Amarillo

How to Write a Marketing Plan

Edward Usset, Grain Marketing Economist
University of Minnesota

Ed the prognosticator!

Corn & Soybean column submitted on August 14, 2020...

"I'm thinking early lows in the market."

Corn futures prices in the last 5 months of the year (seven best years since 1980)

contract	early August	end-of-year	change	change (%)
Mar'11	416.50	629.00	212.50	51%
Mar'07	271.25	390.25	119.00	44%
Mar'21	**337.50**	**484.00**	**146.50**	**43%**
Mar'08	351.25	455.50	104.25	30%
Mar'96	288.50	369.25	80.75	28%
Mar'94	253.75	306.00	52.25	21%
Mar'04	223.25	246.00	22.75	10%

Master Marketer 2021

How to Write a **Pre-Harvest** Marketing Plan

Corn
2021 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and price 75% of my anticipated corn crop (per APH yield) by late June.

Price 10,000 bushels at $3.75 cash price ($4.25 Dec. futures) using forward contract/futures hedge/HTA contract
Price 10,000 bushels at $4.05c/4.55f, or by March 29, pricing tool tbd
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Plan starts on January 1, 2021. Earlier sales may be made at a 40 cent premium and would be limited to 30,000 bushels.

Ignore decision dates and make no sale if prices are lower than $3.75 local cash price/$4.25 December futures.

Exit all options positions by mid-September 2021.

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(2) Decision dates

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(1) Pricing targets

(3) Pricing tools & trump cards

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I have minimum price objectives!

Pricing Targets

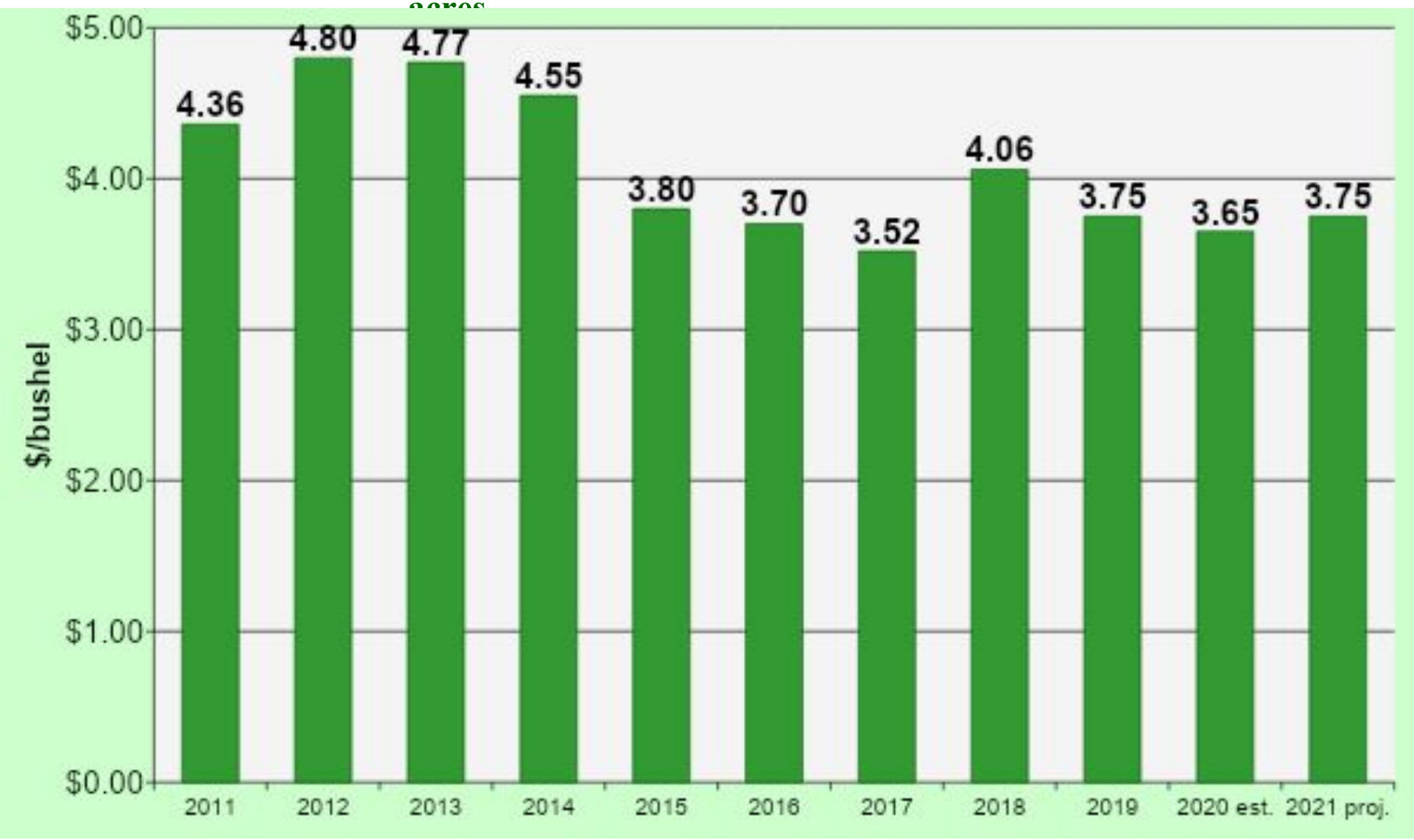
Choose your **minimum*** price threshold

- Cost of production (pre-harvest only)
- Focus on local costs, not your costs
  - See appendix for detailed costs of production

***Your most important choice in developing a pre-harvest marketing plan!**

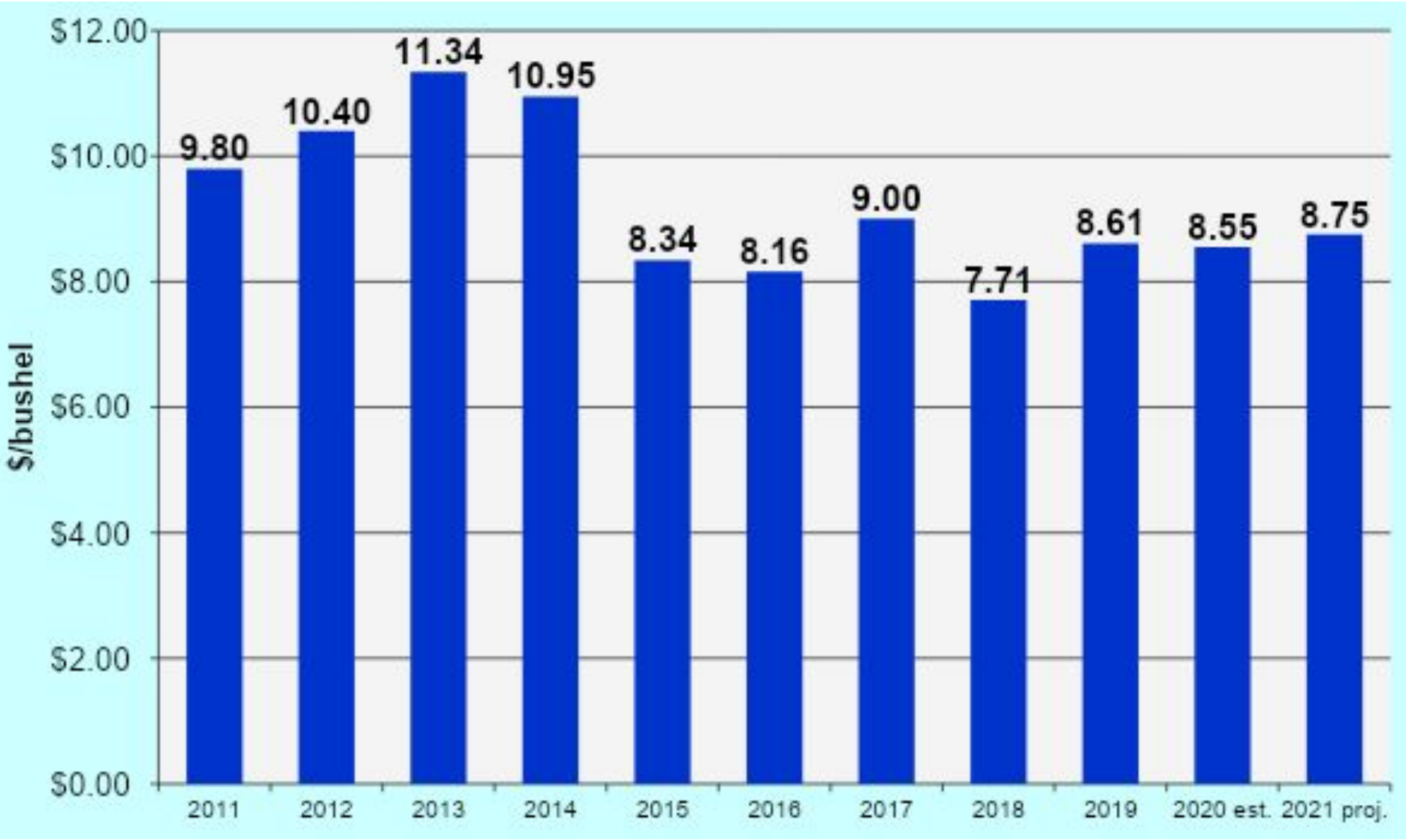
Cost of Production - Corn

FINBIN Southern MN average, cash rent

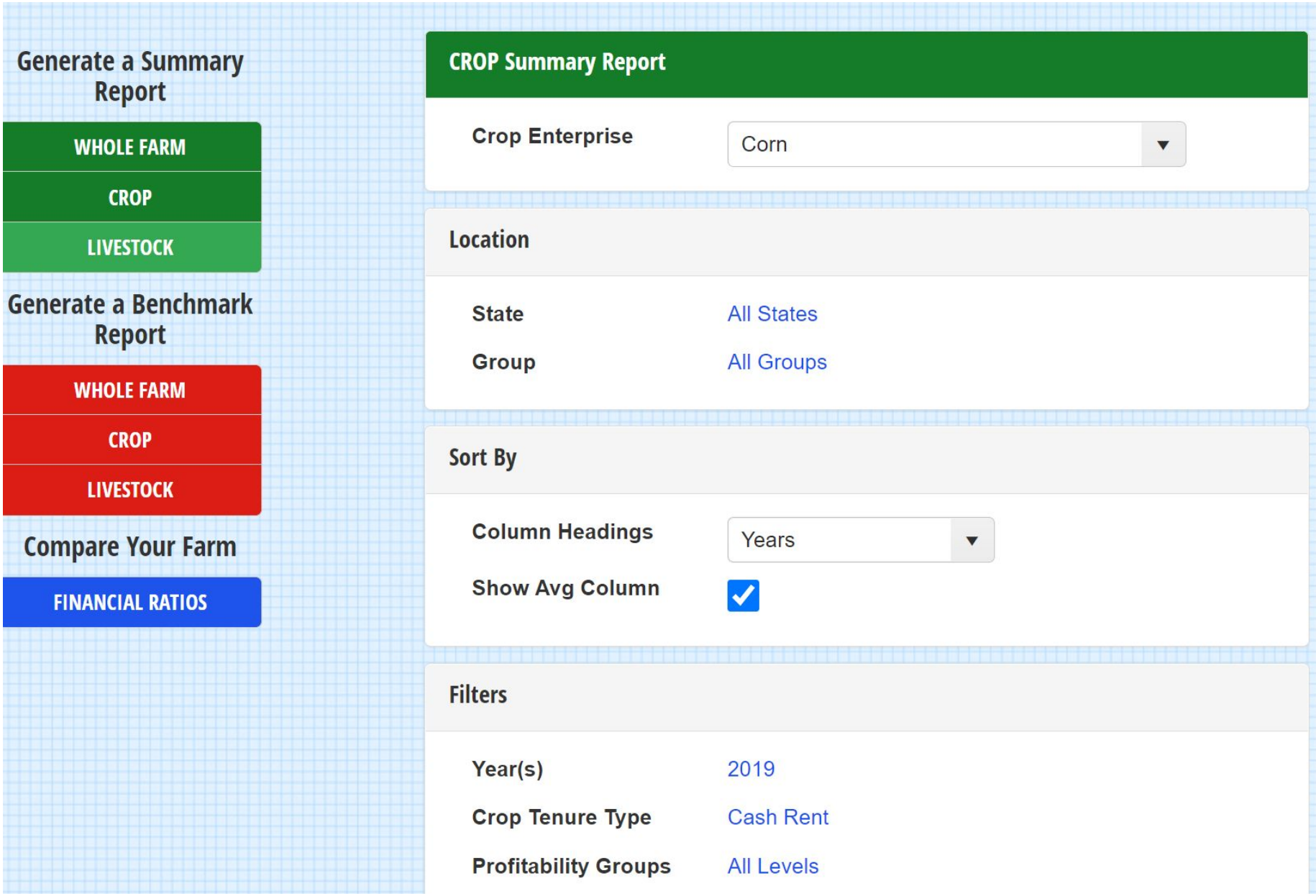


Cost of Production - Soybeans

FINBIN Southern MN average, cash rent acres



www.finbin.umn.edu



Pricing Targets

Choose your **maximum*** price target

- This plan starts at $4.25 Dec corn and works up to $5.75 Dec
- Min and max price targets form "bookends" for all other price targets
- What is a **realistic** maximum price objective?

