

“Sharpening Your Grain Marketing Skills”
Presented By:
AgWEST
COMMODITIES
Webinar: November 7th, 2023



HISTORY
1999



9 BRANCH OFFICES

TODAY
We Assist Over 2,500 Producers Across the Corn Belt

AGENDA

- Define the Problem
- Top 10 Rules for Better Marketing
- Building a PLAN and EXECUTE IT!

Disclosure Statement

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Defining The Problem

What do commodity markets ALWAYS do?

Markets go up and then they go...


...DOWN

WITHOUT FAIL!




How much grain gets sold in the bottom 1/3 of the market each year?

- 20%
- 40%
- 60%
- 80%



What percent of producers market with a STRUCTURED PLAN?


- Over 50%
- Less than 30%
- Less than 15%



Not a Great Set of Statistics!

- Less than 15% of folks marketing with a structured approach
- 80% of the grain gets sold in the bottom 1/3 of the annual market range


Could there be a correlation?



The Marketing Dilemma

Why is marketing so difficult?

?



The Marketing Dilemma

Why is it so difficult?

- Emotions can really jack up the process "FOMO" "FOBO"
- Limited understanding of marketing tools
- Paralysis by Analysis
- Pride gets in the way of asking for help



1. Know your market
2. Know your product
3. Know your customer
4. Know your competition
5. Know your marketing tools
6. Know your marketing budget
7. Know your marketing goals
8. Know your marketing strategy
9. Know your marketing tactics
10. Know your marketing results

AgWest COMMODITIES MARKETING RULES

1. Know where the markets are located - Diversify locations in the primary world
2. Know in advance "cost of production" based on BPI goals
3. "Big Price" always tops the spreadsheet of a marketing plan
4. Determine needed price risk for each marketing action
5. Establish realistic financial goals and develop a marketing plan that meets those goals

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2022 Nebraska Farm Custom Rates
 Thomas A. McClain, Extension Educator - Farm & Ranch Management Program
 Ben A. Jensen, Agricultural Economist

PLANTING AND CULTIVATING OPERATIONS	Machine Rate	Operator Rate	Harvest	Harvest/Planting
Planting - corn (100% yield)	\$4.50	\$1.25	\$100.00	10
Planting - soybean (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - sorghum (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - sunflower (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - wheat (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - alfalfa (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - clover (100% yield)	\$5.00	\$1.25	\$100.00	10
Planting - other (100% yield)	\$5.00	\$1.25	\$100.00	10
Cultivating - corn (100% yield)	\$4.50	\$1.25	\$100.00	10
Cultivating - soybean (100% yield)	\$4.50	\$1.25	\$100.00	10
Cultivating - sorghum (100% yield)	\$4.50	\$1.25	\$100.00	10
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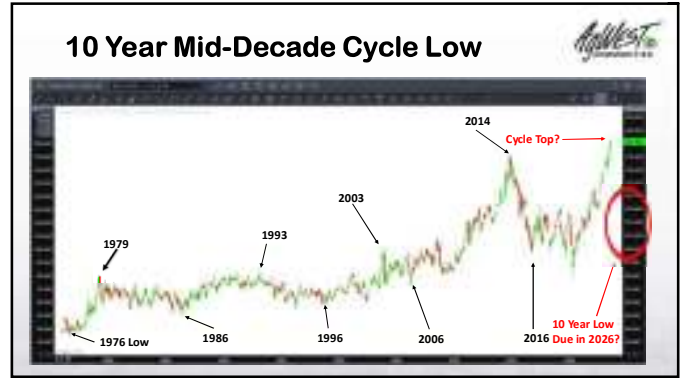
Category	2022	2021	2020
Revenue	1,234,567	987,654	765,432
Expenses	876,543	654,321	432,109
Net Income	358,024	333,333	333,323





