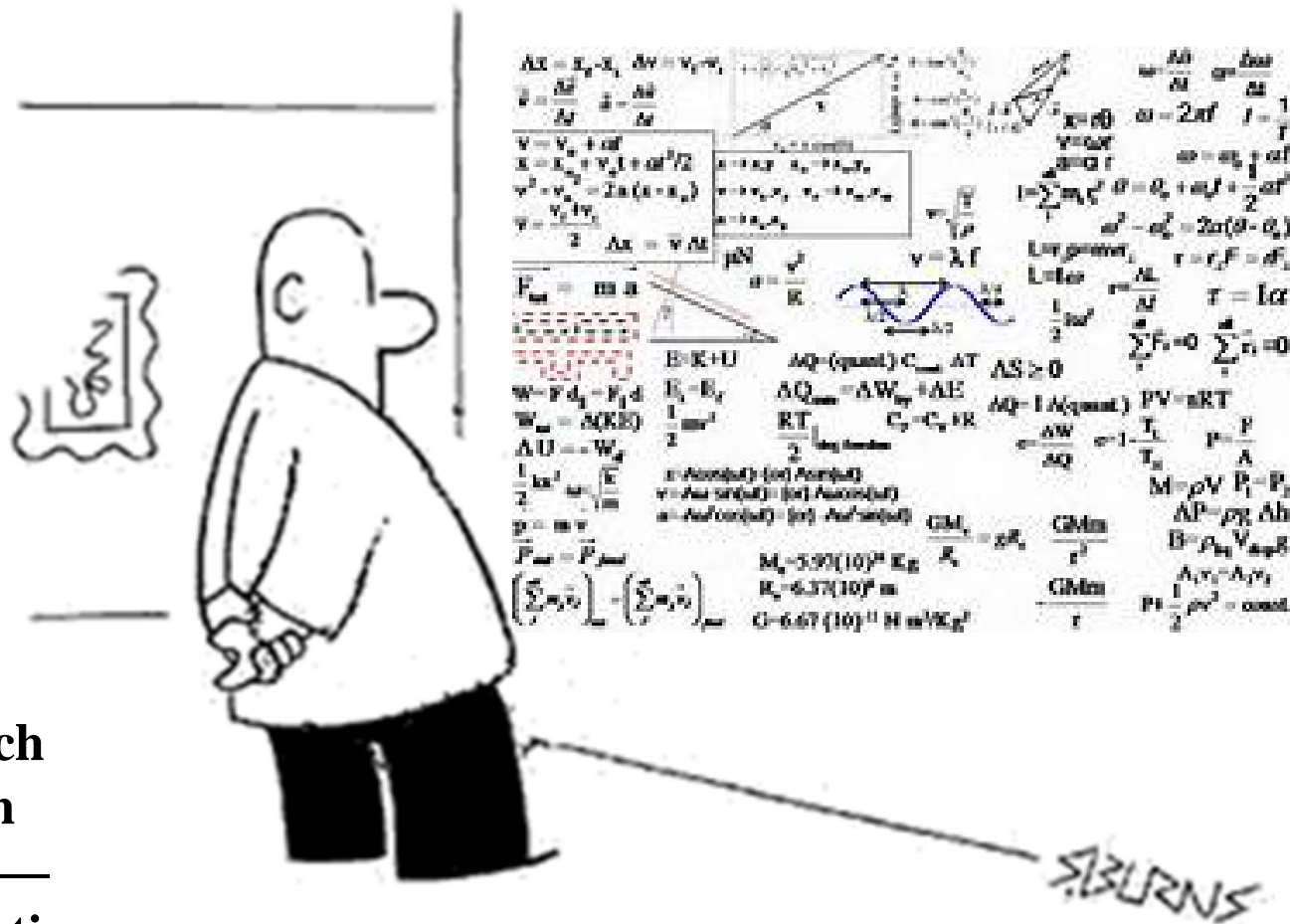


Advanced Marketing Tools and Strategies



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Marketing Strategies

Basics

1. Do Nothing
 - Cash sales at harvest
 2. Fix Price Now
 - Cash forward contract
 - Hedge
 3. Set a Price Floor
 - Options
-