***Your least important choice in developing a pre-harvest marketing plan.**

Pricing Targets

Chicago December Corn Futures, 1990-2020
Contract Years with the Greatest Price Rise from Jan 1 forward

	Jan 1 price	Highest price (Jan 1 to exp.)	Highest price vs. Jan 1
Dec'08	$4.80	$7.88	64%
Dec'12	$5.90	$8.39	42%
Dec'11	$5.53	$7.75	40%
		average	48%

Pricing Targets

A process to set **minimum** and **maximum** price targets

- Select a minimum price threshold based on local production costs
- Add an amount in line with a figure from the previous table to create a maximum price. Use judgment to adjust this figure
- You now have min and max price targets to "bookend" all other price objectives

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Exit all options positions by mid-September 2021.

Decision Dates

If I reach a decision date before a price target is reached, I price the grain.*

- ✔ Decision dates are needed to make it a real plan for action
- ✔ Crop insurance and/or options allow us to forward price with confidence
- ✔ What's so special about the March to May period in pre-harvest pricing?

***As long as the price is above my minimum threshold!**

Corn
2021 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk and price 75% of my anticipated corn crop (per APH yield) by late June.

Price 10,000 bushels at $3.75 cash **Why March-June?** using forward contract/futures hedge/H

Price 10,000 bushels at $4.05c/4.55f, or by **March 29**, pricing tool tbd
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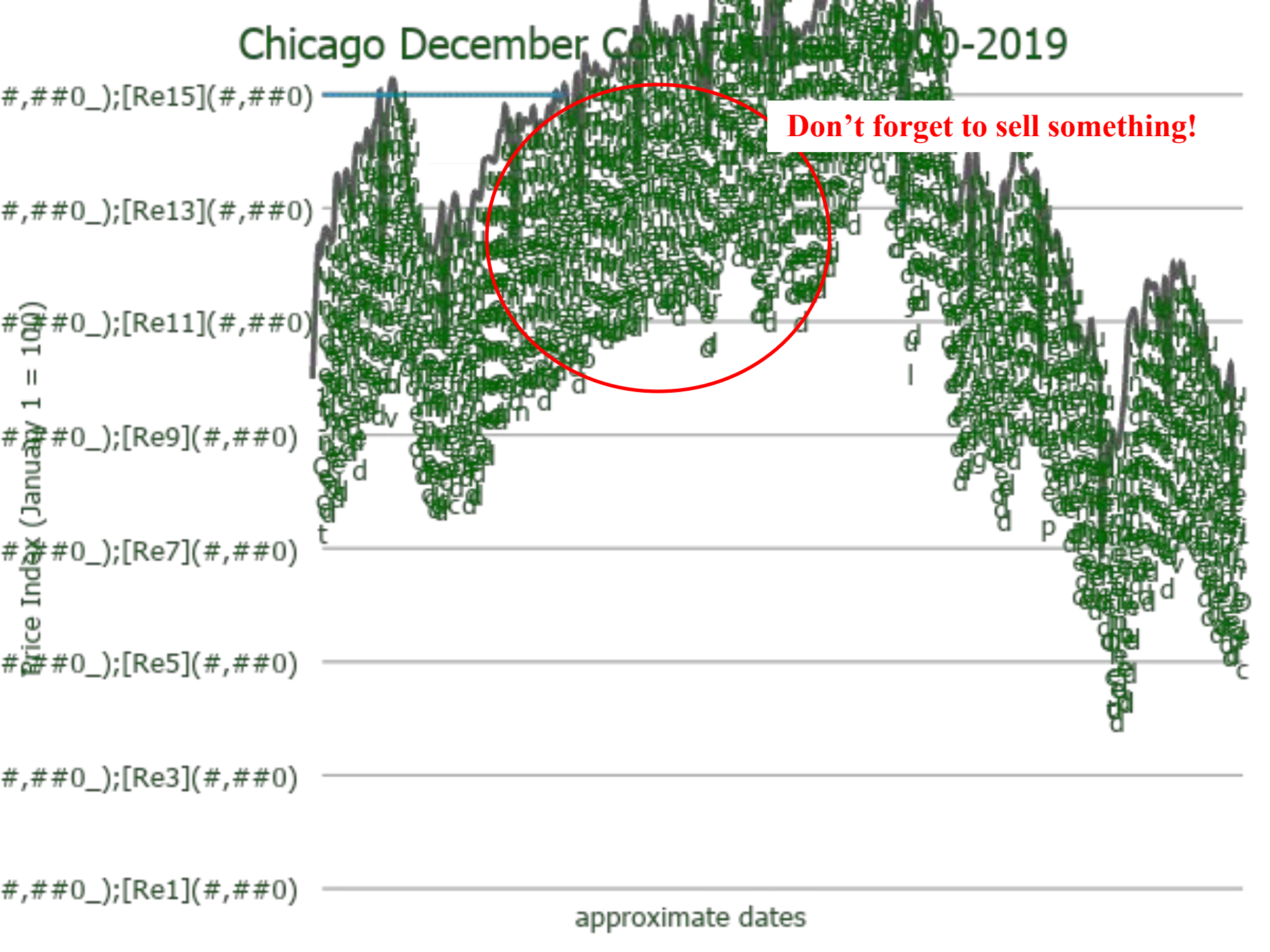
CBOT December Corn Futures, 2000-2020

- ✔ 15 years (71%) the market declined
- ✔ 6 years (29%) the market improved

Year	1-May	1-Oct	Change
2000	2.62	1.99	(0.63)
2001	2.27	2.11	(0.16)
2002	2.20	2.56	0.36
2003	2.33	2.20	(0.13)
2004	3.17	2.06	(1.11)
2005	2.27	2.06	(0.21)
2006	2.72	2.68	(0.04)
2007	3.79	3.69	(0.10)
2008	6.32	4.84	(1.48)
2009	4.33	3.41	(0.93)
2010	3.92	4.66	0.74
2011	6.61	5.93	(0.69)
2012	5.39	7.57	2.18
2013	5.51	4.39	(1.12)
2014	5.00	3.21	(1.78)
2015	3.80	3.89	0.09
2016	3.97	3.37	(0.60)
2017	3.95	3.52	(0.43)
2018	4.20	3.66	(0.54)
2019	3.86	3.93	0.06
2020	3.37	3.83	0.46
Average	**3.88**	**3.60**	**(0.29)**


Chicago December Co
-2019
Don’t forget to sell something!
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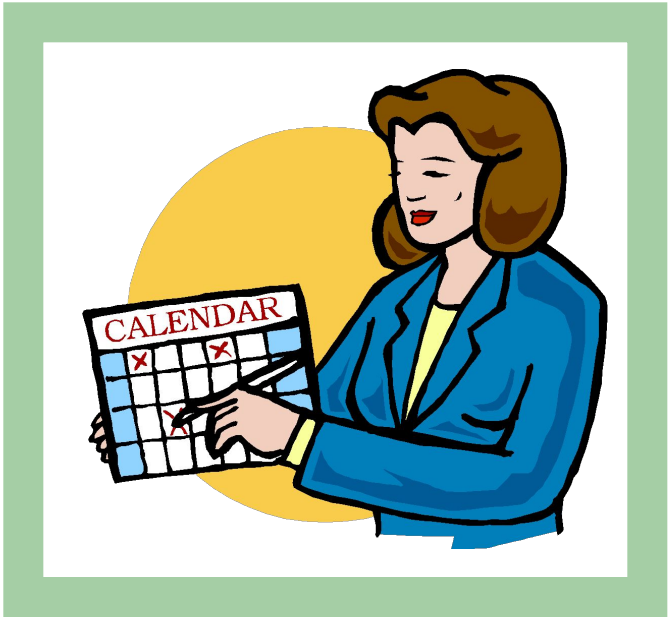
Price Index (January 1 = 100)
approximate dates

Barney Binless

Barney has no storage and no interest in early pricing. He sells at harvest, and his harvest price is our benchmark for comparisons.

Terry Timer



Terry prices new crop grain in 20% increments; March, April, May and June. However, she has a minimum. In 2021, she won't sell with Dec corn <$4.25 or Nov soybeans <$9.75 per bushel.

Terry vs. Barney, 1989-2020

				
	Terry	Barney	**Terry's advantage**	**> / = to Barney**
Corn	3.07	2.91	0.16	**27/32 years**
Soybeans	7.54	7.21	0.33	**23/32 years**
HRS Wheat	4.72	4.60	0.12	**25/32 years**

Corn and soybeans are average Iowa prices.

Barney Binless represents the harvest price.

Terry is only willing to price insured bushels, or up to 80% of her crop, if the price opportunity is above production costs.

Terry made no pre-harvest sales (i.e., Terry = Barney) in 8 years corn, 7 years soybeans, and 10 years wheat. She made partial sales in another 3 years in corn and wheat.

Terry vs. Barney, 1989-2020

				
	Terry	Barney	Terry's advantage	> Barney
Corn	3.16	2.95	0.21	19/24 years
Soybeans	7.68	7.27	0.41	16/25 years
HRS Wheat	4.82	4.66	0.16	14/22 years

A focus on years when Terry was active!

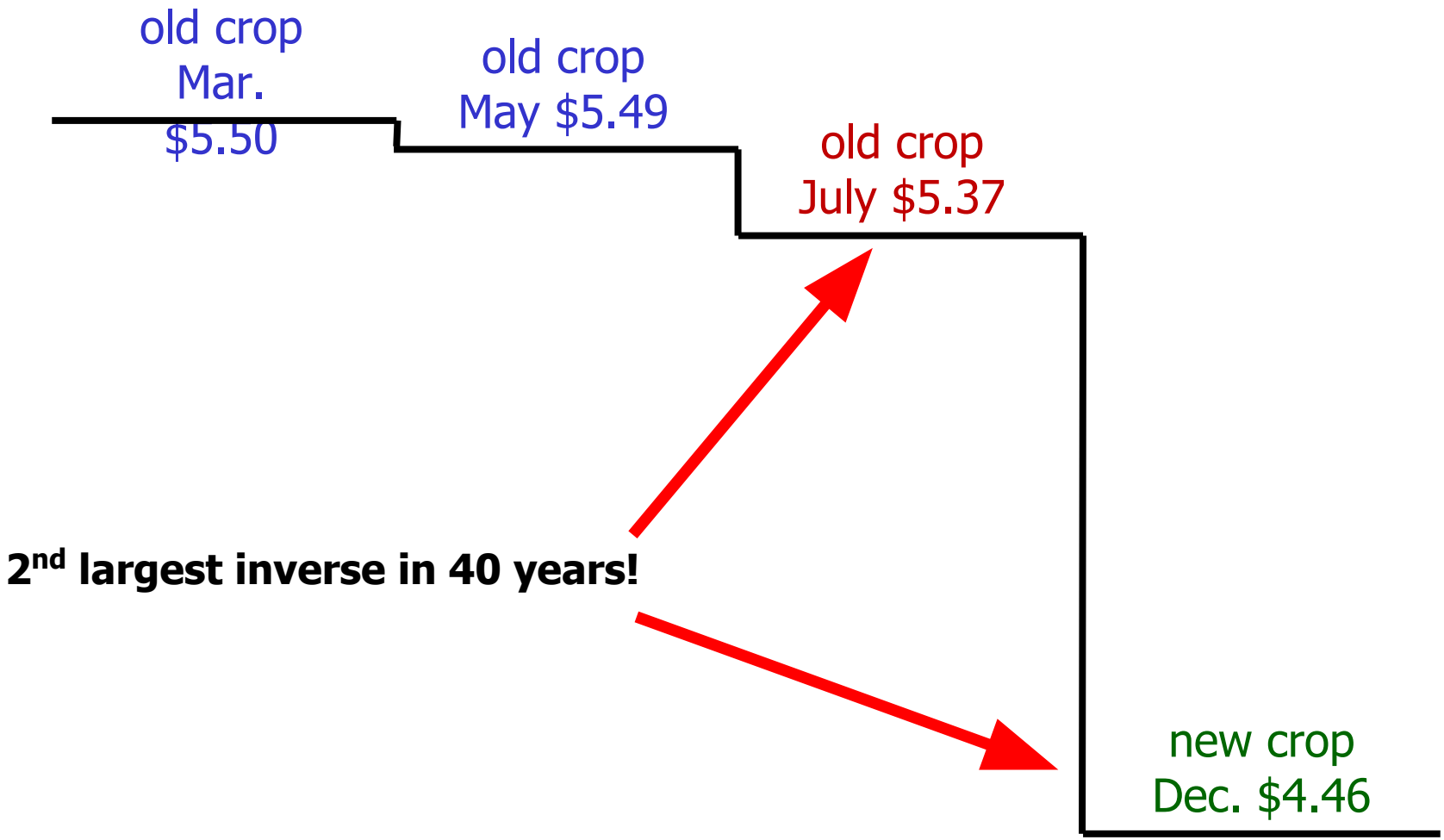
Eliminate 8 corn years, 7 soybean years and 10 wheat years (i.e., Terry = Barney).

