live/ec846/build/ec846.pdf>

# Expected Basis Columbus 2009-13 vs. 2014



To view all locations visit <http://www.ianrpubs.unl.edu/eublic/live/ec846/build/ec846.pdf>

# Carrying Charge

- Carrying charge – price difference between futures contract delivery months

Future Contract – Current Contract = Carrying Charge

# Carry Charge

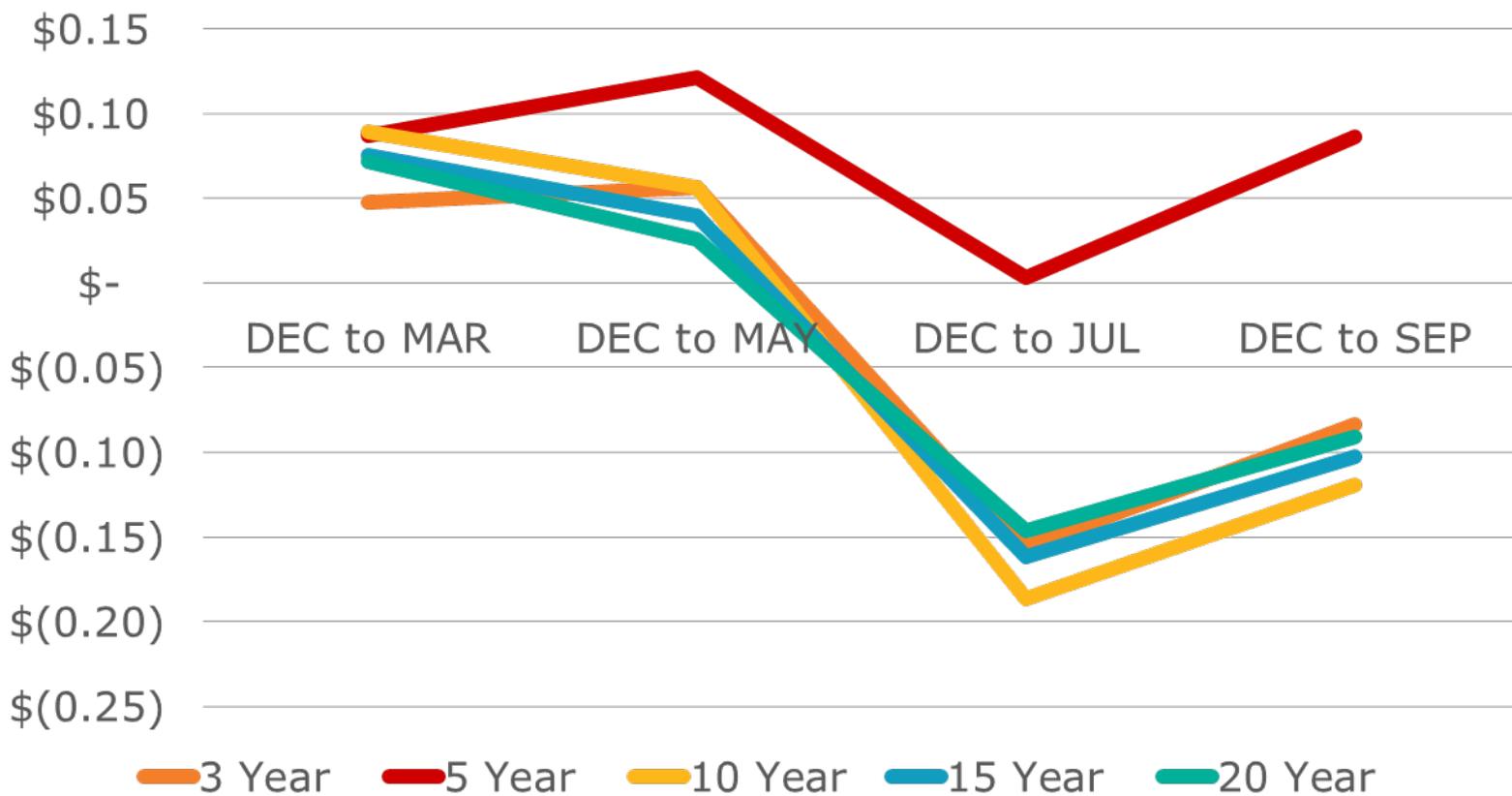
- Needs to be larger than my storage cost
- But also, needs to cover my opportunity cost

# Differences Between Contracts

- Small or negative carrying charge
  - Negative also called “Inverted”
  - Lower demand in the future
- Large carrying charge
  - More demand in the future
  - The carrying charge must be larger than your estimated storage costs for you to hold the product until the later date!

