

## *Soybean Harvest Marketing Strategies*

Soybean futures prices have offered more profitable marketing/hedging opportunities since the beginning of 2009 than either wheat or corn. Most producers that are pre-harvest marketers should have all or nearly all of their hedges or cash forward contracts in place. The following strategies will outline some of the options that producers have when making harvest time delivery and marketing decisions.

***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 soybean crop beyond harvest.

***Actions:*** Sell soybeans 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. In the much of the country, currently offered harvest time soybean basis is at or better than long term historical averages. The exception is the Delta of South East Missouri and areas like it that have had basis patterns shift in recent years. In any case, if basis is normal to near normal, basis fixing decisions can be broken into three increments on either previously made sales (either hedge to arrive or futures hedges) or on sales that need to be made from now until harvest time delivery. The first decision would be made as soon as basis offers are at or near those historical averages which in many areas are being offered now. One third of the basis would be fixed at harvest or at delivery with the final third being fixed between now and harvest if basis improves prior to harvest. While basis normally is at its poorest at or near harvest, this year we are in a spot shortage situation and there is a need to refill the supply pipeline and we may see better than normal basis being offered at harvest to encourage delivery of soybeans, especially if futures prices decline from now until harvest. Basis can be fixed on futures hedges by both lifting the hedge and making cash or cash forward sale or by entering into a basis contract and lifting the hedge at a later time. You would only use the basis contract if your hedging increments don't allow you to maintain price protection and still have the flexibility of incrementally setting basis. If a grower is using hedge to arrive contracts, then a visit to the grain buyer to fix the basis on the appropriate contracts is required.

***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 soybean storage. Currently there are limited storage hedging opportunities as there is little to no carry in soybean futures (in some contracts the futures prices are inverted). Any storage that is available could then be diverted to crops such as corn or wheat where carry can cover storage costs and perhaps more especially as if basis improves post harvest which is normally the case.

***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 which is the case with soybeans and other oilseeds this year. Futures prices also show seasonal weakness and tend to decline from late spring/early summer into and through harvest.

***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 soybeans 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 using the strategy outlined previously as a guide and example. 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 soybeans 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. There is very little incentive to re-own previously priced soybeans when they can be sold at profitable levels. Too often, profitable hedges or sales are turned into less profitable or sales at a loss when producers attempt to outguess the marketplace and end up subtracting value from profitable strategies.

***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 soybean marketing plans will be developed and implemented using a combination of the above strategies on two-thirds of production with the balance placed in storage and marketed using a combination of storage hedges that take advantage price targets and decision dates.