Old Crop/New Crop Inverted years in corn

The old crop/new crop spread is highly inverted!

(old crop futures in corn, soybeans and cotton and trading at high premiums to new crop contracts)

CBOT Corn Futures: February 1, 2020



Old Crop/New Crop Inverted years in corn

Strong inverses and high prices go together.

Over time high prices lead to…

- slower demand
- more acres and supply

Slower demand and greater supply. Should we be surprised to find lower prices by harvest?

December Corn Futures, 1980-2021

13 years when the CN/CZ inverse was greater than 5 cents on Feb. 1

Year	**1-Feb CN/CZ**	1-Feb	1-Oct	Change
1981	**0.07**	3.66	2.87	**(0.80)**
1984	**0.47**	2.87	2.78	**(0.09)**
1985	**0.14**	2.66	2.26	**(0.40)**
1986	**0.29**	2.16	1.77	**(0.39)**
1989	**0.07**	2.77	2.39	**(0.38)**
1992	**0.08**	2.67	2.12	**(0.56)**
1994	**0.34**	2.63	2.14	**(0.49)**
1996	**0.67**	2.99	2.90	**(0.09)**
2004	**0.09**	2.70	2.06	**(0.64)**
2007	**0.25**	3.93	3.69	**(0.24)**
2011	**0.85**	5.96	5.93	**(0.04)**
2012	**0.75**	5.77	7.57	**1.80**
2013	**1.37**	5.92	4.39	**(1.53)**
2021	**0.90**	4.48		
Average		**3.59**	**3.30**	**(0.29)**

Old Crop/New Crop
Inverted years in corn

Timing?

ICE December Cotton Futures, 2000-2020

- ✔ 12 years (57%) the market declined
- ✔ 9 years (43%) the market improved

Year	1-May	1-Oct	Change
2000	59.45	63.62	4.17
2001	50.36	34.55	(15.81)
2002	38.82	45.49	6.67
2003	59.65	67.45	7.80
2004	61.73	46.98	(14.75)
2005	58.18	53.11	(5.07)
2006	55.75	49.72	(6.03)
2007	52.76	65.11	12.35
2008	77.45	58.34	(19.11)
2009	59.90	61.34	1.44
2010	77.97	98.02	20.05
2011	127.06	100.19	(26.87)
2012	86.94	71.20	(15.74)
2013	83.04	86.60	3.56
2014	83.38	62.16	(21.22)
2015	66.45	60.60	(5.85)
2016	63.42	68.08	4.66
2017	74.80	67.57	(7.23)
2018	78.80	76.31	(2.49)
2019	75.53	60.98	(14.55)
2020	57.52	65.91	8.39
Average	**69.00**	**64.92**	**(4.08)**

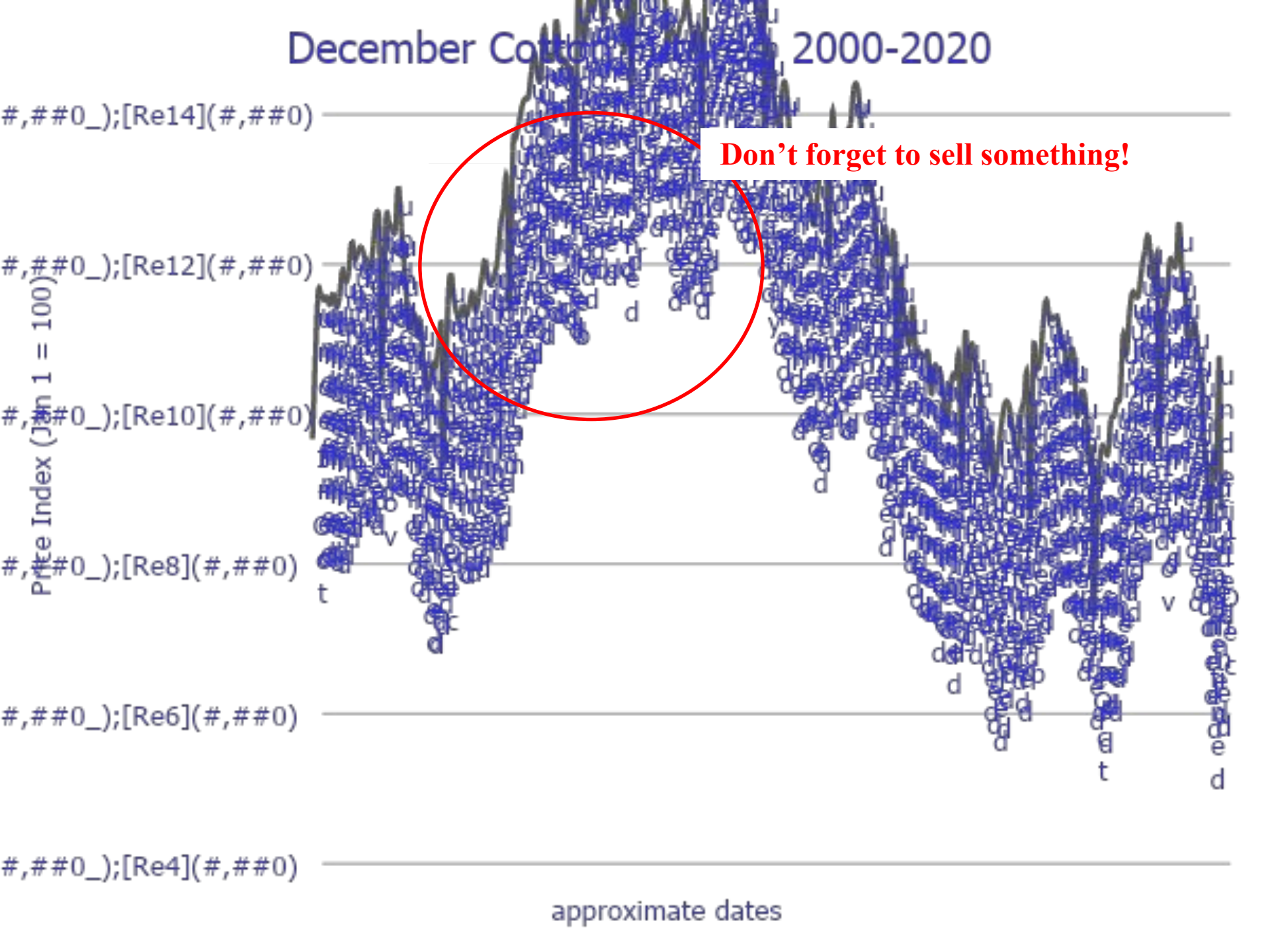
Cotton needs a minimum price too!

Remove years when Dec cotton <60 cents on May 1

ICE December Cotton Futures, 2000-2020

- ✔ 9 years (75%) the market declined
- ✔ 3 years (25%) the market improved

Year	1-May	1-Oct	Change
2004	61.73	46.98	(14.75)
2008	77.45	58.34	(19.11)
2010	77.97	98.02	20.05
2011	127.06	100.19	(26.87)
2012	86.94	71.20	(15.74)
2013	83.04	86.60	3.56
2014	83.38	62.16	(21.22)
2015	66.45	60.60	(5.85)
2016	63.42	68.08	4.66
2017	74.80	67.57	(7.23)
2018	78.80	76.31	(2.49)
2019	75.53	60.98	(14.55)
Average	**79.71**	**71.42**	**(8.30)**


December Cotton, 2000-2020
Don’t forget to sell something!
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#,##0_);[Re6](#,##0)
#,##0_);[Re4](#,##0)
Price Index (Jan 1 = 100)
approximate dates

Old Crop/New Crop
Inverted years in cotton

December Cotton Futures, 1990-2021 (cents/lb.)

Timing!

In all nine inverted years since 1990, the December contract traded higher from February into May.

Year	**1-Feb CTN/CTZ**	1-May	1-Oct	Change
1990	**6.97**	67.23	71.58	4.35
1991	**16.07**	72.18	65.52	**(6.66)**
1994	**10.11**	73.06	67.63	**(5.43)**
1995	**25.33**	80.50	89.68	9.18
2010	**6.16**	77.97	98.02	20.05
2011	**27.39**	127.06	100.19	**(26.87)**
2014	**10.82**	83.38	62.16	**(21.22)**
2017	**4.15**	74.80	67.57	**(7.23)**
2018	**5.68**	78.80	76.31	**(2.49)**
2021	**4.50**			
Average		**81.66**	**77.63**	**(4.04)**

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Exit all options positions by mid-September 2021.

(3) Pricing tools & trump cards

Pricing Tools

tbd – "to be determined"

- ✔ Fixed-price tools
  - Forward contract
  - Sell futures
  - Futures fixed (HTA)
- ✔ Minimum-price tools
  - Forward contract and buy a call option
  - Buy a put option
- ✔ Technical tools
  - Moving averages, etc.

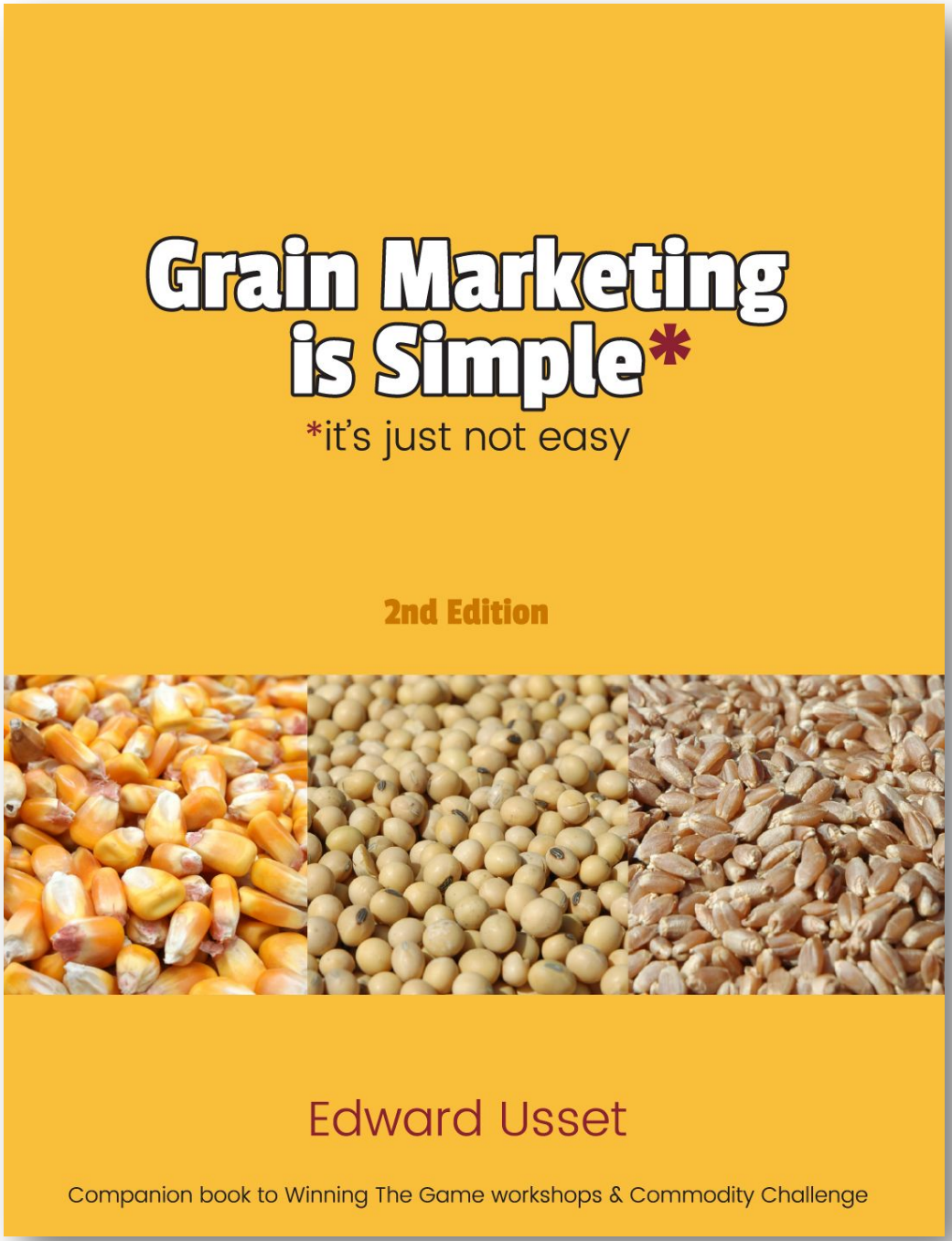
Pricing Tools

- ✔ Fixed-price tools
  - \+ Final price is known (or nearly known)
  - – No "upside" potential if prices go higher
- ✔ Minimum-price tools
  - \+ Upside potential
  - – High cost makes it difficult to use in early sales (which are likely lower price sales)

Pricing Tools

In general, I prefer to…

- Use simple, low-cost tools to price grain early in the plan (i.e. fixed-price tools)
  - Forward contracts, futures contracts, HTAs
- Save options and/or technical tools for the later stages of the plan
  - Lowers the cost (i.e. time value) of options
  - Trends are more likely in summer months



- **The 2nd Edition is now available!**
- **Completely revised and updated**
- **Written for producers**
- **Five common mistakes in marketing, pre- and post-harvest marketing plans**
- **New section on pricing tools!**
- **Meet Covered Cal and other celebrity producers**

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Dec'21 @ $4.47

Pre-Harvest Marketing Plan for Corn

Objective: Buy crop insurance to protect my production risk and have _____% of my anticipated corn crop (based on APH yield) priced by _____.

