“Understanding Crop Marketing Strategies”
Econ 338c
March 22nd, 2007

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Presentation Objectives

• Review Weekly Marketing Exercise
• Discuss the On-Going Grain Marketing Exercise due April 26th
• Identify 4 Post-Harvest Crop Marketing Strategies
• Develop a 5 Step Approach to Old Crop Corn and Soybean Sales
• Review Current Futures Price and Carry, Historical Basis and Cost of Storage
• Use Local and Processor Bids to Determine Your Sales Strategies
<table>
<thead>
<tr>
<th></th>
<th>Boone</th>
<th>Nevada</th>
<th>Kelly</th>
<th>Napier</th>
<th>Madrid</th>
<th>Gilbert</th>
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<tbody>
<tr>
<td><strong>Corn</strong></td>
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<td><strong>8-Mar</strong></td>
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<td>3.86</td>
<td>3.84</td>
<td>3.82</td>
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<td>4.00</td>
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<td>3.71</td>
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<tr>
<td>July bid</td>
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<td>3.88</td>
<td>3.86</td>
<td>3.83</td>
<td>3.83</td>
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<td>-.26</td>
<td>-.28</td>
<td>-.31</td>
<td>-.31</td>
<td>-.28</td>
<td>-.29</td>
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<tr>
<td>Sales: Bu.</td>
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<td>0</td>
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<td>Sales: $</td>
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</table>
4 Post-Harvest Strategies

1. Current Cash Sale (fixes nearby futures and basis)

2. Cash Forward Contract (fixes deferred futures and basis)

3. Hedge-to-Arrive Contract (fixes deferred futures, not basis)

4. Futures Hedge/ Option/ Min. Price Contract
Five Step Approach to an Exit Strategy

1. Is there a Carrying Charge in the Futures Market?
2. Are the Future Prices High or Low?
3. Is the Basis Narrow or Wide?
4. What is Your Cost of Ownership?
5. What are Your Cash Flow Needs and Appetite for Risk?
<table>
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<tr>
<th></th>
<th>July $4.21 ¼</th>
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<tr>
<td>May</td>
<td>$4.09 ¾</td>
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<td></td>
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<td>Dec. $4.09 ½</td>
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**Corn Futures Price Closes**

*March 21st, 2007*

*Source: www.cbot.com*
Are Futures Prices High or Low?

**High Prices:** Corn $2.90/bu Futures
Soybeans $7.00 Futures

**Low Prices:** Corn $2.50/bu Futures
Soybeans $5.50 Futures
What’s you’re your Old Crop Exit Strategy?

Exit strategies come in three basic forms…

Price, Time or a I Need the Money and the Grain Bin Space driven exit strategies
Fact: Since 1990, the May cash corn price has exceeded October in 13 of 16 years (81%).

Local Corn Basis Trends

Local Corn Basis Trends


IOWA STATE UNIVERSITY
University Extension
Processor Corn Basis Trends

Processor Corn Basis Trends

Storage Costs for Corn

$0.00
$0.10
$0.20
$0.30
$0.40
$0.50
$0.60
$0.70

$/bu.

months

1 2 3 4 5 6 7 8 9 10 11 12

Commercial
On-Farm

Source: ISU Extension Ag Decision Maker, 2006.
Decision Tree for Sizing Up the Market Carrying Charge?

Large

Are Futures low?

Yes
Unpriced grain in storage (Exit plan!)

No
Basis?

Narrow
Sell the carry with forward contract

Wide
Sell the carry with HTA or futures

Small / Inverse

Are Futures high?

Yes
Harvest Sale
Re-own with options?

No
Unpriced grain in storage (Exit plan!)

## Local Cash Market 3/21/07

### Slater Heartland Cash Bid

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<thead>
<tr>
<th>Futures</th>
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<th>Cash Bid</th>
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<tr>
<td>Spot</td>
<td>$4.10</td>
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<tr>
<td>July</td>
<td>$4.14</td>
<td>-.31</td>
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<td>Futures</td>
<td>Basis</td>
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</tr>
<tr>
<td>Spot</td>
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<td>-.40</td>
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<tr>
<td>July</td>
<td>$4.14</td>
<td>-.28</td>
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Local Cash Market 3/21/07

Gilbert HOI

Cash Bid
<table>
<thead>
<tr>
<th></th>
<th>Futures</th>
<th>Basis</th>
<th>Cash Bids</th>
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<tbody>
<tr>
<td>Spot</td>
<td>$4.10</td>
<td>-.27</td>
<td>$3.83</td>
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<tr>
<td>July</td>
<td>$4.14</td>
<td>-.11</td>
<td>$4.03</td>
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# Processor Market 3/21/07

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<td>July</td>
<td>$4.14</td>
<td>-.20</td>
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</table>
Decision Tree for Sizing Up the Market

Carrying Charge?

Large

Are Futures low?

Yes
Unpriced grain in storage (Exit plan!)

No

Basis?

Narrow
Sell the carry with forward contract

Wide
Sell the carry with HTA or futures

Small / Inverse

Are Futures high?

Yes
Harvest Sale
Re-own with options?

No
Unpriced grain in storage (Exit plan!)

### Soybean Futures Price Closes

**March 21st, 2007**

<table>
<thead>
<tr>
<th>Month</th>
<th>Price</th>
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<tbody>
<tr>
<td>Nov.</td>
<td>$8.10 ¾</td>
</tr>
<tr>
<td>Aug.</td>
<td>$7.88 ½</td>
</tr>
<tr>
<td>July</td>
<td>$7.82 ½</td>
</tr>
<tr>
<td>May</td>
<td>$4.76 ½</td>
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</table>

*Source: [www.cbot.com](http://www.cbot.com)*
Fact: Since 1990, the May cash soybean price has exceeded October in 11 of 16 years (69%).
Local Soybean Basis Trends

Soybeans Basis Slater, IA

Local Soybean Basis Trends

Soybeans Basis Gilbert, IA

Processor Soybean Basis Trends

Soybeans Basis Ralston, IA

Processor Soybean Basis Trends

Storage Costs for Soybeans

$0.00
$0.10
$0.20
$0.30
$0.40
$0.50
$0.60
$0.70
$0.80

$/bu.

1 2 3 4 5 6 7 8 9 10 11 12

months

Commercial
On-Farm

Source: ISU Extension Ag Decision Maker, 2006.
## Local Cash Market 3/21/07

<table>
<thead>
<tr>
<th></th>
<th>Futures</th>
<th>Basis</th>
<th>Cash Bid</th>
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<tbody>
<tr>
<td>Spot</td>
<td>$7.67</td>
<td>-0.65</td>
<td>$7.02</td>
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<tr>
<td>July</td>
<td>$7.89</td>
<td>-.60</td>
<td>$7.29</td>
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# Proc. Cash Market 3/21/07

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<tbody>
<tr>
<td>Spot</td>
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<tr>
<td>July</td>
<td>$7.89</td>
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Assignment for March 29th

• Review Today’s Notes
• See Econ 338C Links on Dr. Wisner’s Website
• Review Breeze Recordings (Crop Insurance and Weather) and February Newsletter on the Polk Farm Management Website
• Read Chapters 2, 8 and 9 in “Managing Risks and Profits”
• Update Wednesdays Cash Bids, Basis
• 50 point Quiz at 3:15 pm (Multiple Choice, Matching, True-False)
Thank You!

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Field Specialist
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www.extension.iastate.edu/polk/farmmanagement.htm