

Corn Harvest Marketing Strategies

Pre-harvest sell and/or sell for cash at harvest – This strategy is for producers that do not have any or enough on farm or affordable commercial storage available to store their corn crop beyond harvest.

Actions: Sell corn at the spot or cash price during harvest or deliver on previously made pre-harvest cash forward or hedge-to-arrive sales, fixing basis upon delivery or in increments between now and harvest.

Advantages: Over the long term there are very few advantages to this type of strategy unless a producer is an aggressive forward marketer and is offered profitable marketing opportunities. Growers that intend to utilize this strategy long term are not interested in managing grain in storage and/or investing in corn storage. This year, with limited profitable pricing opportunities in the calendar year, producers that have average to above average cost of production will almost certainly fail to cover all of their production costs for 2009 on the bushels sold in this way, with the exception of corn that was hedged for this crop year prior to the market retraction in early July of 2008.

Disadvantages: Grain and oilseed futures prices and basis are highly seasonal. We nearly always experience our poorest basis near or at harvest time. The exception to this is in years of extreme shortage of a given commodity. That is certainly not the case this year with more than adequate corn production expected along with a large carry out from the 2008 corn crop. Futures prices also show seasonal weakness and tend to decline from late spring/early summer into and through harvest. Keep in mind that harvest starts in September and can run through November.

Pre-harvest sell and/or sell for cash at harvest and attempt to capture market gains post harvest –

This is also for producers with limited or no corn storage or affordable commercial storage available to store their crop after harvest.

Actions: Sell corn at the spot or cash price during harvest or deliver on previously made pre-harvest cash forward or hedge-to-arrive sales, fixing basis upon delivery or in increments between now and harvest. Re-own crop by buying futures or buy call options to limit market exposure to gain limited upside price while not paying margin and eliminating the down side risk that can occur with futures contracts.

Advantages: Growers eliminate the need for storage and handling facilities for corn while being able to take advantage of increasing futures prices if they are offered. The use of futures allows producers to gain fully from futures price gains while the use of call options allow producers to gain a portion of any futures price gains within the limits of the call option contract (strike price and expiration date) less the cost of premiums paid to buy the call option.

Disadvantages: Basis on grains and oilseeds are normally at their weakest at or near harvest and when selling cash grain and/or fixing basis on pre-harvest sales at this time, growers cannot take advantage of potential basis improvement that normally occurs post harvest. When using futures to re-own production, growers are taking all of the downside risk in futures price movement along with any gains from potentially increasing futures prices. Access to capital for initial and maintenance margins is

required along with a brokerage account with a reputable broker and brokerage firm to use futures. When using call options to capture any futures price improvement, capital for call option premiums is required along with the brokerage relationship mentioned previously. A written marketing/hedging plan with exit strategies including price targets, increments, and decision dates is necessary.

Vertical Bull Call Spread Strategy - Pre-harvest sell and/or sell for cash at harvest and attempt to capture market gains post harvest – This is also for producers with limited or no corn storage or affordable commercial storage available to store their crop after harvest.

Actions: Sell corn at the spot or cash price during harvest or deliver on previously made pre-harvest cash forward or hedge-to-arrive sales, fixing basis upon delivery or in increments between now and harvest. Buy January call options at or near the money when we get a buy signal between now and harvest, sell a further out of the money call options to reduce the cost of the purchased call options.

Advantages: Growers can gain limited upside in futures price movement while minimizing the cost of option premiums while eliminating the down side price risk of potentially declining futures prices.

Disadvantages: As in the previous strategies, any potential basis gains are not available to producers utilizing this system. Also, capital for both call option premiums and limited margin capital needs to be available as the act of selling call options creates a potentially marginable position if prices increase as we hope by placing this strategy in play. In practice producers create a minimum price with a ceiling price on futures price movement while minimizing out of pocket cost and increasing the minimum price compared to buying call options alone. As in the previous strategy, a written marketing/hedging plan needs to be in place.

Notes: Futures prices are highly seasonal pre-harvest with distinct patterns the majority of the time. Post harvest, futures prices are much more random, with prices declining from harvest nearly half of the time over the last 30 years. Remember, even if prices decline, we will almost certainly have price increases to sell into even in declining market. Many grain elevators and terminals will place a dump fee or force a pricing decision in other ways even if paid commercial storage is available.

Benchmark Post Harvest Marketing – Post harvest corn marketing plans will be developed and implemented using a combination of the above strategies on one-half of production with the balance placed in storage and marketed using a combination of storage hedges that take advantage of futures market carry, price targets, and decision dates.