

Farmer's Corner



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Where Do We Go From Here?

One of the biggest barriers to confident marketing decisions is getting wrapped up in all of the “noise” of marketing. Hedge funds, ethanol, short crops, big crops and other such events (or in some cases the perceived, not actual, events) dominate the airwaves and print media. All of it serves to stimulate conversation around the coffee shops and kitchen tables of the farming communities of America.

After all of the discussions and opinions are done, the question must be asked, “How much money is all of this talk putting into my bank account?” This may lead to extended conversations that are a great deal of fun; such things as “moving to a whole new price level” or establishing a “new price plateau”. But all this is truly, as my grandfather used to say, “Nothing you can take to the bank or eat.”

ASK THE RIGHT QUESTION

All too often, the wrong answer is a result of asking the wrong question. Instead of “How will all these goings on affect prices?”, which has proven itself time and again to be a very difficult question to answer accurately, make more time and mental energy should be spent on asking questions like “What is my crop worth right now?” That is one of the few price-related questions that can be answered accurately at any time.

Here is a simple form that will help you figure revenue based on anticipated yield, previously contracted bushels, and current prices.

	<u>Sample</u>	<u>Actual</u>
Number of Acres:	<u>800</u>	<u> </u>
Expected Bushels Per Acre:	<u>175</u>	<u> </u>
Total Production:	<u>140,000</u>	<u> </u>
Bushels Forward Contracted:	<u>50,000</u>	<u> </u>
Avg. Forward Contract Price:	<u>\$2.60</u>	<u> </u>
Forward Contract Revenue: (÷ Total Acres)	<u>\$130,000</u>	<u> </u>
Forward Contract Revenue/Acre:	<u>\$163</u>	<u> </u>
Bushels Left to Sell:	<u>90,000</u>	<u> </u>
Current Price:	<u>\$2.10</u>	<u> </u>
Revenue At Current Price: (÷ Total Acres)	<u>\$189,000</u>	<u> </u>
Revenue/Acre at Current Price:	<u>\$236</u>	<u> </u>
Combined Revenue/Acre:	<u>\$399</u>	<u> </u>

IN THIS ISSUE:

Where Do We Go From Here? ■ How High Can It Go?

■ Profile Of The Successful Marketer ■ Stay-In-The-Market Contract ■ Coffee Shop

If this amount of revenue returns a reasonable profit per acre, then taking that profit and being satisfied is the best course of action over the long term; it eliminates extra storage and interest costs as well as downside price risk that could erode currently available profits. If the number for profit is short of your goal, you must weigh which route makes the most sense; accept what is currently available, or stay in the market and hope for better results later, by storing or some other means.

When considering whether or not to store, remember that later price gains will be offset by the costs of waiting, including storage, drying, and interest costs. We recommend having standing Target Contracts for stored grain at a price that will result in a profit for you, but also remember that the longer it takes to reach your price goal, the more costs you will have incurred.

BUT I HAVE MY OWN BIN!

If you have your grain stored on the farm, you will still incur costs in the form of interest and conditioning costs. To ensure that quality that you took out of the combine is still there in March, April or later when the weather warms up, you will have to spend some money or run the risk of assuming costs in the form of quality discounts in the late spring or through the summer months.

Current market conditions will reward the farmer for delivering farm stored grain later in the marketing year. In many cases, there are some nice premiums in the market for January, March or even later delivery periods that may more than offset the cost of carrying the grain for that length

of time. Please be sure that you keep that grain in good condition if that is your choice.

It may be when you combine the value of grain that you have forward contracted and the current value of these forward delivery periods (less additional cost) you may find you are at your target level. If not, enter that target now!

THE PROBLEM WITH “WAIT AND SEE”

One of the more common comments heard at harvest time is that “I’m going to wait and see what happens”. Another way to put it is that “I’m going to not make that decision right now”. It is important to realize that by choosing “not to decide” you are making the decision to incur extra cost and taking the risk of taking less for the crop.

Many people believe that the large carry in the futures market means that prices are going higher. Don’t fall into that trap. The truth is that as time goes by, futures prices typically decline unless some major event takes place, such as a widespread drought. It’s very hard to kill a crop in October. Bottom line, the only way to take advantage of big carry is to sell the grain now for some later delivery period.

One of the biggest mistakes that farmers make in marketing their grain is to “wait and sell for a better price”. The problem that most people fall into is that the current price is never high enough and always going to be better next week or next month. One farmer made the comment that a good price is usually “5 cents more than I can get right now”.

If you are going to wait, put in a target to capture the price you want.

How High Can It Go?

Would you sell your 2006 crop if the price was 50¢ higher? Current prices for 07 corn, soybeans, SRW wheat, and rice are at least that much higher than current prices, and quite a bit more in some cases.