AgWest COMMODITIES MARKETING RULES

1. Know where markets are located - Customer locations is the primary goal
2. Know an accurate "cost of production" based on BPT goals
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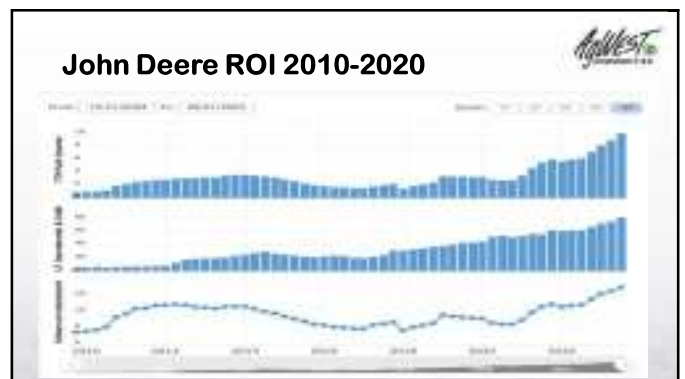

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AgWest COMMODITIES MARKETING RULES

- 6 Discipline is necessary for successful hedging - Especially where markets are illiquid
- 7 Futures and basis prices should adjust to one another
- 8 Monitor economic and financial conditions to assess a longer term view to aid the basis - Hedging with futures under the premise
- 9 Every good price includes commodity price in case of a major market-changing event
- 10 Performed in entirety to establish and determine investment marketing plan (should be great option) individual goals rather than Chicago price index

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Separating Futures & Basis

- Futures and basis have different seasonal patterns -- when one is good, the other very likely is not
- Futures = BIG PICTURE (world supply/demand)
- Basis = LOCAL PICTURE (local supply/demand/freight)
- Separate your futures and basis decisions

DO NOT BE A FLAT PRICER!

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Producer's Price Environment

<p>CASH MARKET</p> <p>Cash Sale HTA Contract Basis Contract Forward Contract Other Hybrid Contracts</p> <p style="text-align: center;">SELLING THE PHYSICAL</p>	<p>FUTURES MARKET</p> <p>Hedging</p> <ul style="list-style-type: none"> + Futures + Options - PUTS protect downside - CALLS keep upside potential <p style="text-align: center;">PRICE RISK MANAGEMENT</p>
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Utilizing Both Environments?

Producer's Price Environment


<p>CASH MARKET</p> <p>Spot Price, Futures Contract, Forward Contract, HTA Contract, Basis Contract, Hybrid Contract</p>	<p>FUTURES MARKET</p> <p>Hedging</p> <ul style="list-style-type: none"> + Futures + Options
<p>ADVANTAGES</p> <ul style="list-style-type: none"> + Hedging Price Risk + Risk Reduction/Profit Potential 	<p>ADVANTAGES</p> <ul style="list-style-type: none"> + Hedging Price Risk + Risk Reduction/Profit Potential + Flexibility in Basis Contract
<p>DISADVANTAGES</p> <ul style="list-style-type: none"> + Locked into a Basis + Basis (Basis) + Basis Fluctuation <p style="text-align: center;">SELLING THE PHYSICAL</p>	<p>DISADVANTAGES</p> <ul style="list-style-type: none"> + Product Price Volatility + Basis (Basis) + Basis Fluctuation <p style="text-align: center;">PRICE RISK MANAGEMENT</p>



➤ **Have you used HTA's or NBE's?**

****"Hedge To Arrive"**

****"No Basis Established"**



HTA - Example

- June 16th 2023 - Sell Dec. Corn futs. @ \$6.00
- Buyer charges HTA fee of 5cts **(\$.05)**
- Net Futures Price \$5.95

- Oct. 20th - Set basis and deliver **(\$.30)**
- Net sale on hedged grain = \$5.65

- Buyer assumes margin risk on hedges the whole year in return for a HTA fee of \$.05cts



Short Hedge - Example


- June 16th 2023 - Sell Dec. Corn futs. @ \$6.00
- Oct. 20th 2023 - Offset position @ \$5.00
- Net gain/loss on futures = +\$1.00

Sell Corn Same Day As Offsetting Futures

- Oct. 20th 2023 - Sell grain to buyer @ \$5.00
- Set basis for harvest delivery **\$(-.30)**
- CASH PRICE WITH BUYER \$4.70

- \$1.00 hedge gain less 1 cent comm. = +\$0.99
- Net sale on hedged grain = \$5.69

Hedge gains offset lower prices at harvest



Short Hedge - Example - Higher Market @ harvest


- June 16th 2023 - Sell Dec. Corn futs. @ \$6.00
- Oct. 20th 2023 - Offset position @ \$7.00
- Net gain/loss on futures = **(\$1.00)**

