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Successful Grain Marketing Focuses on Establishing a Financially Successful Farm Price

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Commodity prices are established in an open auction format at well-established exchanges such as the CME Group. Prices are based on the information, goals and objectives of active buyers and sellers. Being an open auction, anyone with an interest in trading the commodity can enter and leave as they wish. Farmers only receive a currently traded price when they *sell*.

While high levels of price volatility in a rising market enhance the emotion associated with the grain marketing decision, price volatility also brings opportunity. Taking advantage of the opportunity requires discipline in the marketing decision. In this article, we highlight the role of expected revenue in relation to production costs in making the grain marketing decision as well as the creation and importance of your farm's average selling price. Focusing on the change in expected profit from the change in the average selling price provides a financially healthy fundamental base to make grain marketing decisions. We will walk through an example using the 2021 December corn futures prices. This example is just one of many marketing possibilities since individual farmers can market at any time. Also remember the 2021 price pattern will be unique to any other price pattern you will observe in the future.

Suppose you are in Eastern Nebraska producing non-irrigated corn after soybeans with an expected yield of 195 bushels per acre, costing you $607.66 per acre to raise.[1] Expected per bushel costs work out to $3.12 per acre ($607.66 per acre/195). Further, suppose it is Jan. 5 and new crop December corn futures is trading at $4.96 per bushel. After removing an expected harvest basis, the cash price for corn is substantially higher than per bushel cost of production, indicating a positive expected profit. As a result, you decide to market 5% of your expected production, or 9.75 bushels per acre. You market a small amount because it is early in the season, but you feel pressure to do more marketing as the price is well above your expected per bushel cost of production. Consider this your first marketing point. Once the contract is in place, you are left with 185.25 bushels of unpriced expected production. As a result of so much more grain to market, you hope this price is the lowest contract price you make. If turns out to be the best, you limited the financial pain of experiencing lower prices with this contract. You are willing to do more marketing but want to see where prices go.

[1] 2012 Budget 24-Corn, Bt, ECB, & RIB, Eastern Nebraska, No Till, after Beans, 195 bushel Yield Dryland. Available at: https://cropwatch.unl.edu/Budgets/2021/2021-Corn-Dryland-121620.pdf

Fast forward two months: new crop corn is now trading around $5.40 per bushel. You again market 5% of expected production. With two contracts at different prices, you now have an average contracted price of $5.18 per bushel (($4.96+$5.40)/2). Your average marketing price is moving higher, as you want. Your contracted bushels give you a clearer picture of where farm revenue can end up as you are not as financially exposed (i.e., fewer bushels to price if you grow expected production) to prices moving lower.

Now suppose you wait another two months and now we are in the second week of May. New crop corn futures have again risen, this time to $6.42 per bushel. You are amazed by the price, your crops are growing well and you decide this time to contract 20% of expected production. Your total contracted production is 30%, consisting of 20% at $6.42, 5% at $5.40 and 5% at $4.96. Your farm average contract price is now $6.01 per bushel. The rise in the futures market has dramatically helped your average selling price.

What does the $6.01 average per bushel contracted on 58.5 bushels of expected production (30% of 195 bushels) provide you? If prices begin to move lower, your exposure to this is limited by the 70% of unpriced expected production. Your farm average price is also well above expected production costs, providing you a financial buffer against losses if expected per-bushel production costs are higher due to yields lower than expected. This places you in a valuable financial decision-making position as you have a better idea of the range of where farm finances may end up. You may also be in position where it is impossible to lose money this year. You may consider making changes to other parts of your operation knowing where you are at on commodity marketing.

Commodity marketing allows the individual producer to craft their own future. A future based on their goals and objectives. The ability to sell grain at any time provides helps to achieve your goals and objectives as selling can be controlled by the individual. In other words, focus on what you can control. Farmers who solely seek to sell all their grain at the highest price will only create unnecessary emotional stress and cause you to be upset when prices move higher. When commodity marketing, focus on the average farm price.

Thoughts to consider when pre-harvest marketing

What if prices remain constant or move higher? Consider selling more in small increments based on the intersection of your comfort level and the facts. A key component of this is knowing your expected production. Remember to reevaluate your expected production throughout the year. Changes in individual growing conditions must be considered, as these influence yields and, therefore, your per-bushel cost of production.

What if my starting contracted prices are too low relative to the current price? Your initial sales may be lower than the current market price, but your average farm price will move higher as you sell into a rising market. With more grain to sell, you can improve your average farm price. Focus on improving the average farm price, rather than your lowest contracted price. Looking back after the fact is not relevant as prices could move in any direction from that point. Focus on the average farm price.

What if I am wrong, and the markets go even higher? There is nothing wrong in improving the farm average price and achieving your goals and objectives. Your marketing strategy must focus on establishing a farm average higher than your per bushel cost of production. Markets are unpredictable and only when you *sell* do you get to include that price in your farm average.

Everyone else is getting higher prices than I sold at. They only get higher prices when they actually *sell*. I am confident many producers sat on the sidelines watching the recent price action, some have already sold, and some are speculating to see if prices continue to rise. Producers will be doing many different things when it comes to marketing. Keep the focus on your goals and objectives of achieving a profit. It is also important to remember that producers have a different cost of production, which may not result in the same profit that you have already locked in. They may also have more cash on hand, allowing them to survive a price decline.

What does crop insurance give me in a year like this? With a Revenue Protection policy in a year with higher prices, your revenue guarantee will increase. If prices stay up through the harvest price calculation period (October for Corn), you will need a yield loss to trigger a payment.

What do I do if prices begin to move lower? If you have already sold some grain above your cost of production, have created some financial cushion. Decreasing prices, although discouraging, will not affect you as harshly as someone who did not act during the price rally earlier this year. Keep your farm average price as high as you can, given the amount of grain you are willing to sell before harvest.

Enjoy the prices being offered as they are well above production costs. Embrace the volatility by focusing on improving your farm's average price received. Ignore the noise by focusing on the farm average price as the noise distracts from achieving goals and objectives. If your goal is to make money, this is a welcome year.

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