It would be shame not to partake in at least some of that money. We have no way of telling whether prices will be higher, lower, or the same at any point in the future, but we can be certain of what prices for future delivery are today.

There may be those who want to advise you on future price direction, but they have very little at stake in your future.

If you haven't already taken advantage of new crop prices for 2007 and beyond, we strongly encourage you to do so. Prices will move up, down, and sideways at the whim of the market, but once you've locked in a high price nothing can change it, and when all the hype has subsided, the only thing that will make a difference to you is how good a job you did of capturing opportunities when they were available.

Nobody knows for sure what tomorrow will bring, but those who take action and sell good prices are a little closer than the rest of us to answering that question.

Profile of the Successful Marketer

Our objective is to help all of our customers acquire grain marketing skills that are as good as their crop production skills. From our perspective as country elevator operators, we have the privilege of working with many producers and observing a wide range of marketing habits. We notice that those who consistently sell for the highest prices have some common characteristics that we would like to share. Their qualities include:

1. **They see the big picture...**they reflect on the past and plan for the future.
2. **They are aware of their marketing opportunities...**they know that good pricing opportunities are available during every season for those who plan ahead.
3. **They have buried the desire to hit a marketing home run...**they recognize that making consistent sales in the top third of the market yields consistent profits, they don't strive to hit market highs.
4. **They have conquered the grain marketer's two greatest enemies: Fear and Greed**
5. **They are oriented toward taking action...**they enter targets every year.
6. **They are happy at harvest.**

Being a member of this unique group of folks is no accident. Good crop marketers are not born that way; they become good marketers by design. It takes commitment, perseverance and extreme dedication. Our intent is to help you, our valued customers, become the best you can be as we work together in marketing your crop production.

What can be done with grain that has not been marketed?

If you have already marketed 2006 production, your attention has turned to 2007 and 2008 marketing opportunities. If you have not marketed 2006 production, we have learned that it will be difficult for you to focus clearly on future production until you have disposed of 2006 crops. We suggest marketing these bushels in the most positive way possible. Storing the grain in your space or in ours comes with risks and costs to you. The risks are lower prices and losing grain quality. The costs are storage, interest and anxiety. The market provides tools to deal with most of these negatives.

Stay-in-the-Market Contract

Many producers have the constant desire to be "in the market" or to own some grain that will appreciate in value when the market price moves higher. This seems to be a common desire among farmers. The problem is that meaningful market rallies seldom occur and last for very short periods of time. History will substantiate this observation. Owning cash grain for increase in the price often results in the price going sideways to lower, while storage and interest costs continue to add up. Each year, millions and millions of dollars are extracted from farming operations by this phenomenon. This need not happen. At any given time, the crop may be sold, removing the risk of lower prices, eliminating storage costs and stopping interest costs, while benefiting from rising prices, if they occur.

This is accomplished by what we call a Stay-in-the-Market contract. You sell us your grain and take your money and we keep you in the market by buying an option on a futures contract. Many of you are acquainted with these tools, sometimes called Minimum Price contracts. We own the option, but write you a contract that spells out your right to benefit from market increases above a certain level in the futures market. In exchange for this right, you must pay a fee that gives you a certain period of time in which to be in the market. This fee is normally less that you would expect to pay

for storage and interest for an equal period of time. The longer the period of time you want to be in the market, the higher the fee. The most economical contracts are those written for short periods of time.

In fact, we think that buying shorter periods of time makes the most sense for several reasons. Buying long periods of time is very expensive and may be more time than you need. Also, if you purchase only a short period of time and the price drops and the contract expires worthless, you may opt to go with another contract, getting in the market at a lower price for another short period of time at a reasonable cost. We are able to offer you contracts month to month, at reasonable costs. Another reason to buy short periods of time is that this keeps you attached to a nearby futures contract, which historically shows the most promise during substantial rallies.

The market is your friend, providing consistent selling opportunities every season, for those who are aware, have good marketing skills and seek to manage their risks. For those who choose to pass on the time-proven early marketing season opportunities, the market offers products to limit risks and costs, helping the producer to capture any potential opportunities in the final segment of the season.

Is Ethanol the Answer?



Ethanol is the big topic everywhere. Depending on who you ask, you'll hear opinions ranging from "We'll never see \$2.00 corn again" to "We'll need the increased usage just to keep with increased production potential."

Wherever you stand on the issue, one thing is certain; ethanol hype has produced tremendous selling opportunities for the next three corn crops. Currently available prices for 07, 08, and 09 corn are almost certain to be well above the historical average price received by corn growers.

Can you afford to bet your future on what some people say about ethanol? A safer bet would be on your own ability to make disciplined decisions to identify and act on historical opportunities.