

Profits Through Intensive Marketing

Post Harvest Wheat and Pre-harvest row crop
marketing - September 16, 2020

Objectives

- ▶ Overview of marketing philosophies
- ▶ Review data driven strategies
- ▶ Old and new crop (and new, new crop) price targets

Marketing Philosophies

- ▶ Cash, cash forward, HTA
 - ▶ Used by low cost well established and margin risk adverse farms
- ▶ Use of futures and options
 - ▶ Used by farms that chose to have more flexibility and are more comfortable with margin risk
- ▶ Data driven revenue generation
 - ▶ Farms that have an understanding of price relationships, price movement and have an excellent handle on COP

Utilizing Data to Make Decisions

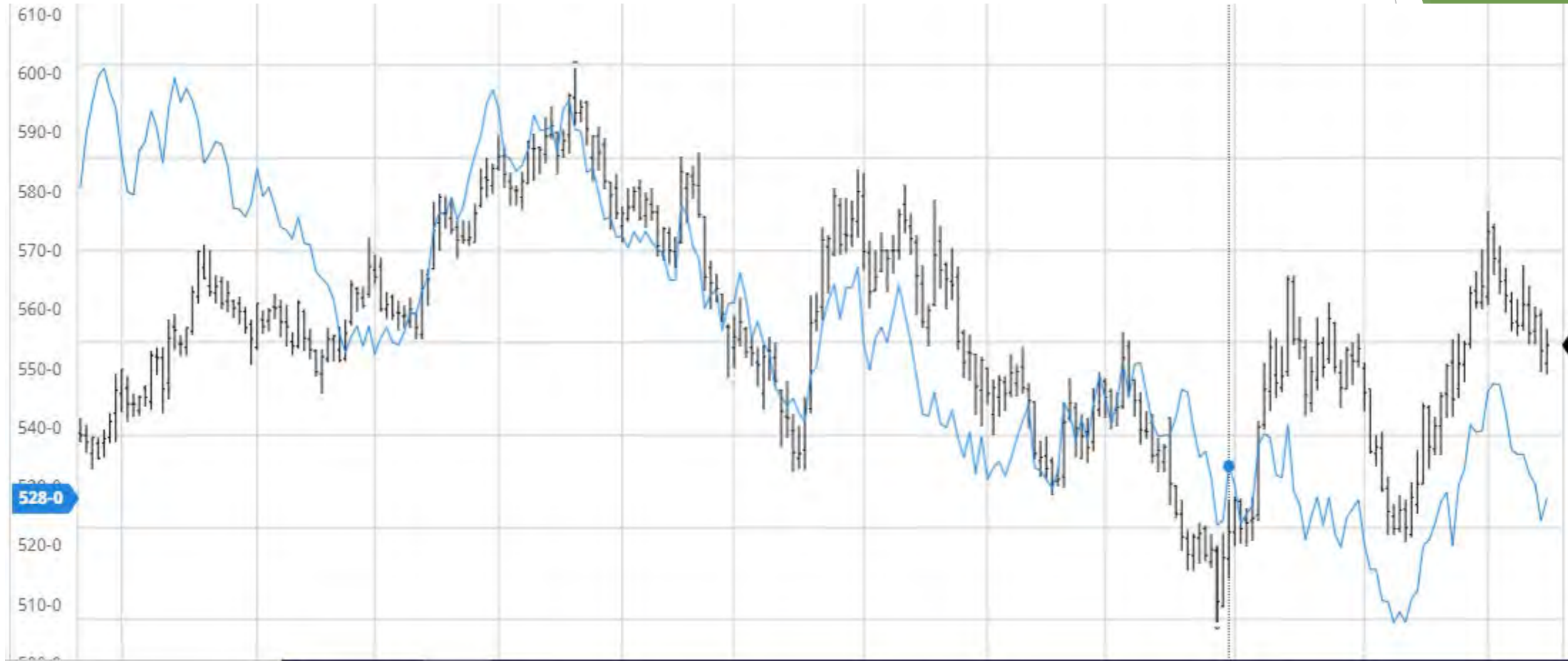
Quarterly price comparisons
between CME wheat and Spring
Wheat futures.