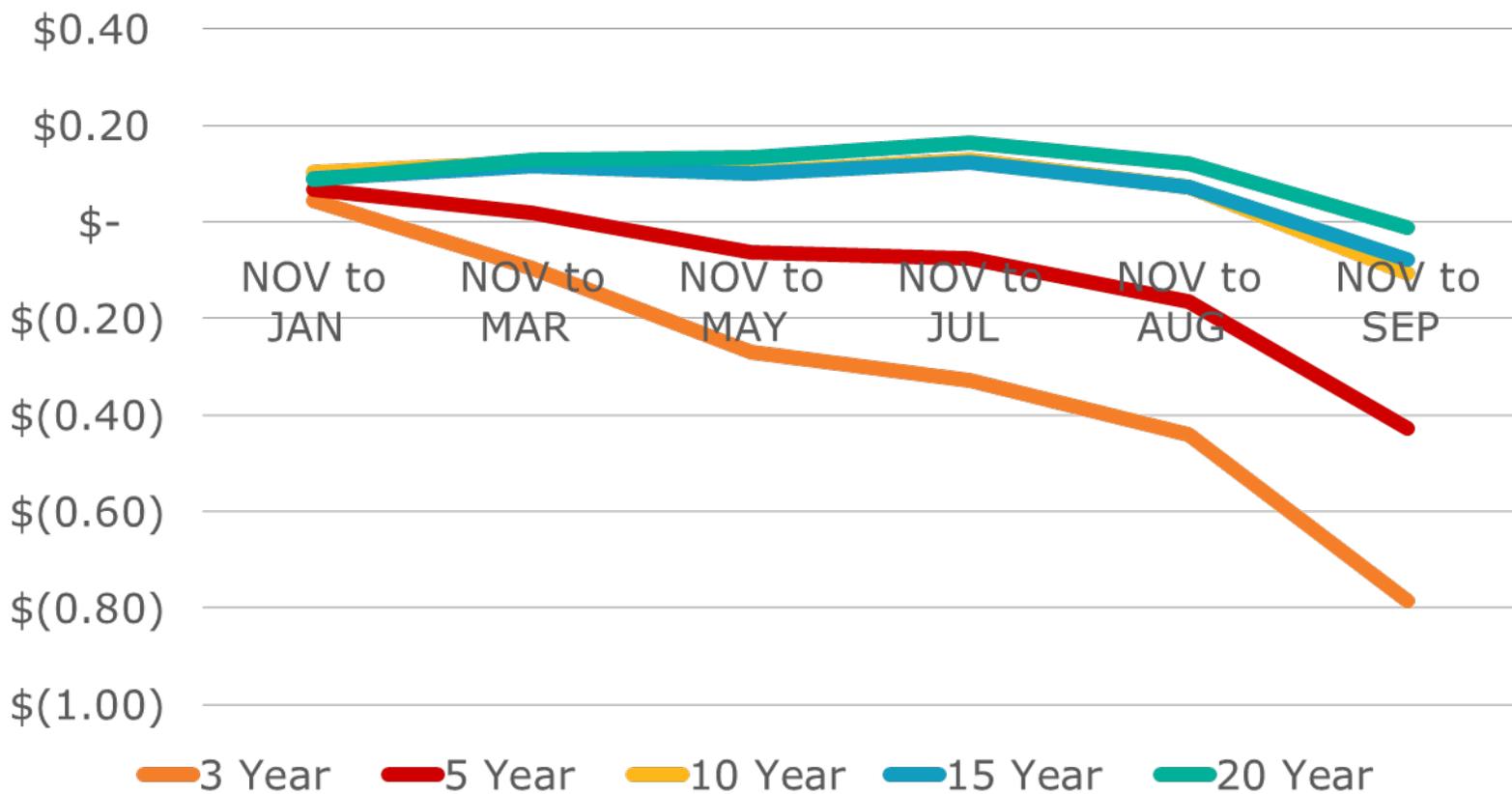
# Historical Carrying Charge

## Corn, Oct. 1

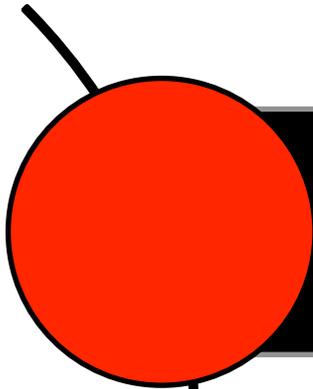


# Historical Carrying Charge

## Soybeans, Oct. 1

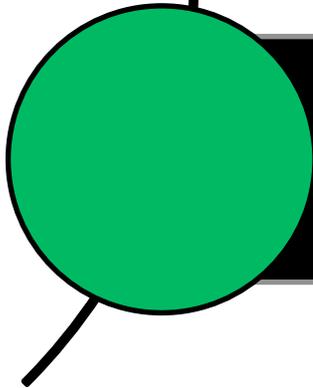


# Market Signals



**STORE**

- Large Carry



**SELL**

- Small or Inverted Carry

Is the carrying charge  
large enough for me  
to “Sell the Carry” and  
continue to store my  
grain?

# Hedge-to-Arrive

- “Fixed Futures”
- Seller sets the futures level on the contract date, but the basis level is determined by the seller at a later date.
- Expect
  - Basis to strengthen
  - Futures prices to decline
- Risk
  - Basis until determined
  - Prices may rise

**Futures + Set Basis = Contract Price**



# Exit Strategies

- Price
  - Set a minimum price, stop loss
- Date
  - Have corn & soybeans sold by July
  - Have wheat sold by January
    - 5 year price suggests

# Strategies - Review

- Track your basis
- Compare carrying charges to interest rate
  - >140 store until the deferred contract
  - <140 sell
- Have \_\_\_\_\_ sold by \_\_\_\_\_
  - Wheat...January
  - Corn & Soybeans... July

# QUESTIONS

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