Sell Corn Same Day As Offsetting Futures

- Oct. 20th - Sell grain to buyer @ \$7.00
- Set basis for harvest delivery **\$(-.30)**
- CASH PRICE WITH BUYER \$6.70


- \$-1.00 hedge loss + 1 cent comm. = **(\$1.01)**
- Net sale on hedged grain = \$5.69

Hedge losses are gained back via appreciation in cash grain values



Short Hedge - Example

- HTA OR NBE
 - **\$5.65 CASH**
 - **(\$6.00 futures - \$.05 HTA Fee - \$.30 basis)**
- SHORT HEDGE
 - Lower market @ harvest
 - **\$5.69 CASH NET**
 - **(\$5.00 sale + \$.99 Hedge gain - \$.30 basis)**
- SHORT HEDGE
 - Higher market @ harvest
 - **\$5.69 CASH NET**
 - **(\$7.00 sale - \$1.01 hedge loss - \$.30 basis)**



Hedging Highlights

- Hedging is a GOOD thing when you understand both the pros and the cons
- Three people need to understand the process - who are they (??)
 - *Producer, Spouse and Lender**

Hedging with futures ABSOLUTELY has its benefits

But...

Do not go there before you are ready!



AgWest COMMODITIES **MARKETING RULES**

- 6 Discipline is necessary for successful hedging. Especially when markets are at a price plateau.
- 7 Futures and basis prices should adjust to get in the same line.
- 8 Analyze economic and financial conditions to know a longer term it is time to add the basis—hedging with futures makes this possible.
- 9 **Every good plan includes continuing plans in case of a rapid market-changing event.**
- 10 Profoundly an excellent to establish and become comfortable marketing your commodity market for annual gains, not just gains when the Chicago price rises.

Price Floors

December 2024 Corn



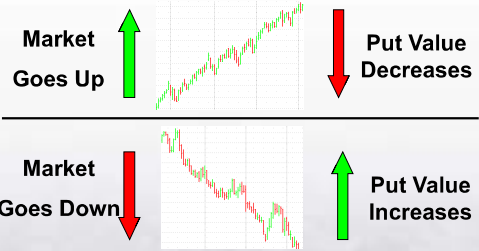

Long Puts Provide

- > Gives the "RIGHT" but not the obligation to sell futures at you strike price
- > Safety net if needed
- > A means of buying time to see if higher prices are coming to make a sale
- > Pay a premium to own that right

*Own *puts* on unsold production
*Exit *puts* (offset) as sales are made
*Manage the *puts* (price floor) as futures move

It's All About Avoiding Disaster!

How Puts Work



Carry Spreads

- Difference between one contract month compared to a deferred contract month
- Large carry spreads indicate a “big crop” is anticipated
- Small carry spreads indicate a “tight crop” is expected

Listen to the market!
Learn to read the tea leaves!

Carry Spreads

Harvest bid \$4.78 - \$0.30cts basis = \$4.48 cash

- Dec 23 = \$4.78
- March 24 = \$4.93
- May 24 = \$5.02
- July 24 = \$5.10

} \$0.15cts
 } \$0.09cts
 } \$0.08cts

- “Roll” your Dec \$4.78 hedge to March
- Earn the carry spread $\$4.78 + \$0.15 = \$4.93$
- February basis @ $\$-.10?? = \4.83 cash Feb
- RETURN TO SPACE = $+\$0.35$ cts
 > (\$4.48 harvest VS \$4.83 in February)

Reading The Spreads

Leading into harvest, futures spreads provide great insight...

- Bin or deliver at harvest
- Which crop to bin – Corn – Beans - Wheat

Earning the Carry

Does your farm storage make you money?

- Market carry on stored grain CANNOT be captured unless futures price is fixed
- Un-hedged grain in storage is speculation... simply hoping for help from the market

Fixing a “futures” price is the most impactful BRICK in your marketing plan WALL!

A Structured Approach

Marketing Is NOT Rocket Science

It is all about doing the next right thing...

ONE BRICK AT A TIME!



Be decisive.
Right
or
wrong...

Make a decision.
The road of life is paved with flat squirrels who couldn't make a decision.

-anonymous