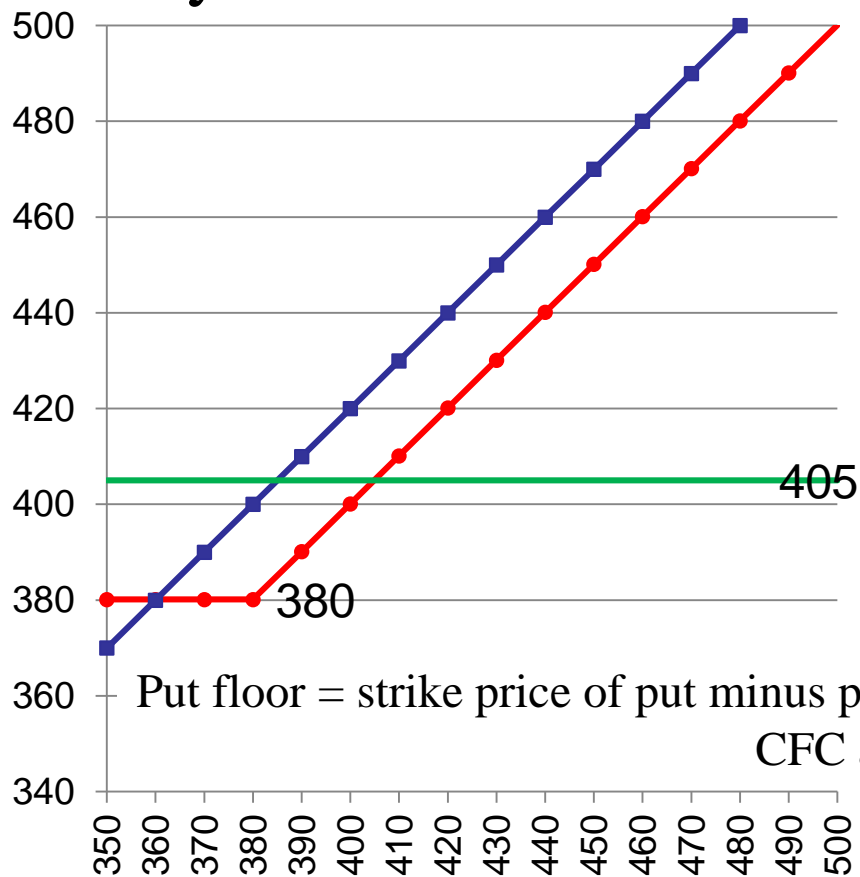
Advanced

4. Set a Price Floor/Ceiling
 - Options

Establish a Price Floor

385 futures, +20 basis, CFC 405, buy 380 put @ 20, buy 390 call @ 21

Buy Put



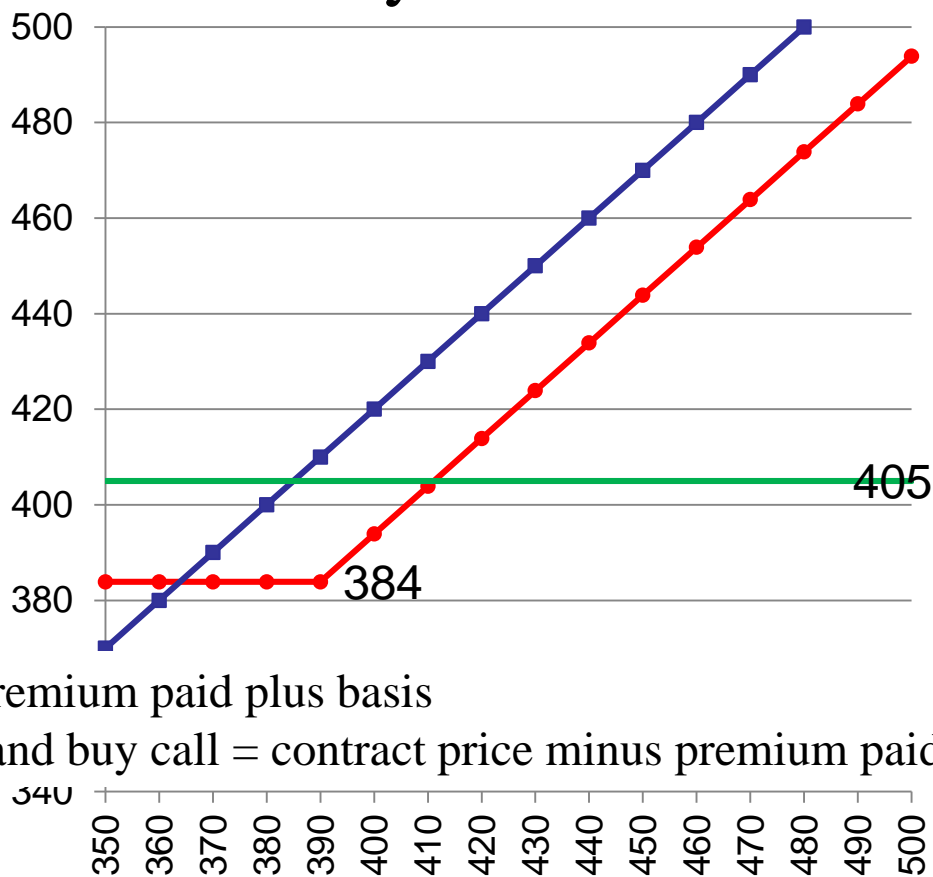
Put floor = strike price of put minus premium paid plus basis

CFC and buy call = contract price minus premium paid

Basis open

No delivery commitment

CFC and Buy Call aka Synthetic Put



Locks in the basis

Commitment to deliver

Put: right to sell; Call right to buy
Basic Option Strategies

PUT

CALL



Buy

Sell



Sell

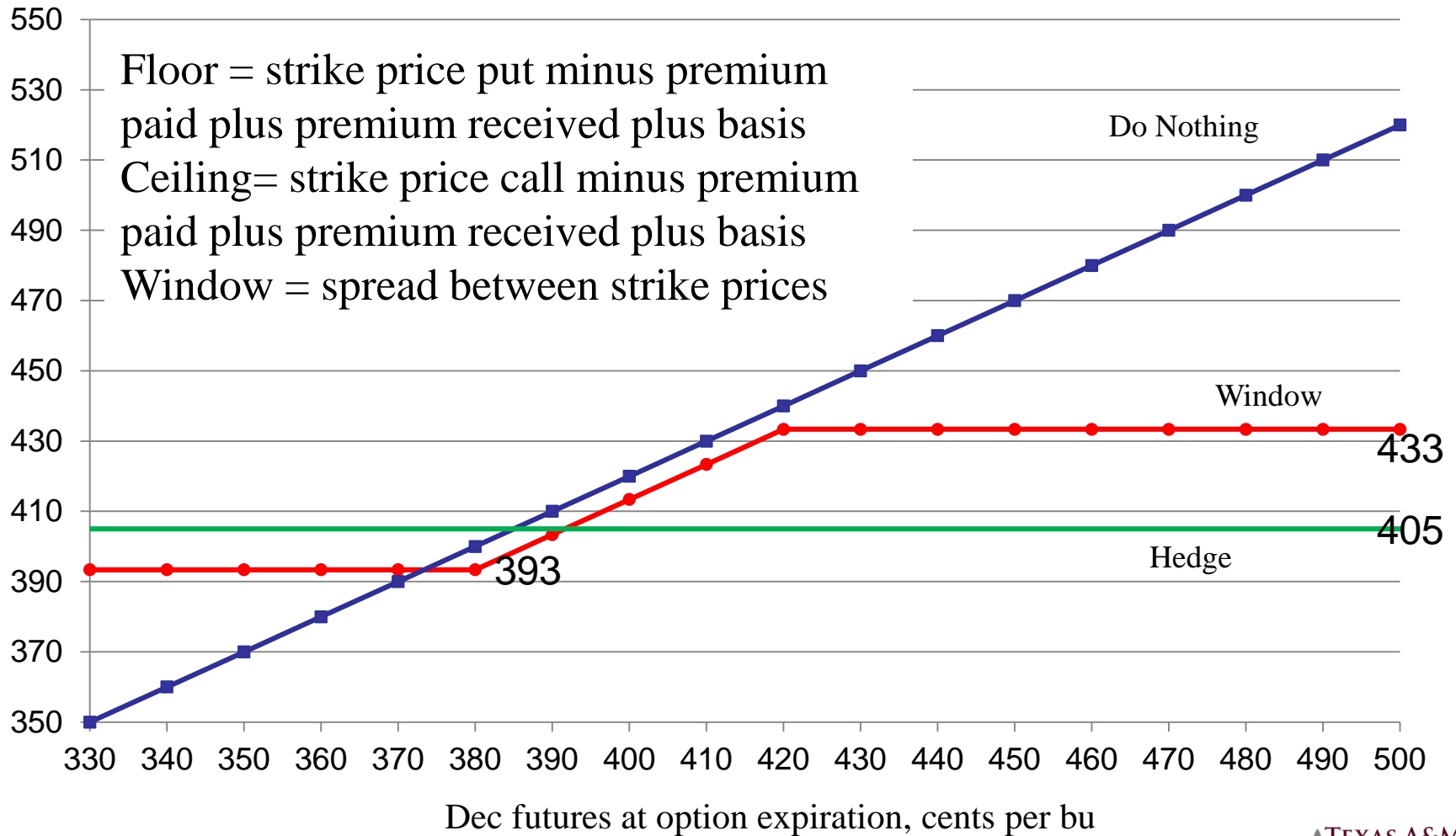
Buy

Window: Buy a Put and Sell a Call

Current Futures Price Dec C: 385, basis = \$0.20

Buy 380 put @ 19-7/8, Sell 420 call @ 13-1/4; net premium paid = 6-5/8 cents per bu