Price _____ bushels at $_____ cash price ($_____ December futures) using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Plan starts on _____. Earlier sales may be made at a _____ cent premium to price targets noted above, and limited to _____ bushels.

Ignore decision dates and make no sale if prices are lower than $_____ local cash price/$_____ December futures.

Pre-Harvest Marketing Plan for Cotton

Objective: Buy crop insurance to protect my production risk and have _____% of my anticipated cotton crop (based on APH yield) priced by _____.

Price _____ pounds at $_____ cash price ($_____ December futures) using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Price _____ pounds at $_____c/_____f, or by _____, using _____

Plan starts on _____. Earlier sales may be made at a _____ cent premium to price targets noted above, and limited to _____ pounds.

Ignore decision dates and make no sale if prices are lower than $_____ local cash price/$_____ December futures.

Pre-Harvest Marketing Plan for HRW Wheat

Objective: Buy crop insurance to protect my production risk and have _____% of my anticipated wheat crop (based on APH yield) priced by _____.

Price _____ bushels at $_____ cash price ($_____ July futures) using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

Price _____ bushels at $_____c/_____f, or by _____, using _____

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Ignore decision dates and make no sale if prices are lower than $_____ local cash price/$_____ July futures.

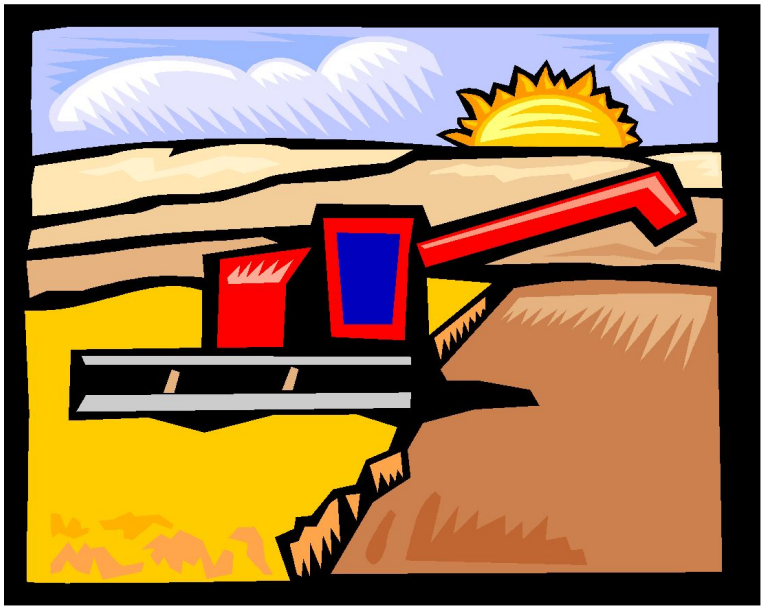
Quiz Time!

Are you a bull or bear?

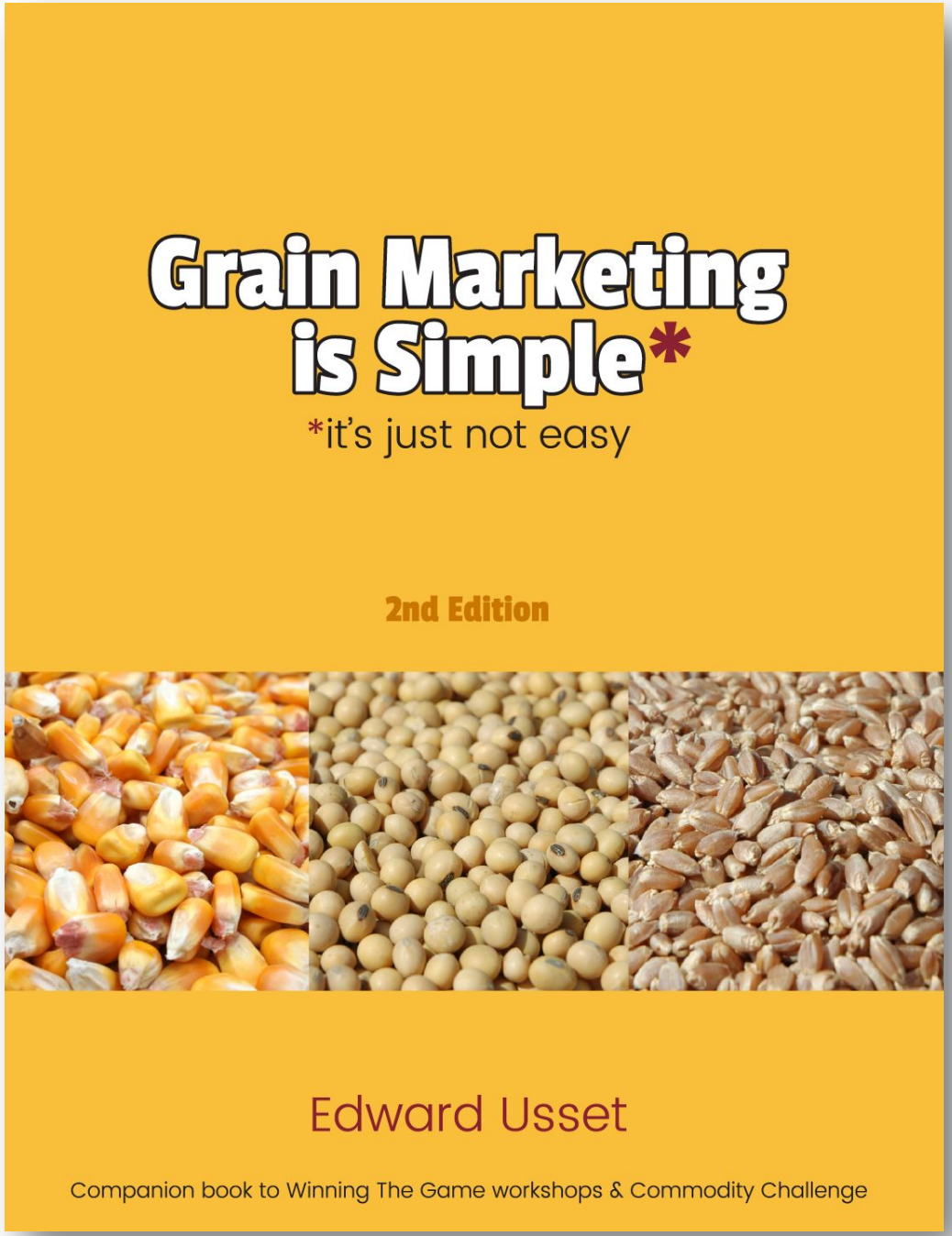

Plaza Theater of Wax
San Antonio March 1, 2017
4D

break

Master Marketer 2021



How to Write a **Post-Harvest** Marketing Plan



www.cffm.umn.edu/simple/

- 2nd Edition
- Completely revised and updated
- Written for producers
- Five common mistakes in marketing, pre- and post-harvest marketing plans
- New section on pricing tools!
- Meet Covered Cal and other celebrity producers

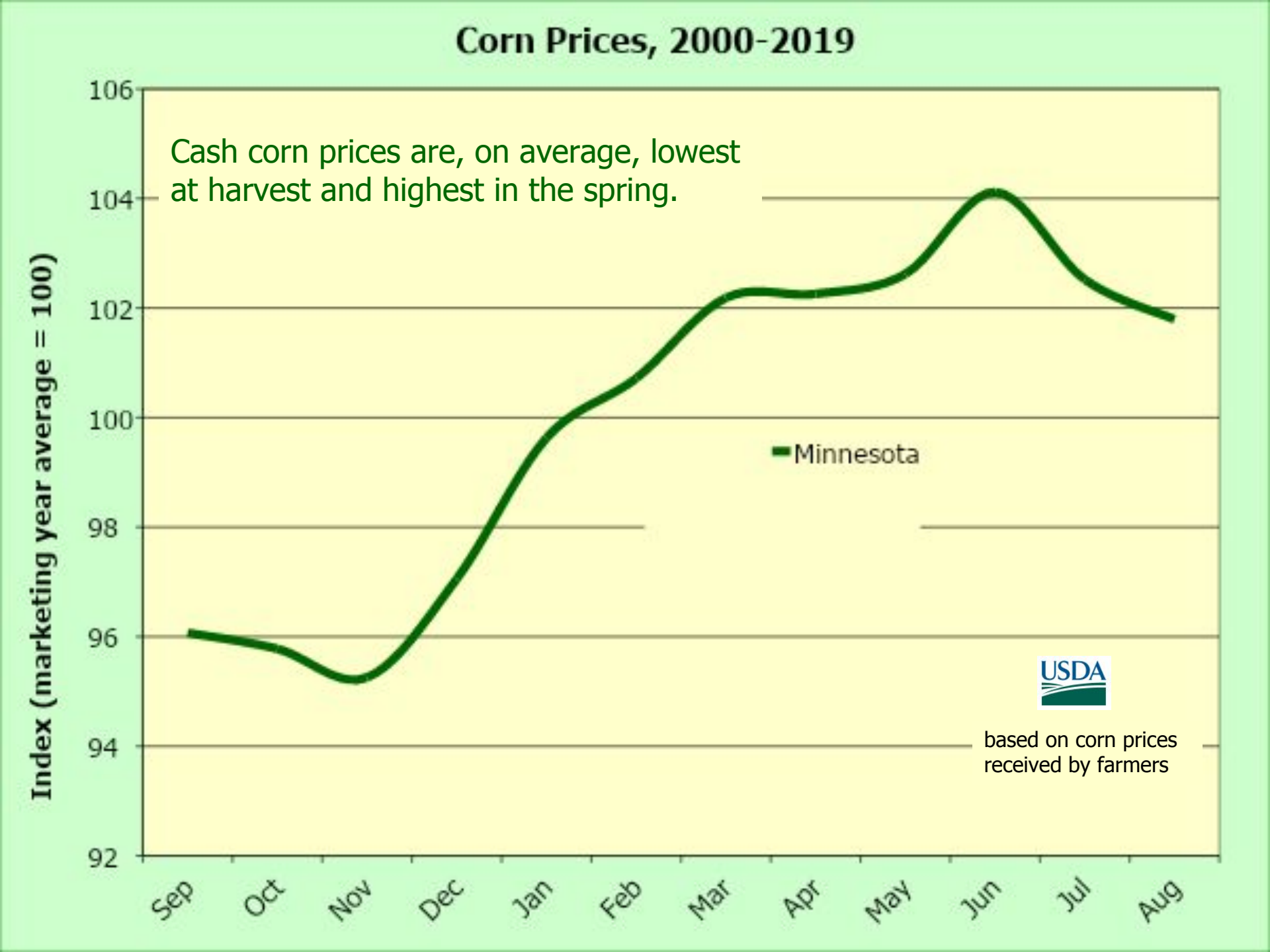
Wally Whipsaw

Meet Wally, a celebrity who is not in my book. Every year Wally sells grain when he should have sold it last year.

