Grain Marketing Exercise

This exercise is to help you become more familiar with various sources of market information and to get a feel for some of the considerations in marketing grain. Paper transactions don’t give the same emotional challenges as real-world marketing, but they can help you understand processes involved. At the end of the course, you will be asked to hand in the exercise.

You are to monitor current cash grain prices and bids for July delivery each Wednesday at various local markets as well as the nearby and July futures each week. You are to calculate the basis under futures (current cash to the nearby futures, July cash to the July futures) for the various markets in the exercise. Assume you are managing the marketing for a farm just north of Ames. Each week you are to determine which market is the best market for each farm, and whether to store until July or sell in the cash market.

The farm has 500 tillable acres, half were planted to corn and half were planted to soybeans. Yields were 160 bushels per acre on the corn and 46 bushels per acre on the soybeans. The farm has 20,000 bushels of corn and 6,000 bushels of soybeans left to sell, that you are to market. The corn and beans both are stored on the farm. Decide when and where you will sell the grain. You may want to spread the sales out or sell the entire amounts at one or two times. Total cash flow costs for production and storage up to March 1 are $478.50 per acre for the corn and $301.43 for the soybeans. Figure daily storage costs at 0.06 cents per bushel for corn and 0.14 cents per bushel for soybeans. The farm has access to semi trucks and the transportation cost per bushel is 0.60 cents per bushel per mile for distances up to 50 miles. For distances of 50 to 100 miles, it is 0.29 cents per bushel per mile. The mileage to the individual markets are 6 miles to Gilbert, 9 miles to Boone, 20 miles to Jewell, and 100 miles to Cedar Rapids.

The markets to track are listed on the class website, along with a link to the Chicago Board of Trade website for the futures prices. A spreadsheet for keeping track of prices and basis is available on the class website. Each Wednesday, put the price and basis calculations in the spreadsheet. Each time you decide to market grain, e-mail chart@iastate.edu showing the locations of sales, prices, trucking cost, net price after trucking, and amount of sales. When you e-mail your marketings, in the Subject item at the top of the e-mail, put “Econ338C grain marketings” in the Subject line of the e-mail message. The last date to market grain is April 30th. On April 30th, you need to turn in a copy of your price tracking spreadsheet. Send it to chart@iastate.edu by midnight on the 30th. Then, by midnight on May 7th, provide me (hardcopy or e-mail, chart@iastate.edu) a short write-up of your marketings during the exercise, outlining the sales that you made and the reasons you made them. Also, for each week, determine the market which is providing the best marketing opportunity (Gilbert, Boone, Jewell, or Cedar Rapids; cash or July) by comparing the market prices to the per bushel net cash flow costs to market there. The net cash flow costs include production, storage, and transportation costs outlined above.