Cash price, cents per bu



Put: right to sell; Call right to buy
Basic Option Strategies

PUT

CALL



Buy

Sell



Sell

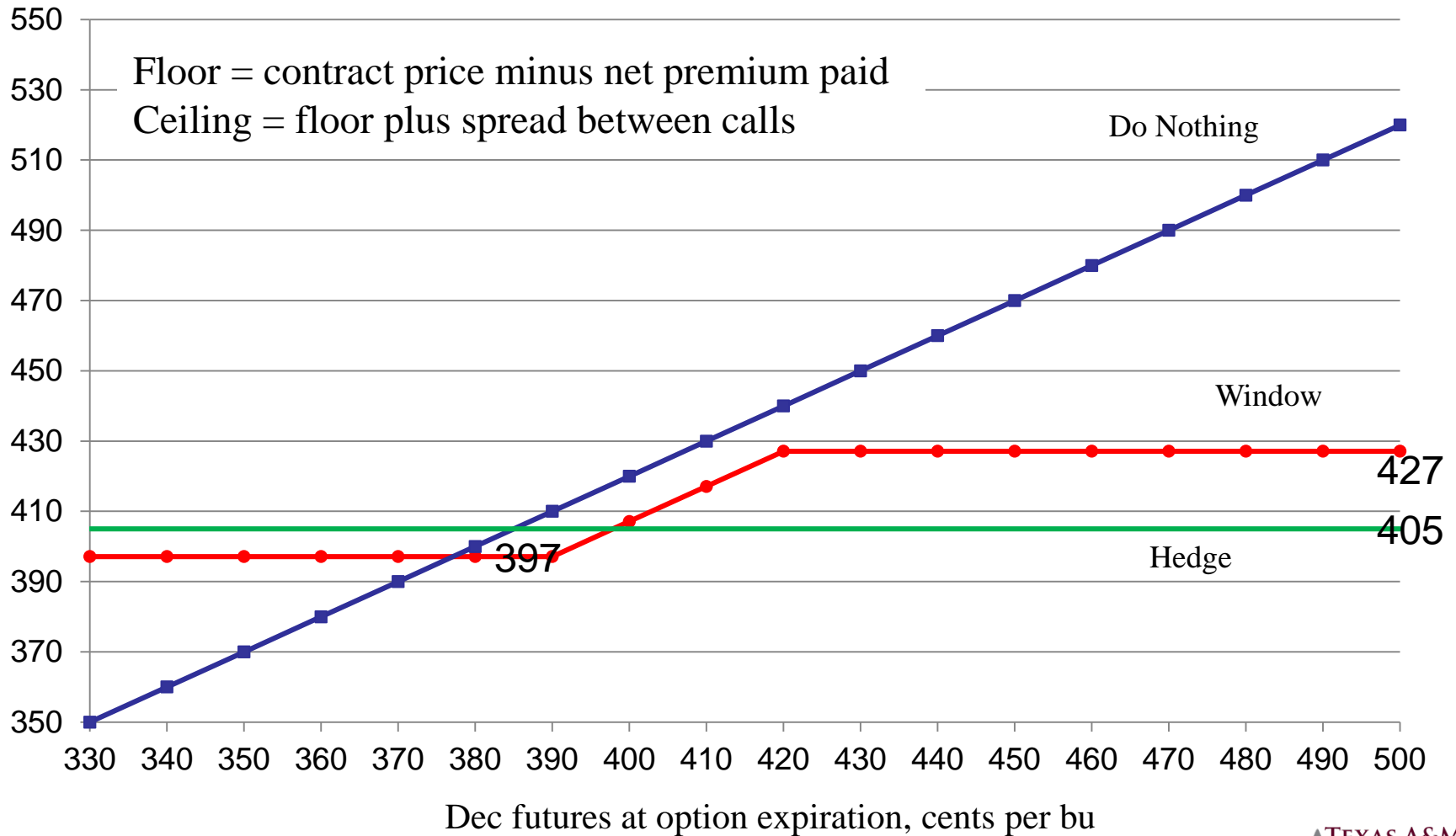
Buy

Window: CFC, Buy a Call, and Sell a Call

Current Futures Price Dec C: 385, basis = \$0.20

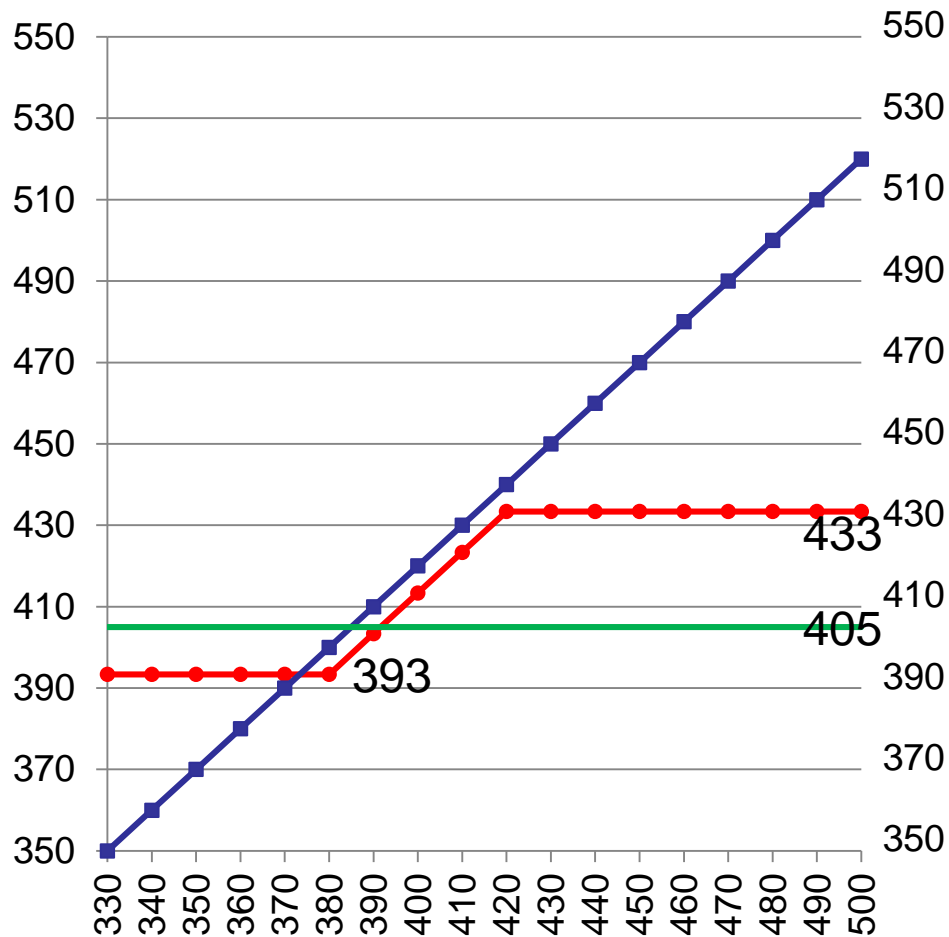
CFC @ 405, Buy 390 call @ 21-1/8, Sell 420 call @ 13-1/4; net premium paid = 7-7/8 cents per bu