Wally Whipsaw

Since 1990, Wally has beaten Barney in 14 of 30 years.

Wally needs to **forget last year**.


Corn Prices, 2000-2019
Cash corn prices are, on average, lowest at harvest and highest in the spring.
Index (marketing year average = 100)
106
104
102
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Minnesota
Sep
Oct
Nov
Dec
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USDA
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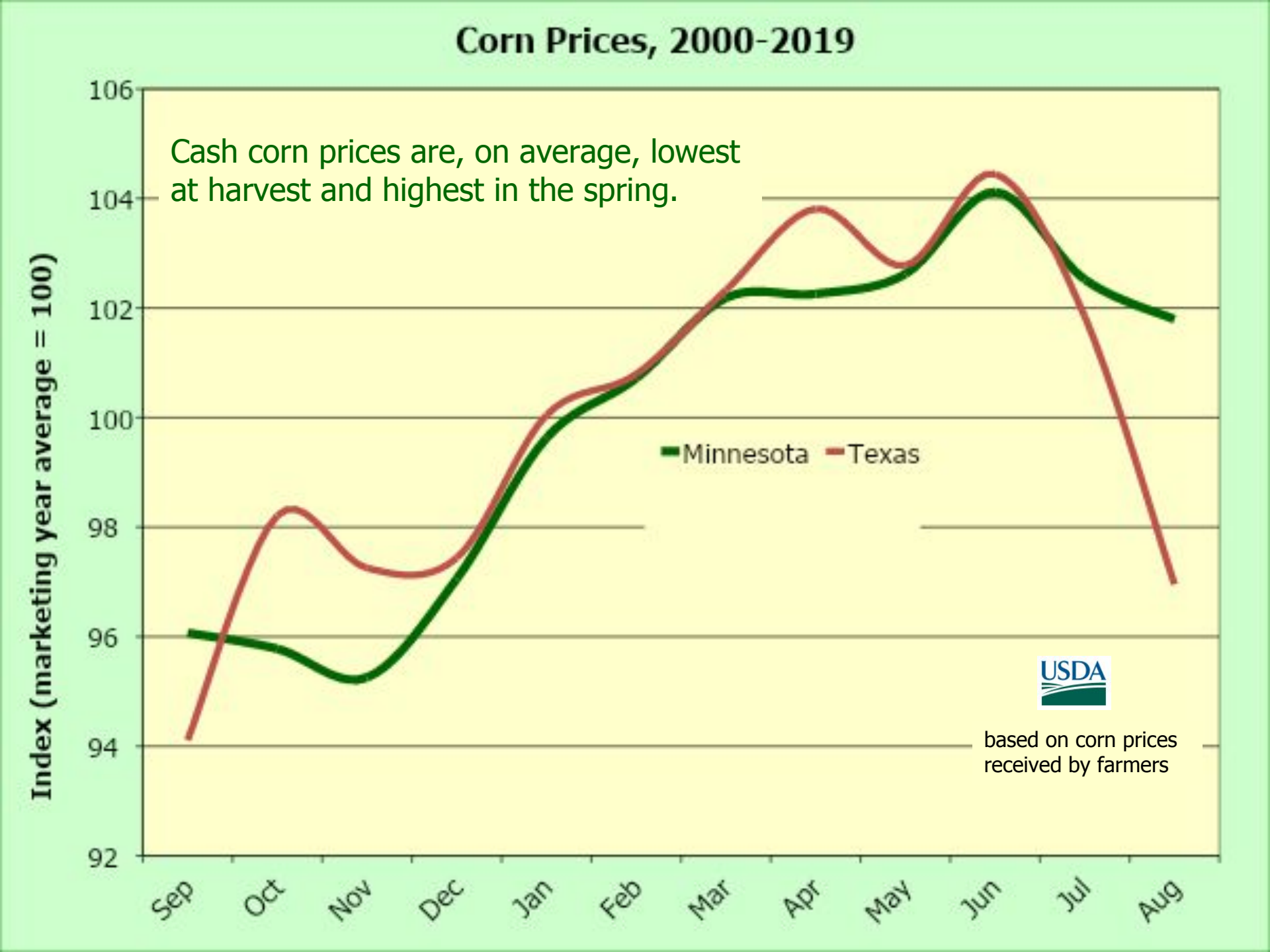
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Post-harvest marketing is different!

Pre-harvest marketing is **strategic**	Post-harvest marketing is **tactical**
• A plan is forward looking and may be written up to two years prior to harvest	• A plan is written at harvest, based on basis and carrying charges
• Production costs establish minimum price objectives	• Production costs are not considered in the plan
• Seasonal patterns point to AMJ as a good time for action	• Seasonal patterns point to AMJ as a good time for action

How to write a post-harvest marketing plan

1. Post-harvest marketing choices
2. What would Earl do?
3. Write a post-harvest marketing plan

How to write a post-harvest marketing plan

1. **Post-harvest marketing choices**
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Post-Harvest Corn Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no un-priced grain beyond July 1.

Harvest: Price and deliver _____ bushels (no storage), and _____ more bushels (good price)

- Re-own _____ bushels with an options strategy tbd

Store _____ bushels of unpriced grain for later sale

- Sell _____ bushels when the cash price reaches $_____ or by _____
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- Sell if the price falls below $_____

Store and sell the carry on _____ bushels with a pricing tool tbd

- Lock the basis on _____ bushels at ____ cents under the _____ contract, or by _____ at the current basis

Post-harvest marketing choices…

- ✔ Sell grain at harvest
- ✔ Hold grain in storage to sell later
- ✔ Hold grain in storage and "sell the carry"

How do I make a choice?

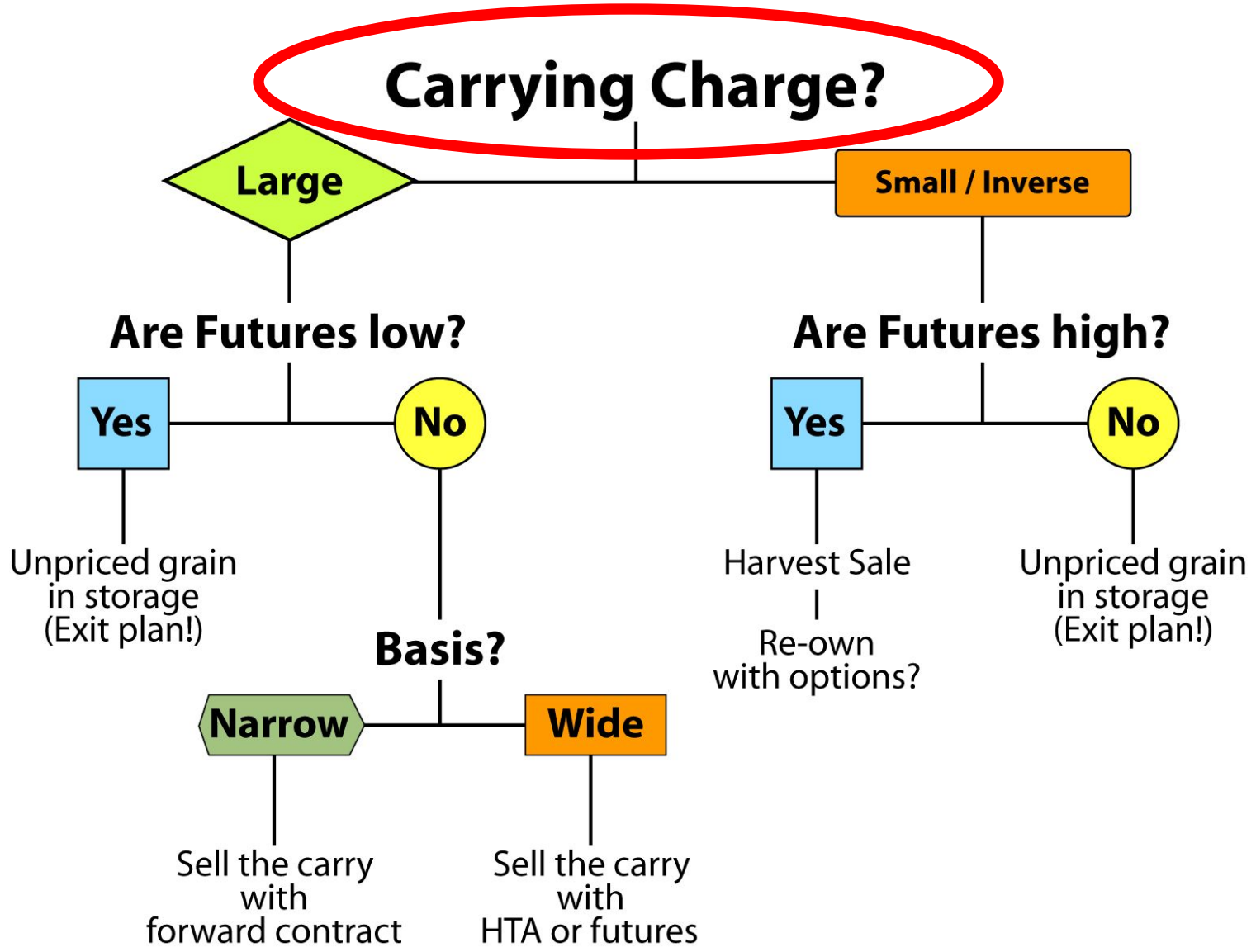
How to write a post-harvest marketing plan

1. Post-harvest marketing choices
2. **What would Earl do?**
3. Write a post-harvest marketing plan

Earl Eitheror

Earl has on-farm storage. He either sells the carry when carrying charges are large, or he holds his crop in the bin to sell later when the carry is small. Variable storage costs (interest and shrink) are taken into account.

Decision Tree for Sizing Up the Market



Carrying Charges

- ✔ Large crops/large free stocks = large carrying charges
  - **In the bear market environment, Earl plays it safe by selling the carry.**
  - **Carrying charges will not get larger than the commercial cost of storing grain**

How does Earl sell the carry?

In the bear market environment, Earl plays it safe by selling the carry.

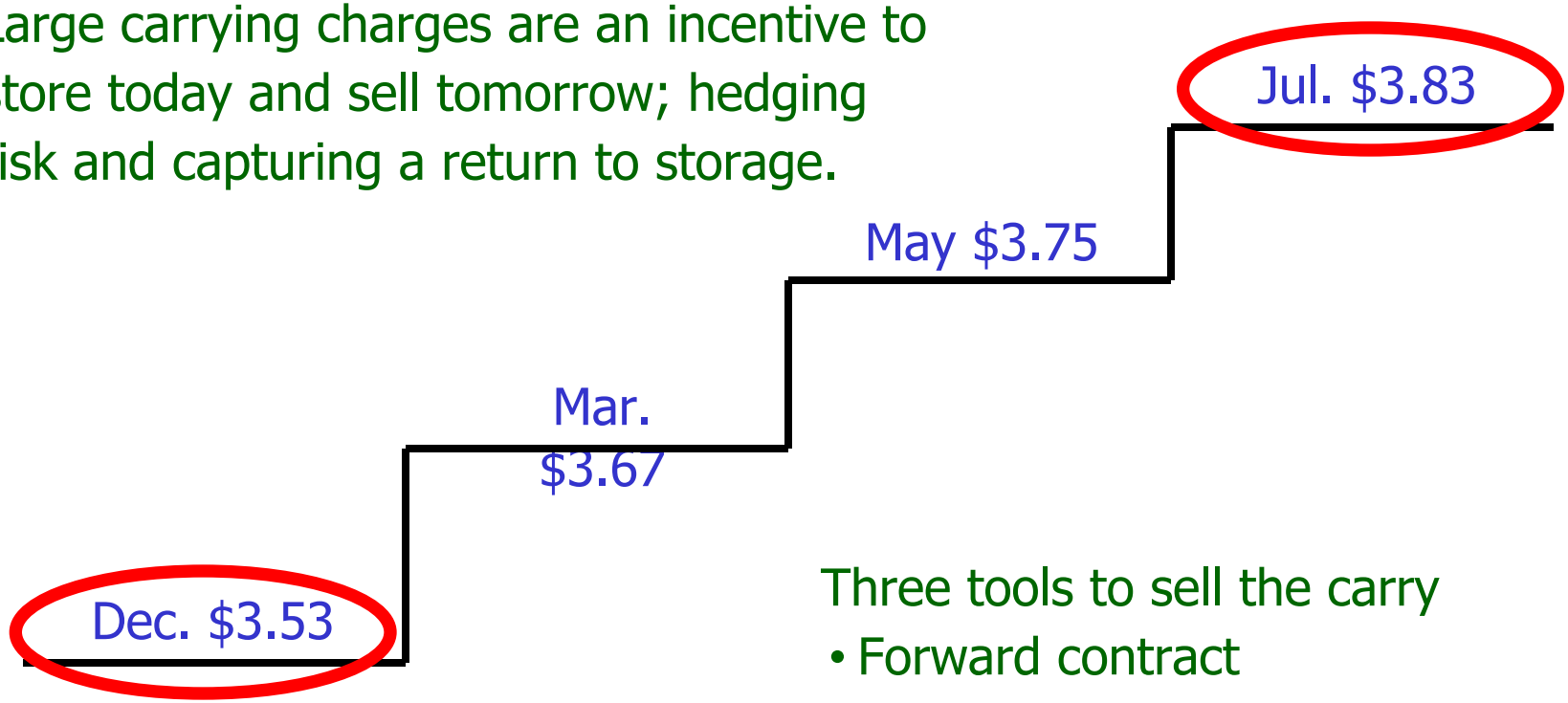
He has three tools to "sell the carry."

