Market Flexibility

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This year has certainly been an interesting one, however, is it an oddity in terms of grain marketing? Let's review some history of this year and past marketing years.

In the price history of the Dec 2020 corn futures contract (Figure 1), notice the steep decline in corn price from Mid-February to mid-May due to the uncertainty around Covid-19, oil price decline, high unemployment and disruptions to the supply chain. Then a stable price, except for a rise from late June to mid-July, until the August derecho that affected parts of the Corn Belt. Prices for corn have been rising since even though oil prices have stayed near the $40-44 per barrel range (Figure 2). It's not difficult to understand why since the derecho damage has not been fully assessed or realized. The unknown yield is in large part responsible for the corn price increase.

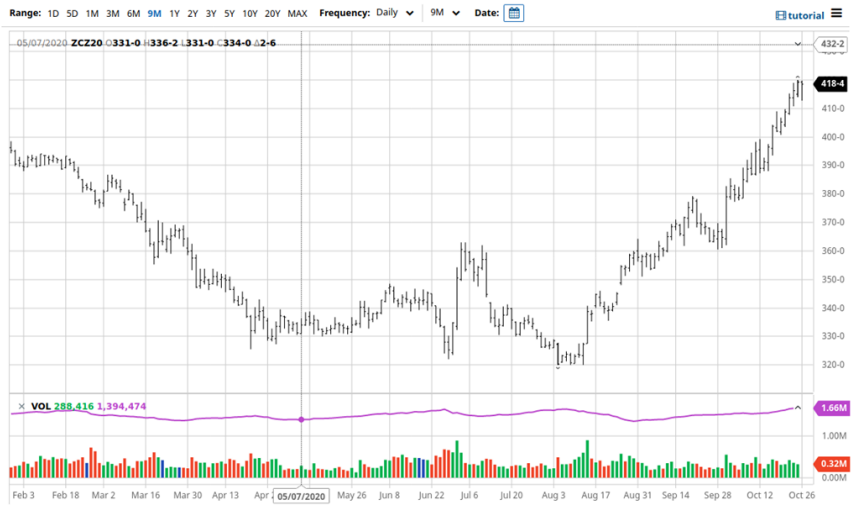

Figure 1: Dec 2020 Corn Futures

The question one may ask is whether to always follow the historic best corn pricing period or to simply wait for higher to appear later in the year. Historically, just over 70% of the year's corn prices have been highest during the spring planting period. That leaves just under 30% of the year's prices higher during or after harvest. Those higher post-harvest prices are important for farmers during tough times to make sales. There are ways to assure that your operation is able to benefit from a pre and post-harvest strategy in the same year.

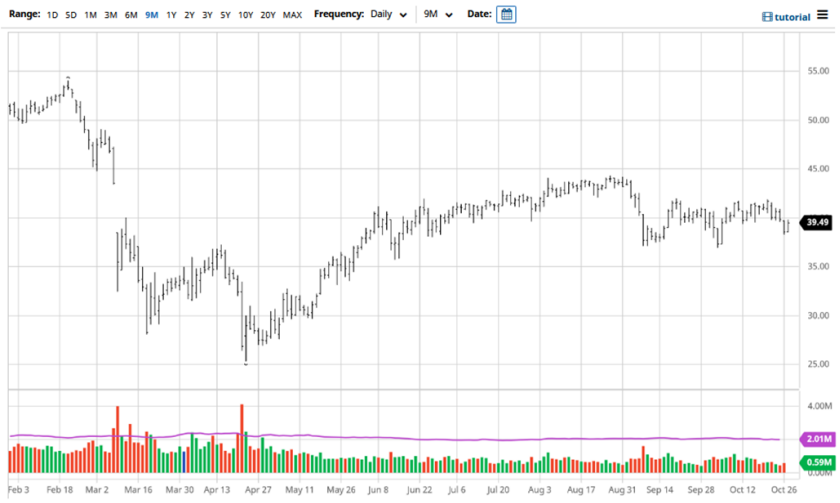

Figure 2: Dec 2020 WTI Crude Oil Futures

Depending on the risk appetite of a farm business, an options strategy or contracts with local grain buyers can be used. Using put options during the pre-harvest pricing period through a commodity broker allows the farm business to put a floor under their selling price without committing to delivery of the commodity. There is a cost to this strategy, premium, but the cost is knowable unlike using the futures market. Rising prices on a short position for a futures contract will cause margin calls. Most farmers don't like them. A put option doesn't do that but leaves open the chance to make forward contract sales at higher post-harvest prices if they are available.

Some farm businesses may choose not to use options but still desire to benefit from higher post-harvest prices while protecting the price they are now offered. A "new generation" of grain contracts have been offered for several years. These offer average pricing for a period of time, pricing at a minimum price with some upside potential and price plus when a farmer is willing to deliver more bushels. Research was recently published comparing different "new generation" grain contracts performance during the 2008-2017 period. The researchers found that price plus contracts obtained the highest per bushel price for corn and soybean producers during the period studied. Price plus also showed the highest return for the marketing risk taken on. Price plus did not perform best in all weeks of the studied time period but did so over the whole of the studied time period.

Flexibility also means reviewing the farm business marketing plan. New information, i.e. the August 2020 derecho, should trigger a review of what might be adjusted due to that new information. Marketing plans are not written in stone but are a guide to accomplishing goals for the farm business. The first of those is to survive for the next growing season. Second, profit from the current growing season so that improvements in technology, expansion or adding family members to the farm business are possible. Marketing effectively allows the family farm to thrive and prosper.

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