Cash price, cents per bu



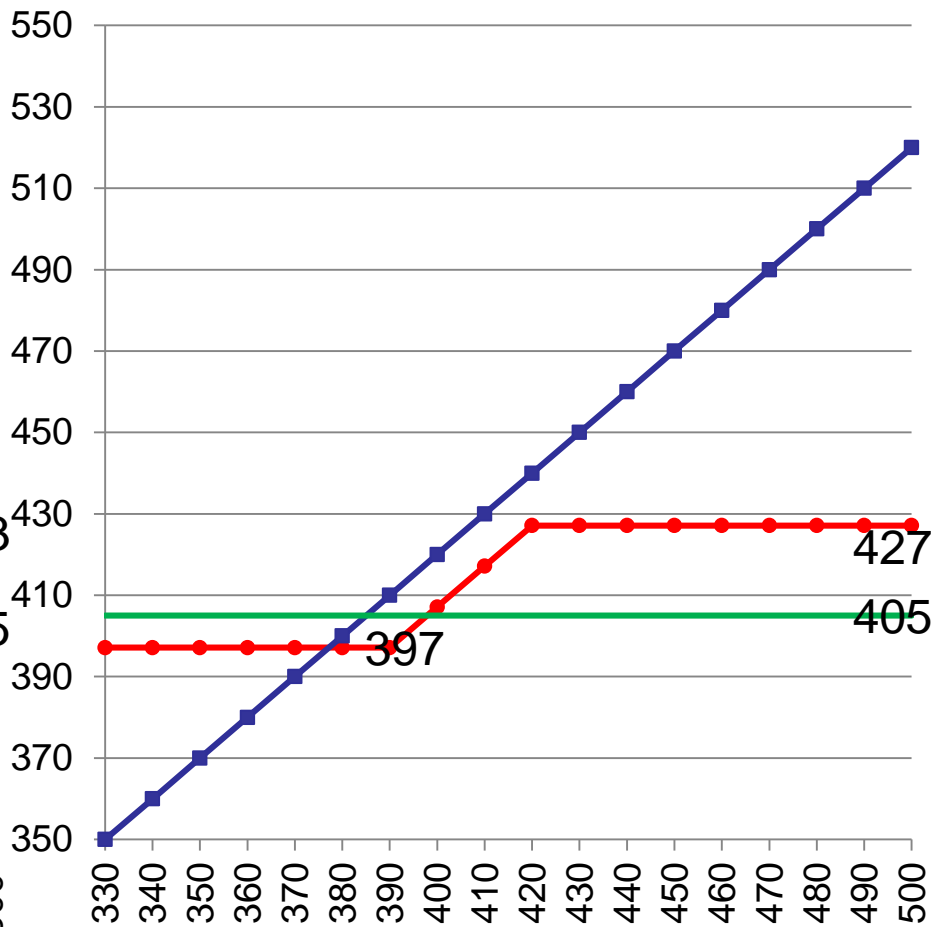
Window Strategy

Buy Put and Sell a Call



Basis open
Margin risk

CFC and Bull Call Spread



Locks in the basis
No margin calls

Put: right to sell; Call right to buy
Basic Option Strategies

PUT

CALL



Buy

Sell



Sell

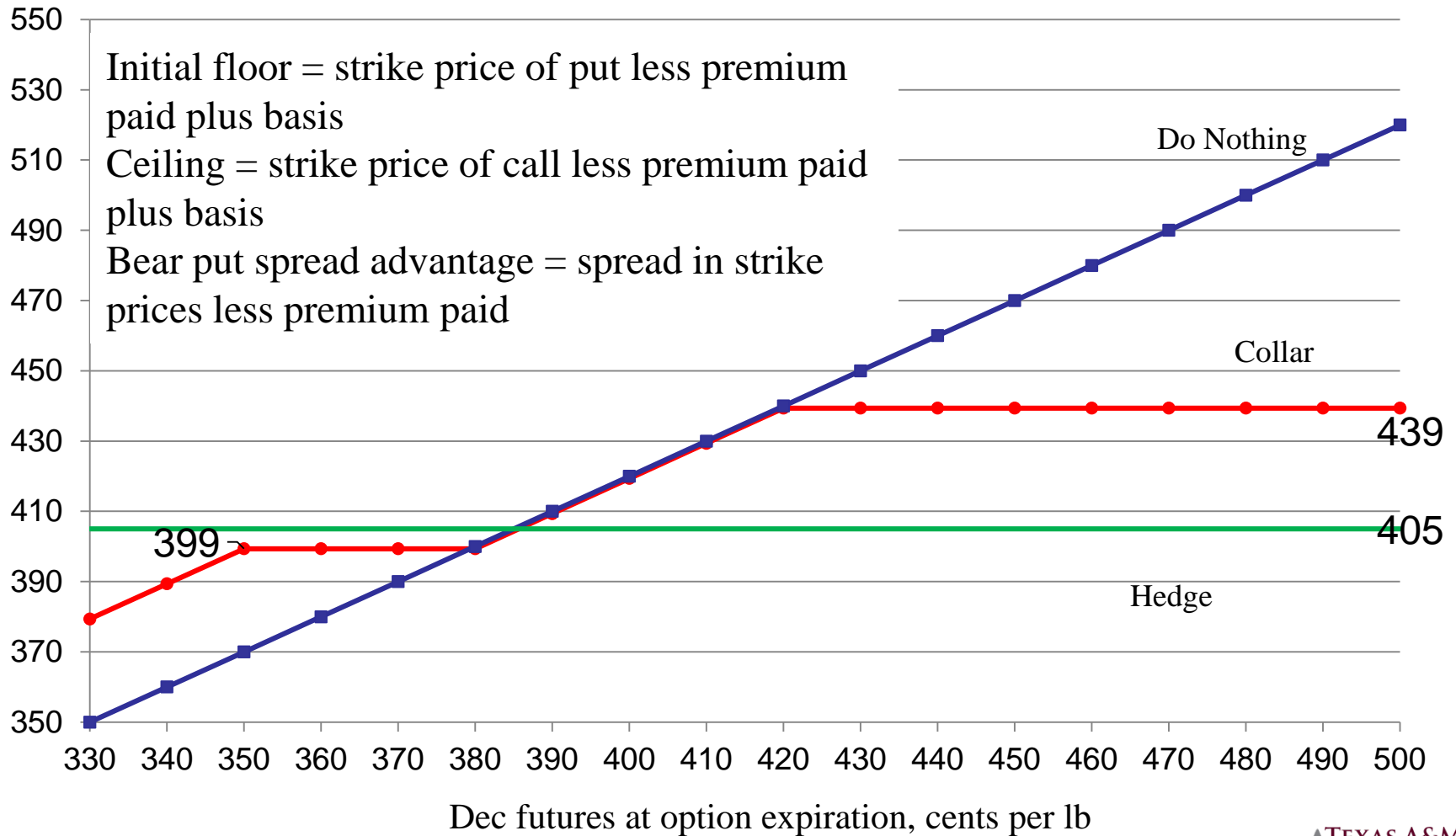
Buy

Collar: Buy a Put, Sell a Call, Sell a Put

Current Futures Price Dec C: 385, basis = \$0.20

Buy 380 put @ 19-7/8, Sell 350 put @ 6, Sell 420 call @ 13-1/4; net premium paid = 0-5/8 cents per bu