- Forward contract (when the basis is good)
- Hedge-to-arrive (when basis is poor)
- Sell futures (when basis is poor and you want maximum flexibility)

Carrying Charges

CBOT corn futures: October 13, 2017

Large carrying charges are an incentive to store today and sell tomorrow; hedging risk and capturing a return to storage.

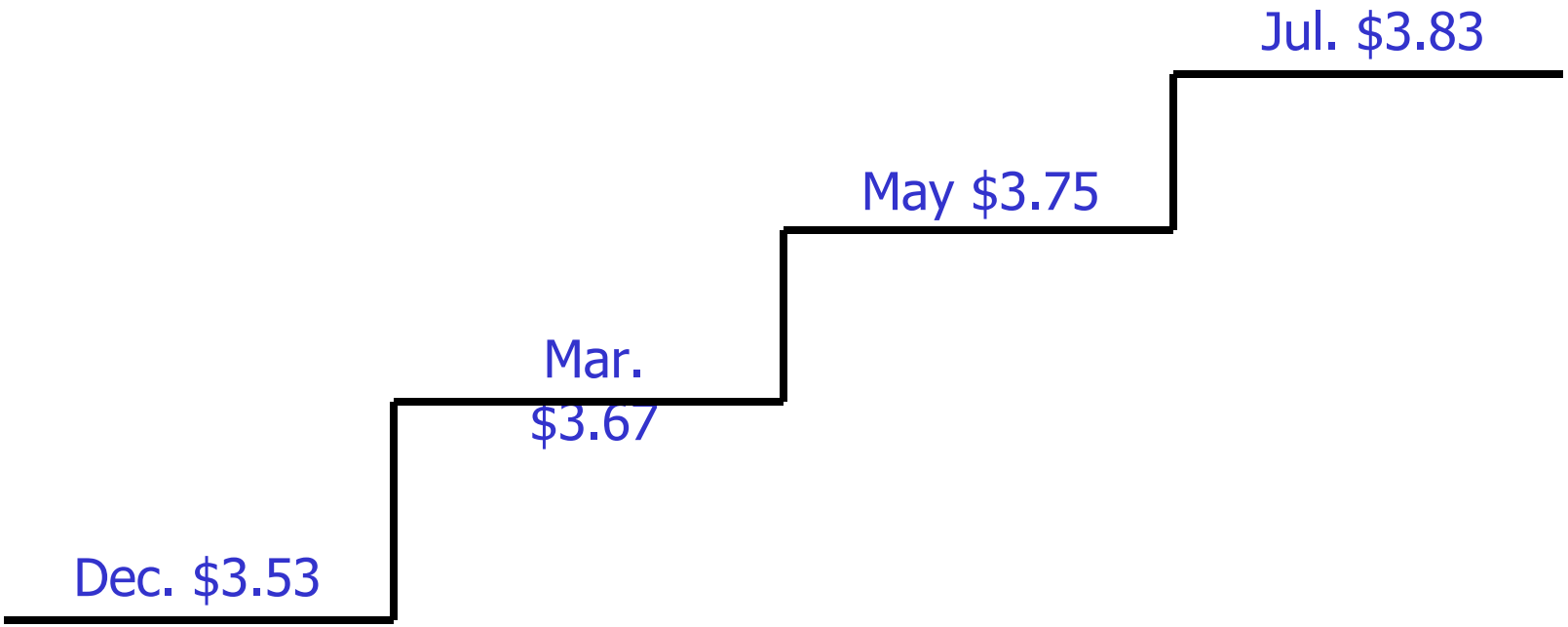


Three tools to sell the carry

- Forward contract
- Hedge-to-arrive
- Sell futures

Carrying Charges

CBOT corn futures and Pipestone, MN
cash market: October 13, 2017

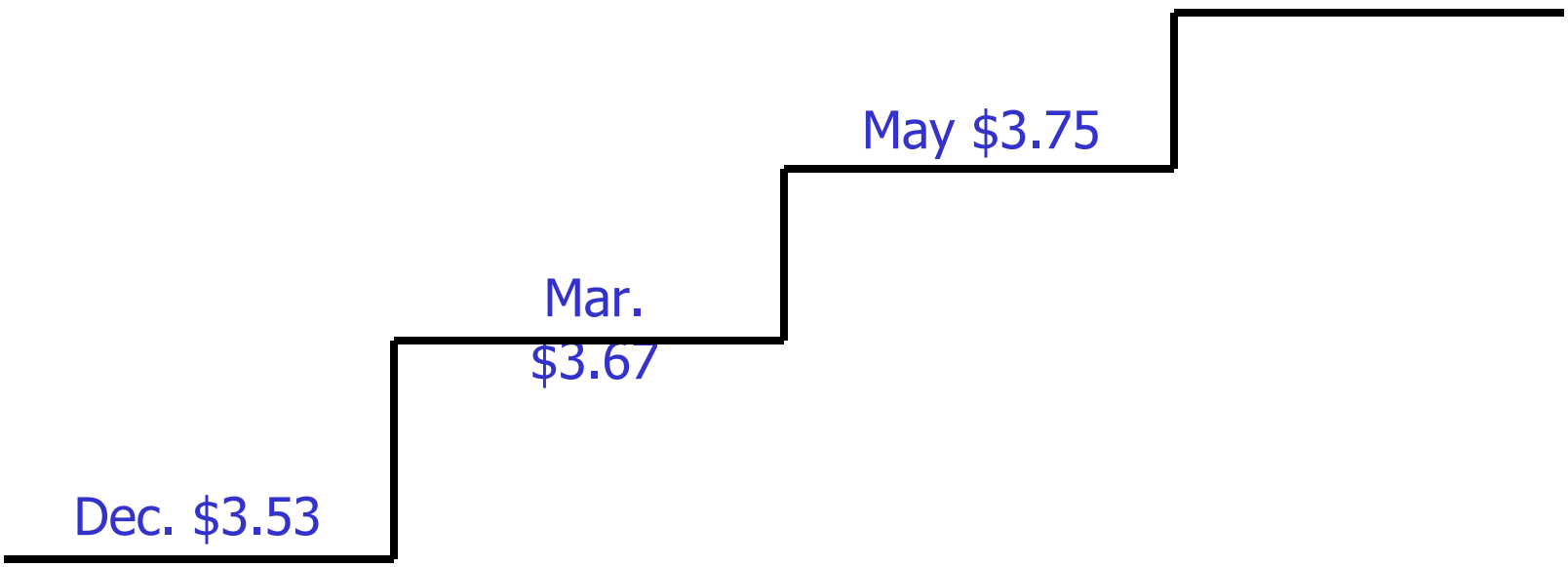


$2.86 1. At harvest, place the crop in storage, current basis is 67 cents under the Dec, or 97 cents under the July contract

Carrying Charges

CBOT corn futures and Pipestone, MN cash market: October 13, 2017

2. Sell the carry, selling July futures (or HTA)



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Carrying Charges

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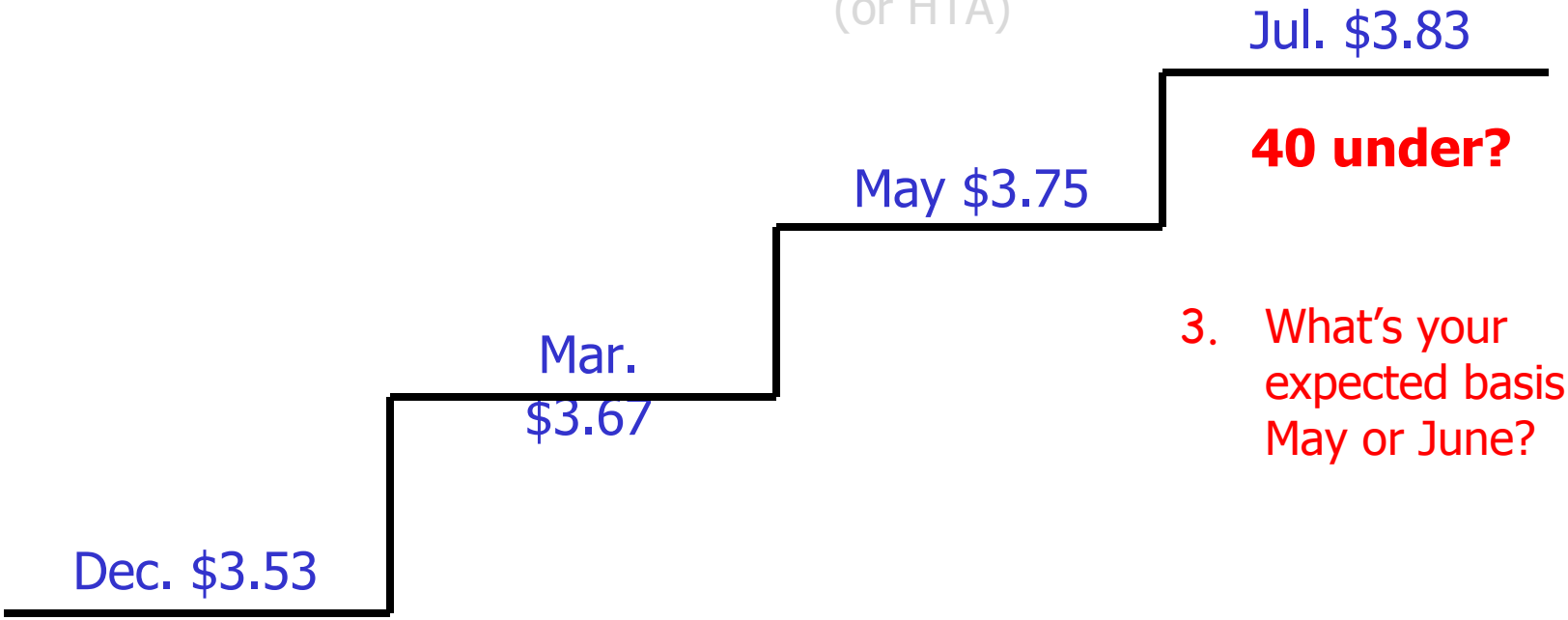