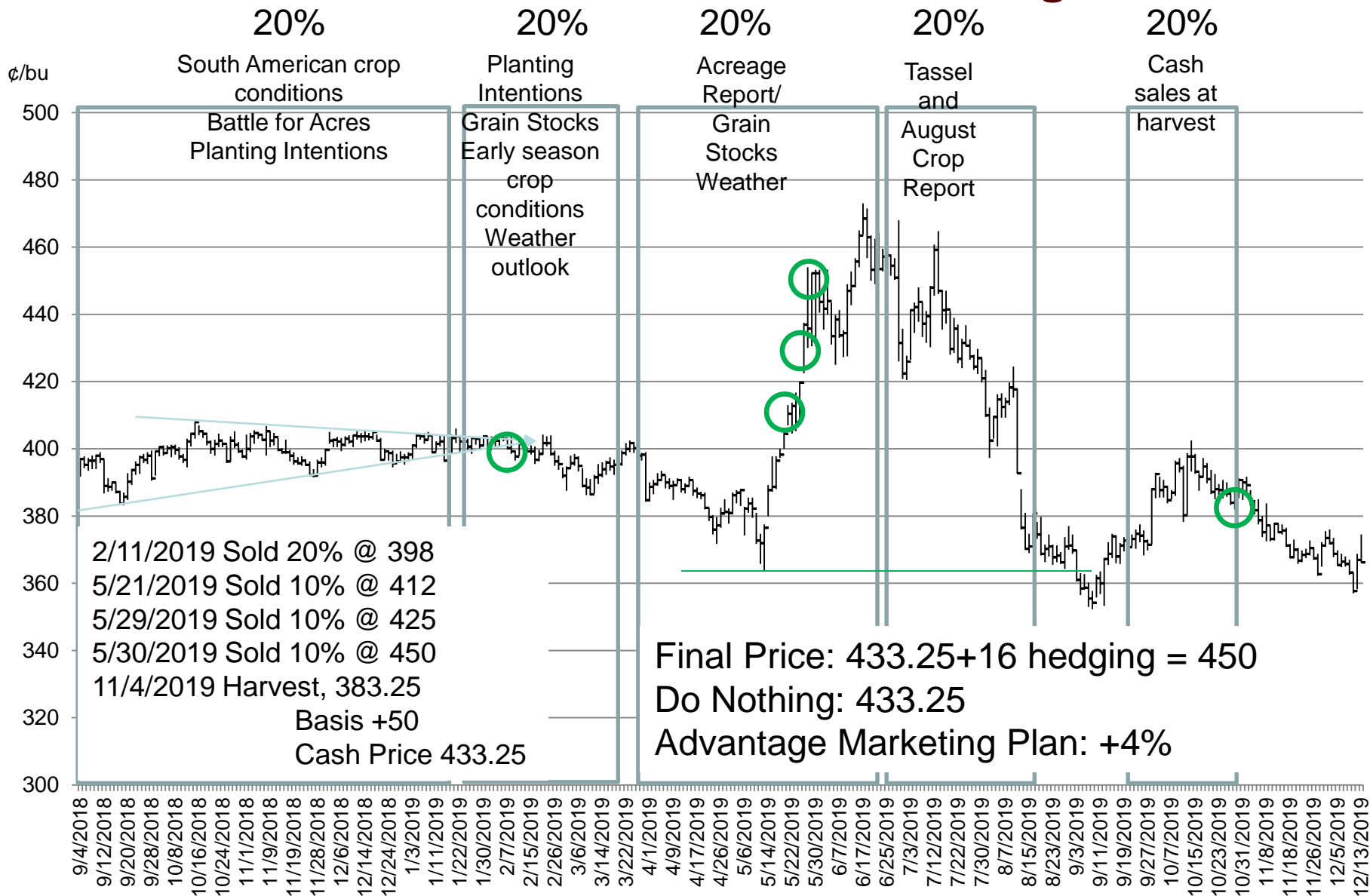
Cash price, cents per bu



Advanced Marketing Tools and Strategies Continued: think like a grain elevator



December Corn Futures and 2019 Marketing Plan



Think like a grain elevator

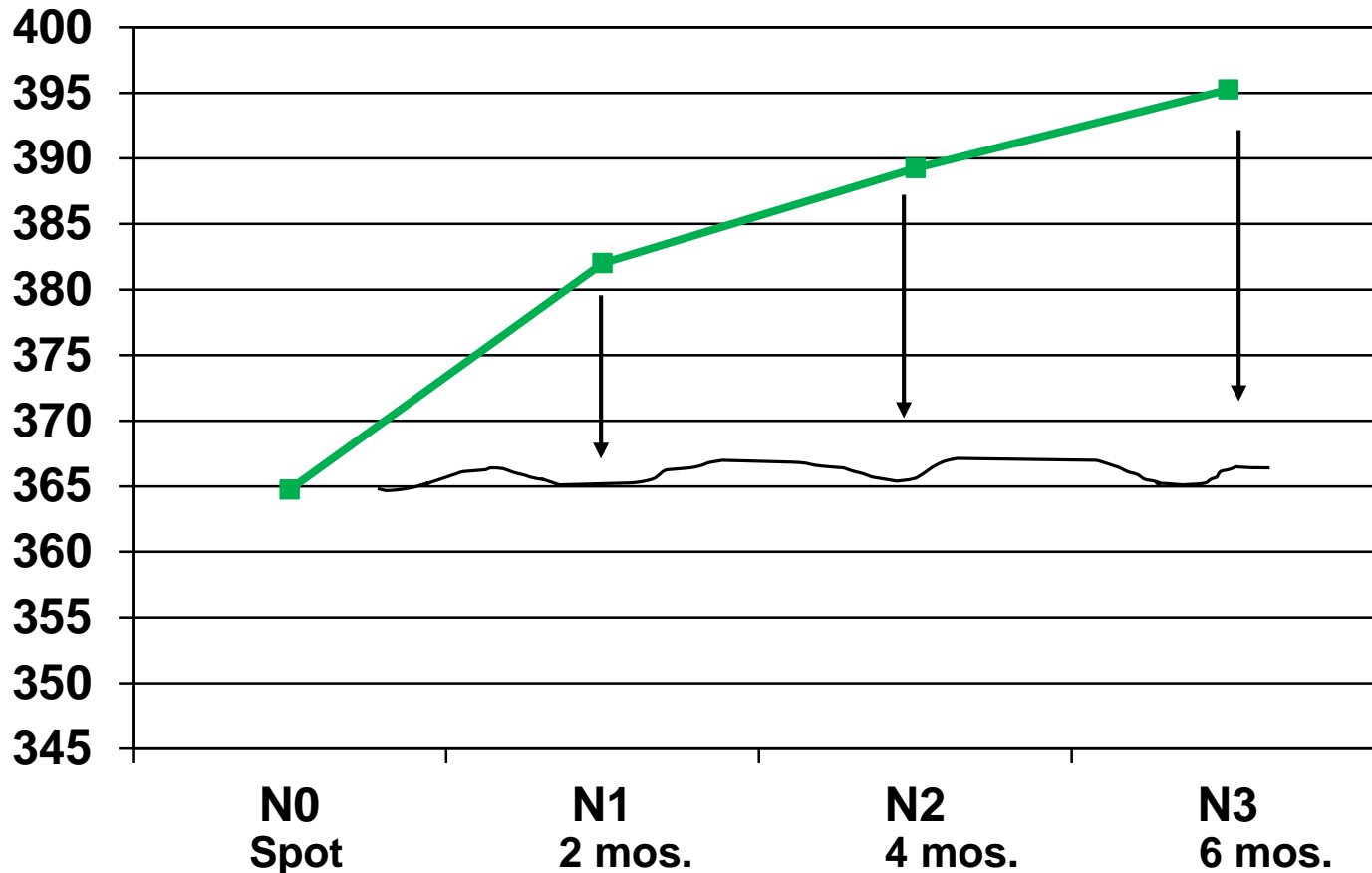
- At harvest, if there is sufficient carry in the market, roll hedges to distant month
 - Buy back December contract at harvest
 - Sell deferred contract (to capture carry in the market)
 - Deliver corn for sale against deferred contract (with improved basis)

Carry

- A futures market in which the price difference between contracts with two different delivery months equals the full cost of carrying the commodity from the delivery month of the first contract to the next. Carrying costs include interest, insurance and storage. Also known as "full carry market" or "full carrying charge market".
- Usually use 6 cents per bushel per month for wheat. Full carry for March to May is 12 cents; full carry for September to December is 18 cents.
- Usually use 5 cents per bushel per month for corn

Corn, Forward Curve

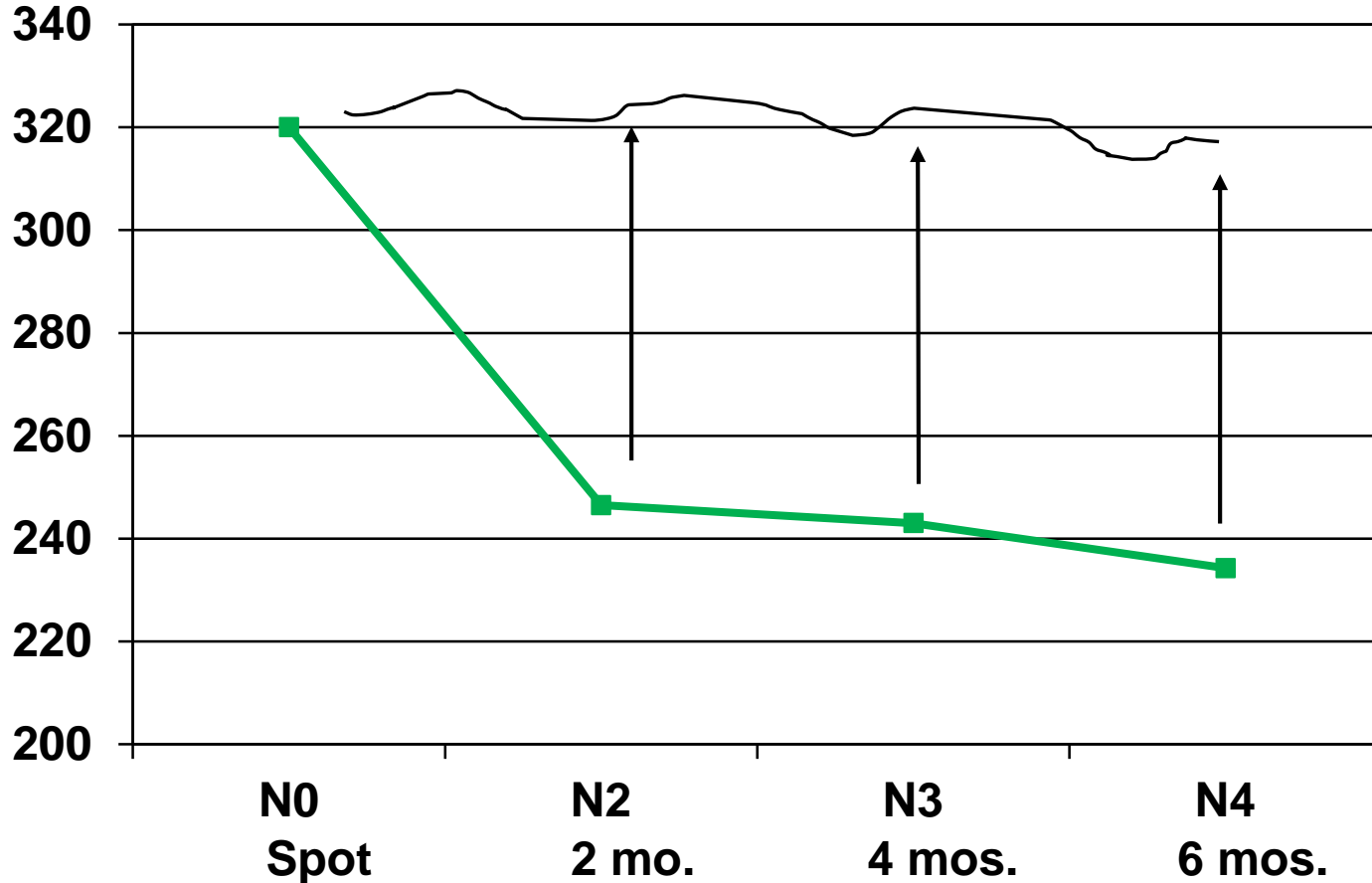
This is *not* saying that in 2 month's time the spot price is going to go up.
This is the price today if you want to enter into a contract for delivery in the future.