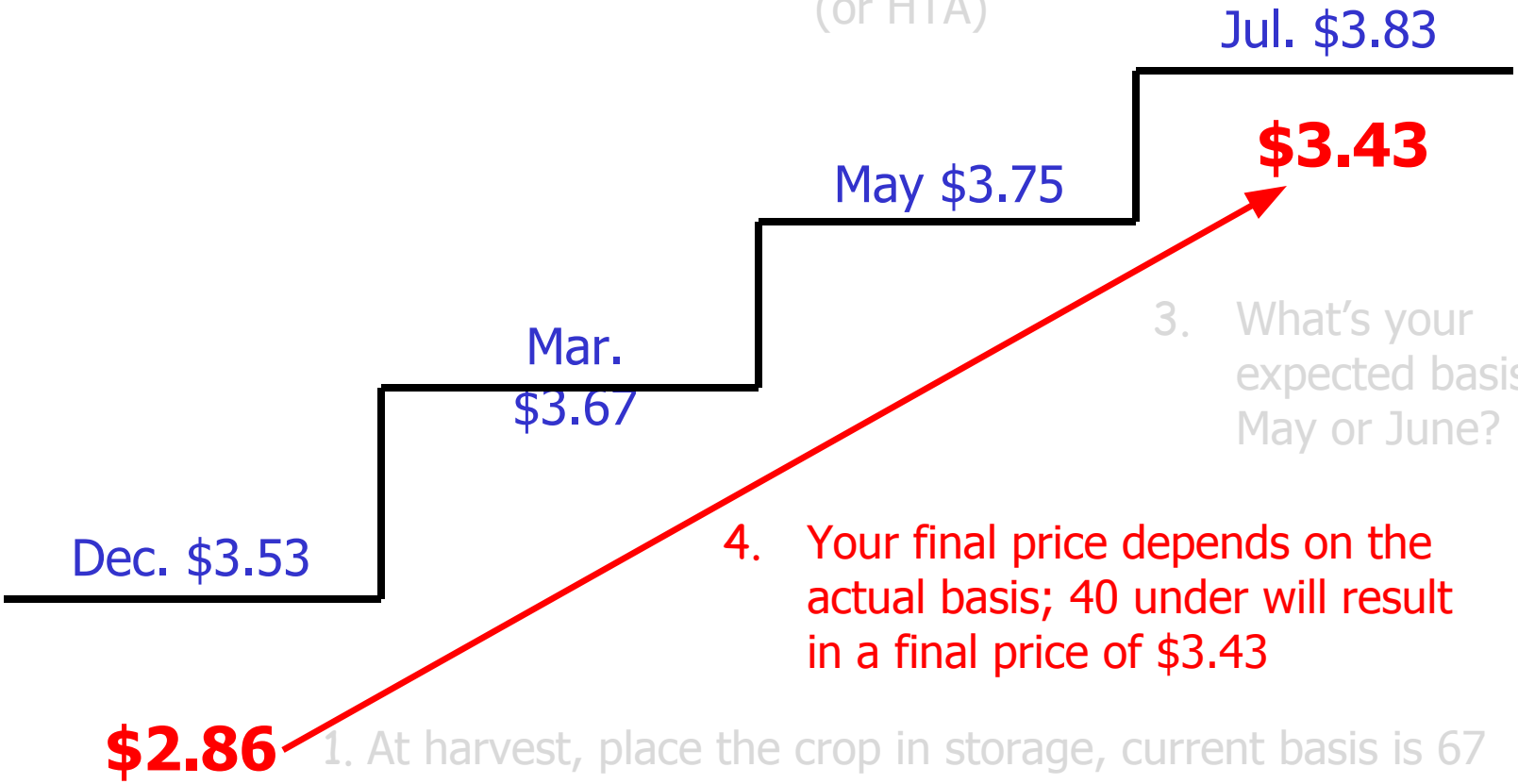
3. What's your expected basis in May or June?

$2.86

1. At harvest, place the crop in storage, current basis is 67 cents under the Dec, or 97 cents under the July contract

Carrying Charges

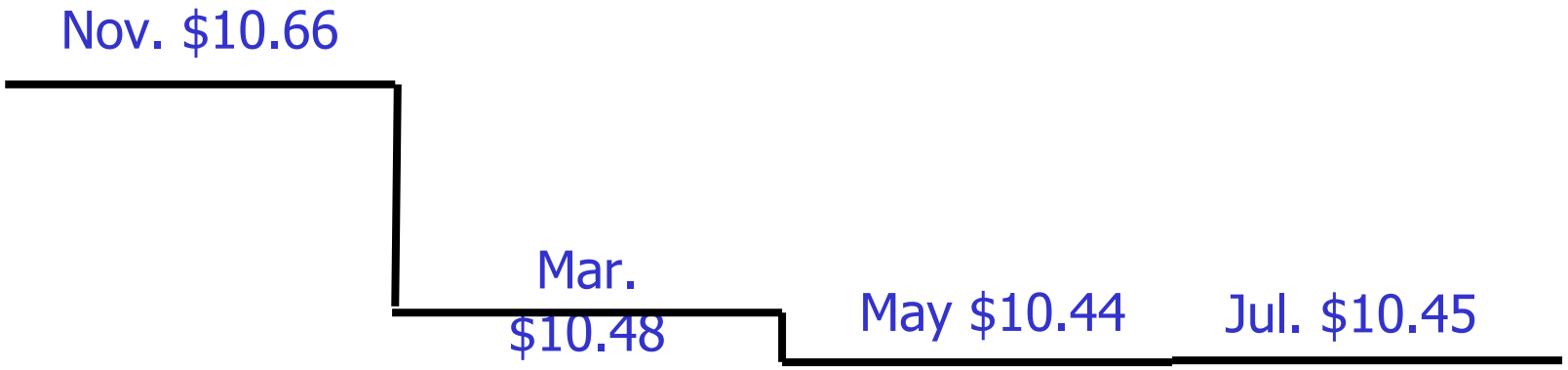
CBOT corn futures and Pipestone, MN cash market: October 13, 2017



Carrying Charges

CBOT **Soybean** Futures, October 9, 2020

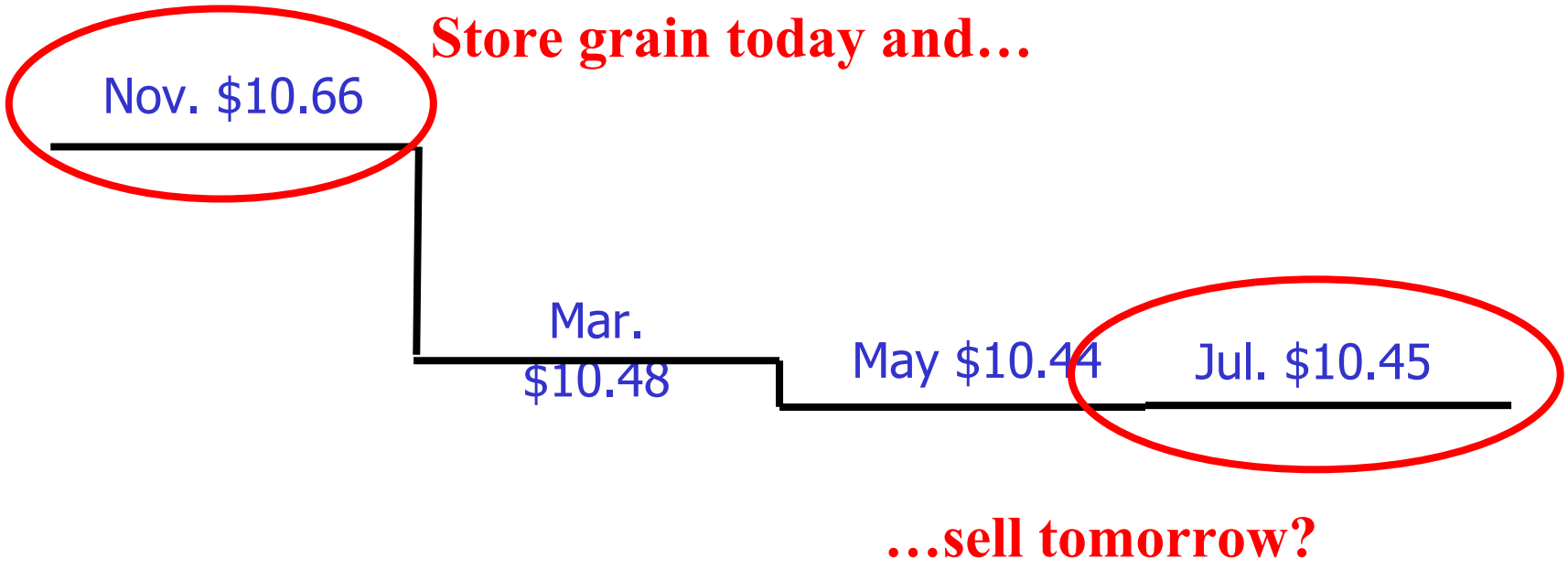
Inverse Carrying Charges: An inverted market represents the opposite of a carry market – deferred contracts trade at a discount to nearby contracts.



This occurs when supplies are small - a scarcity of stocks. The market says "*we will pay a premium if you deliver now!*".

Carrying Charges

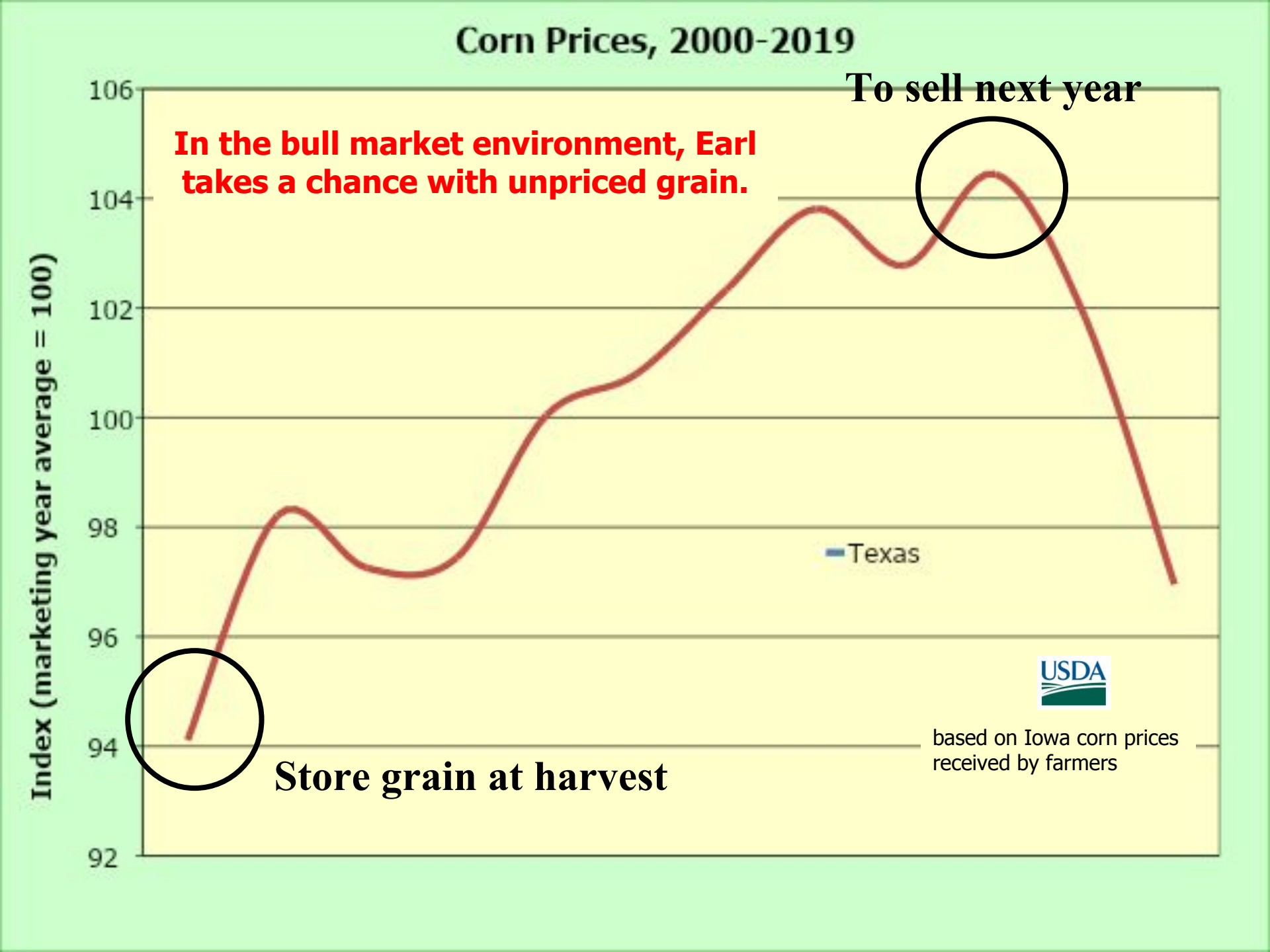
CBOT **Soybean** Futures, October 9, 2020



Carrying Charges

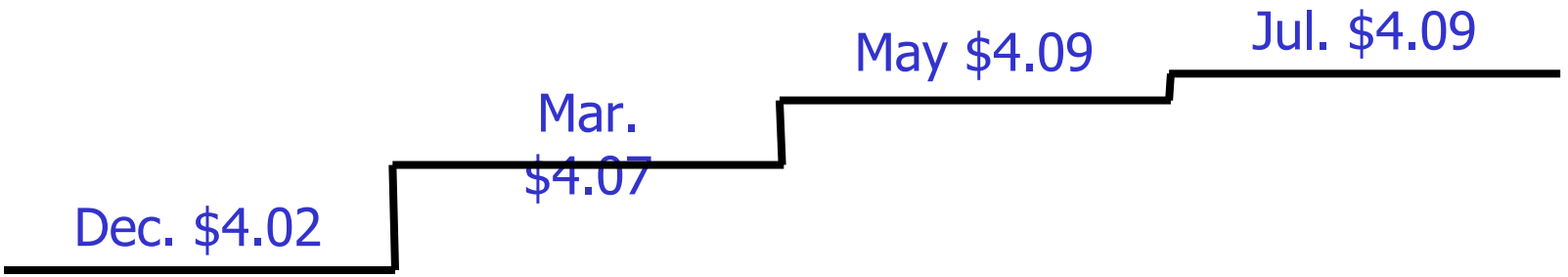
- In the bull market environment, Earl takes a chance with unpriced grain.
- There is no limit to the size of an inverse (see corn in 1996, soybeans in 2004, wheat in 2008)

✔ Small crops/tight stocks = small carrying charges or inverses


Corn Prices, 2000-2019
To sell next year
In the bull market environment, Earl takes a chance with unpriced grain.
106
104
102
100
98
96
94
92
Index (marketing year average = 100)
Texas
USDA
based on Iowa corn prices received by farmers
Store grain at harvest

How does Earl sell the carry?