Contango: cheaper to buy it today than it is at some future date using a futures contract. Normal price condition given cost of storage. In contango, the futures price will converge downward to the actual spot price. Severe contango is a bearish signal for the future price (>67% cost of carry).

Oats, Forward Curve

This is *not* saying that in 2 month's time the spot price is going to go down.
This is the price if you want to enter into a contract today for delivery in the future.



Backwardation: more expensive to buy it now (willing to pay a premium) than it is at some future date using a futures contract. Backwardation reveals some degree of shortage (I need it now); In backwardation, the futures price moves up to the spot price as you get closer to delivery date: bullish signal for the future price (<33% cost of carry).

Futures Spreads

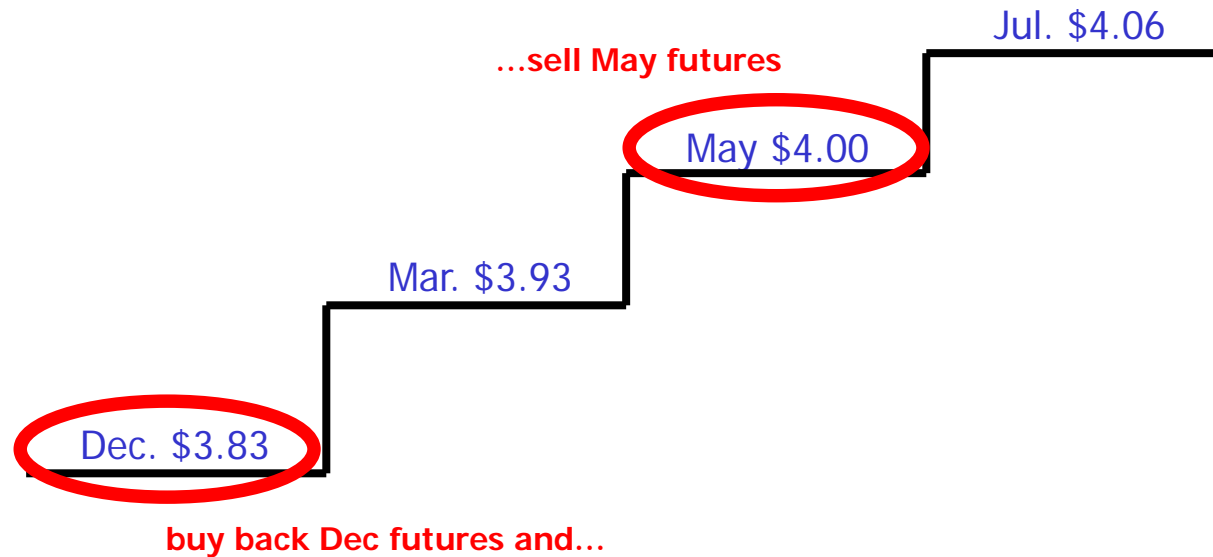
- A positive structure to the spreads steers the basis in an upward trend (incentive is to store, must increase cash bid to get grain)



- A negative structure to the spread guides the basis in a downward trend (no incentive to store, can lower the cash bid and still get grain)

Rolling the hedge?

CBOT corn futures:
November 4, 2019



Carry in the market, Dec to May: $17/25 = 68\%$

Think like a grain elevator

Average hedge in 2019: 417

Buy back at harvest: 383

Profit on Hedge: 33 on 50% = 16

Sell May Corn: 400

Cash sale in April = Hedge + basis = 400 + 50 = 450

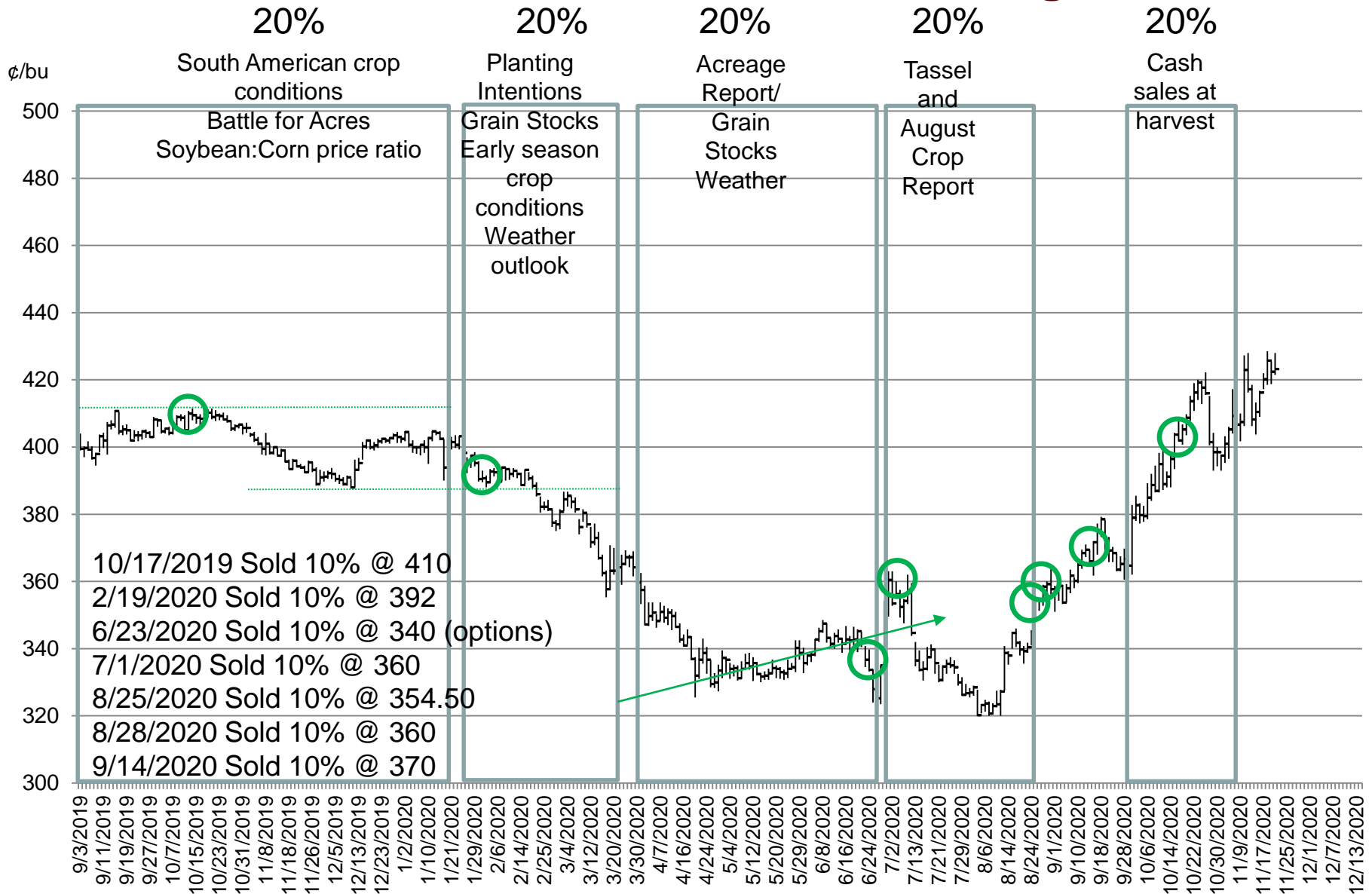
Final 2019 corn selling price = cash price in April plus profit from hedge at harvest less 5 mos. storage =

$450 + 16 - 10 = 456$

Harvest Price = 450

Gain = 6

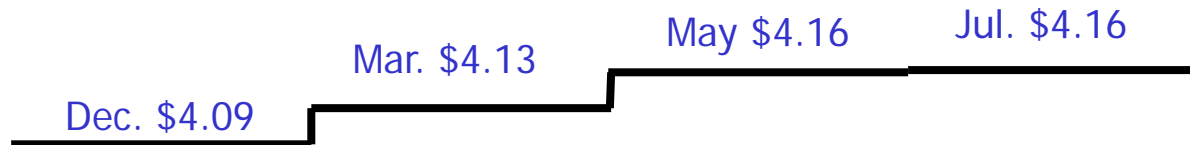
December Corn Futures and 2020 Marketing Plan



Rolling the hedge?

CBOT corn futures:
October 20, 2020

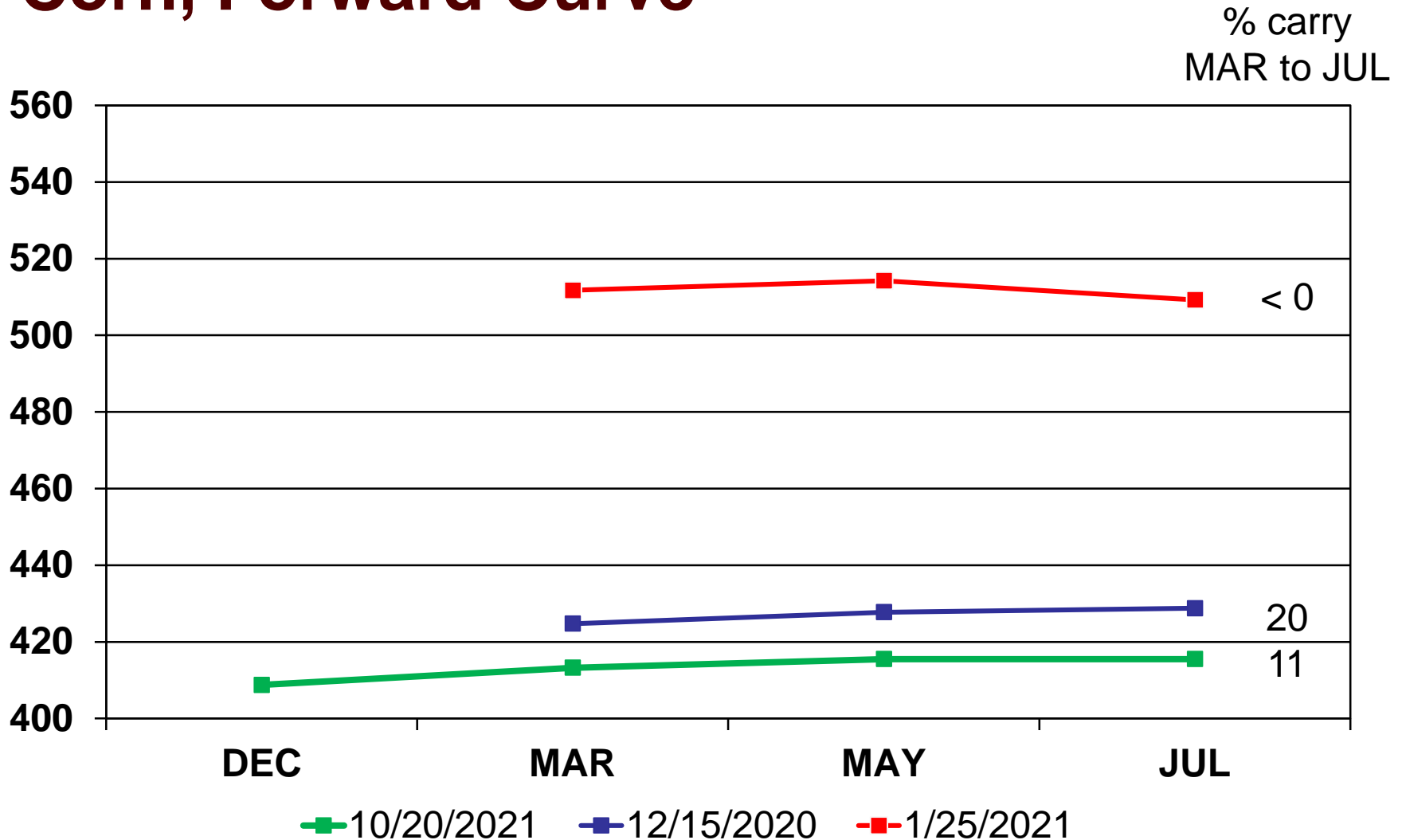
Carry in the market, Dec to May: $7/25 = 28\%$



bullish signal for the future price (<33% cost of carry)

bearish signal for the future price (>67% cost of carry)

Corn, Forward Curve



bullish signal for the future price (<33% cost of carry)

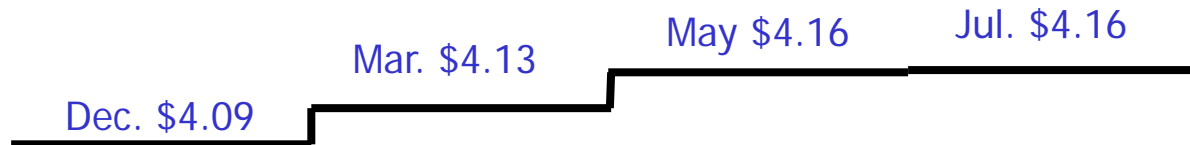
bearish signal for the future price (>67% cost of carry)

Rolling the hedge? Buy a Call?

CBOT corn futures:
October 20, 2020

10/20/20	May Futures	413	420 call	22 $\frac{7}{8}$
1/25/21	May Futures	516	420 call	115 $\frac{5}{8}$
			Gain	92 $\frac{3}{4}$

Carry in the market, Dec to May: $7/25 = 28\%$



bullish signal for the future price (<33% cost of carry)

bearish signal for the future price (>67% cost of carry)

Think like a grain elevator

- What is the level of carry in market?
- Do I expect a basis gain?
- What is my cost of storage?
- Can I assume margin risk?
- Cash forward contract if the basis is favorable

Price Probability Curve: Dec Corn

Current price, January 25, 2021: 4.3625

Volatility: 24.62%

Days to maturity: 304