The carry was small in 2020 – Earl holds unpriced corn in storage.



Earl Eitheror

Earl bases his choice on carrying charges.

Does it work?

Let's compare Earl to Barney Binless

Earl vs. Barney, 1990-2019

				
	Earl	Barney	Earl's advantage	>Barney
Corn	3.03	2.91	0.12	26/30 years
Soybeans	7.62	7.18	0.44	21/30 years
HRS Wheat	4.79	4.62	0.17	24/30 years

Corn and soybeans are average Iowa prices.

Barney Binless represents the harvest price.

Earl sells 20% at harvest. When carrying charges are >140% of interest costs, Earl sells the carry. When carrying charges are <140% of interest costs, Earl holds grain to sell in the spring. Prices are calculated net of on-farm storage costs (interest and shrink).

Earl vs. Barney, 1990-2019

- Over time, Earl's choice paid-off vs. the harvest price, net of on-farm storage costs
- His results are consistent for corn, soybeans and wheat
- Earl's choice does not work every time (nothing is 100%)

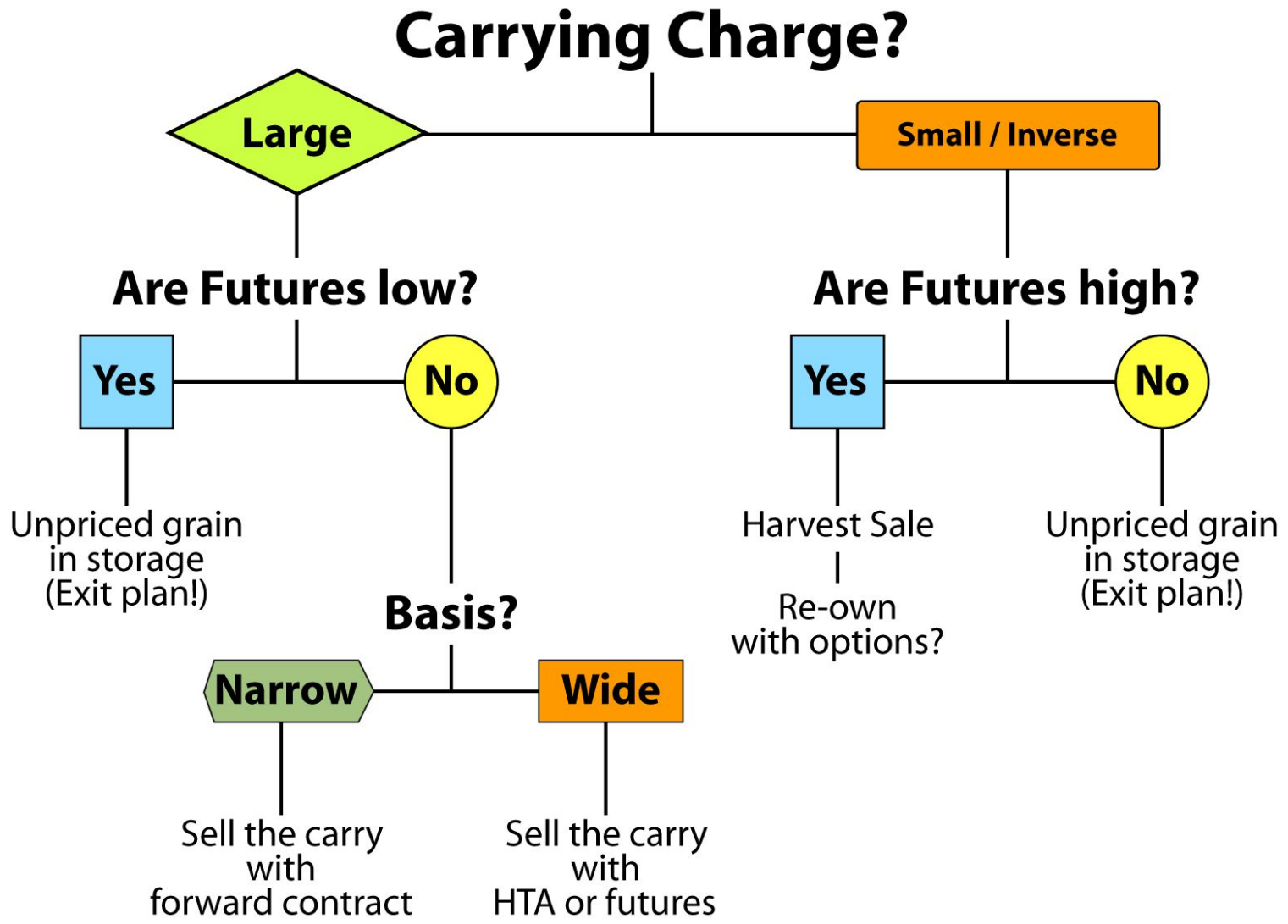
How to write a post-harvest marketing plan

1. Post-harvest marketing choices
2. What would Earl do?
3. **Write a post-harvest marketing plan**

Writing a post-harvest marketing plan

1. Use the decision tree and plan template
2. What is the carry? (What would Earl do?)
3. Refine your plan…
   - ✔ Is basis high or low?
   - ✔ Are market prices high or low?
   - ✔ What are my storage costs?
   - ✔ What is my appetite for risk?
4. Don’t forget your exit plan!

Decision Tree for Sizing Up the Market



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Sizing Up the Market

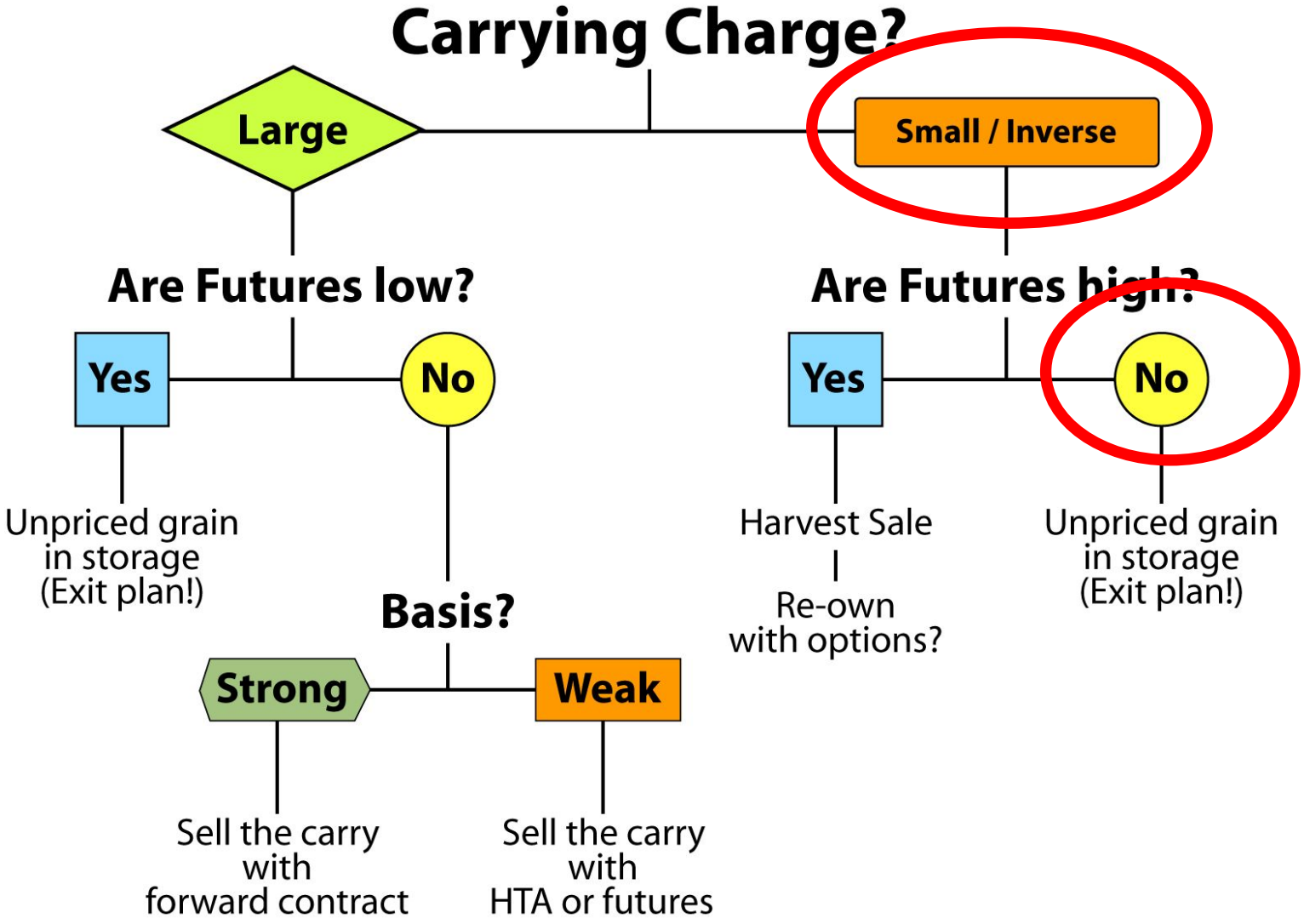
An early look at harvest 2021…

2021 Post-Harvest Marketing Plans

Corn

	February
Dec'21 futures	$4.47
basis	48 under
harvest price	$3.99
Jul'22 futures	$4.57

Decision Tree for Sizing Up the Market



Sizing up the 2021 corn market

- ✔ I expect Earl to have a carry to sell by harvest
- ✔ Basis is good and should be modestly better by spring
- ✔ Diversify with some unpriced corn in storage

Corn: 2021 Post-Harvest Marketing Plan

Objective: Get a good average price! Hold no unpriced corn beyond July 1, 2022.

draft

20,000 bushels: Price and deliver at harvest

30,000 bushels: Place corn in storage and wait for higher prices. Exit plan: Sell 10,000 bushels @ $4.40, 10K @ $4.85 and 10K @ $5.10. Sell if the cash price falls below $3.50. Bushels unsold at the end of April will be sold in equal increments in May and June.

50,000 bushels: Place corn in storage and sell the carry with July futures. Exit plan: Unwind the hedge when the basis reaches 35 under the July, or by June 20.

Marketing is not easy!

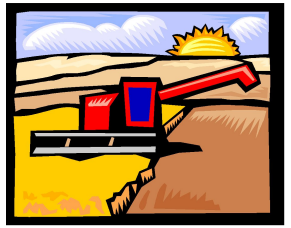
Earl shows us that an approach that works **over** time is not a guarantee that it will work **every** time.

Pre-Harvest Marketing Plan **Review**

- ✔ Set pricing targets
  - minimum price objective - very important!
  - maximum price objective – much less important
  - pricing grain below production costs – what is your preference?
- ✔ Set decision dates
  - seasonal trends support March – June pricing
- ✔ Choose your pricing tools
  - rely on simple, low-cost tools for initial sales
  - options and technical tools offer flexibility with discipline - use selectively!

Post-Harvest Marketing Plan **Review**

- ✔ Post harvest choices are few
  - Sell grain at harvest
  - Hold grain in storage to sell later
  - Hold grain in storage and "sell the carry"
- ✔ What would Earl do?
  - Carrying charges are critical to the storage decision
- ✔ Refine your plan…
  - Are basis or prices high or low? What is my appetite for risk?
- ✔ Get an exit plan!



Why is an imperfect plan better than no plan at all?

- A plan is a benchmark for goals, and it gives you something to adapt in a changing environment.

Quiz Time!

My students speak!

Quiz Time!

"*Professor* Usset is a fantastic teacher. He really cares about his students and is passionate about the subject."

Quiz Time!

"Edward is a great teacher! If he could ***make the final exam easier***, the class would be perfect."

Quiz Time!

"You are one of the best teachers I ever met in my college life.

Come and party with me."

Quiz Time!

"The instructor was rather ***scatter-brained and confused*** about the content."

Amarillo

Thank you!

Edward Usset, Grain Marketing Economist
University of Minnesota