The long term "average" is \$0.71
Spring wheat over CME wheat

CME wheat has been trading even
with and higher than Spring wheat
futures for much of the calendar
year

	CME Wheat/Spring Wheat Price Difference				
	Jan	April	Jul	Oct	Ave.
1996	\$ (0.12)	\$ (0.06)	\$ 0.22	\$0.15	\$ 0.05
1997	\$ 0.18	\$ 0.21	\$ 0.31	\$0.28	\$ 0.25
1998	\$ 0.37	\$ 0.73	\$ 0.59	\$0.71	\$ 0.60
1999	\$ 0.83	\$ 0.60	\$ 0.63	\$0.72	\$ 0.70
2000	\$ 0.63	\$ 0.78	\$ 0.52	\$0.61	\$ 0.64
2001	\$ 0.51	\$ 0.57	\$ 0.41	\$0.22	\$ 0.43
2002	\$ 0.13	\$ 0.35	\$ 0.42	\$0.68	\$ 0.40
2003	\$ 0.61	\$ 0.63	\$ 0.18	\$0.08	\$ 0.38
2004	\$ 0.25	\$ 0.35	\$ 0.37	\$0.50	\$ 0.37
2005	\$ 0.49	\$ 0.18	\$ 0.21	\$0.56	\$ 0.36
2006	\$ 0.54	\$ 0.71	\$ 0.88	\$0.12	\$ 0.56
2007	\$ 0.27	\$ 0.55	\$ (0.03)	\$0.26	\$ 0.26
2008	\$ 4.43	\$ 3.80	\$ 0.86	\$1.12	\$ 2.55
2009	\$ 0.84	\$ 1.58	\$ 0.77	\$0.19	\$ 0.85
2010	\$ 0.27	\$ 0.34	\$ 0.26	\$0.60	\$ 0.37
2011	\$ 1.39	\$ 1.76	\$ 1.58	\$2.81	\$ 1.89
2012	\$ 1.62	\$ 1.30	\$ 0.66	\$0.77	\$ 1.09
2013	\$ 0.85	\$ 1.16	\$ 0.77	\$0.62	\$ 0.85
2014	\$ 0.48	\$ 0.44	\$ 0.86	\$0.01	\$ 0.45
2015	\$ 0.54	\$ 0.56	\$ 0.25	\$0.04	\$ 0.35
2016	\$ 0.10	\$ 0.62	\$ 0.80	\$1.11	\$ 0.66
2017	\$ 1.28	\$ 1.22	\$ 2.56	\$1.92	\$ 1.75
2018	\$ 1.56	\$ 1.02	\$ 0.57	\$0.74	\$ 0.97
2019	\$ 0.54	\$ 0.72	\$ 0.32	\$0.15	\$ 0.53
2020	\$ (0.20)	\$ (0.29)	\$ 0.22	\$ -	\$ (0.09)
Ave.	\$ 0.74	\$ 0.79	\$ 0.61	\$0.60	\$ 0.71
High	\$ 4.43	\$ 3.80	\$ 2.56	\$2.81	\$ 3.60
Low	\$ (0.20)	\$ (0.29)	\$ (0.03)	\$ -	\$ (0.17)

Utilizing Data to Make Decisions



Blue line is December 2020 Spring wheat futures daily closing value, candle stick is the daily trading range on December 2020 CME wheat futures

Utilizing Data to Make Decisions

Corn futures and CME wheat futures have a “normal” price relationship of CME wheat futures \$1.12 over corn futures.

We have seen a range of \$1.42 to \$2.19 CME wheat futures over corn futures (both the December 2020 and March 2021 contracts)

Corn/CME Wheat Price Difference					
	Jan	April	Jul	Oct	Ave.
1996	\$1.51	\$ 1.78	\$0.86	\$ 1.05	\$ 1.30
1997	\$0.90	\$ 1.28	\$0.96	\$ 0.81	\$ 0.99
1998	\$0.64	\$ 0.46	\$0.35	\$ 0.75	\$ 0.55
1999	\$0.61	\$ 0.44	\$0.61	\$ 0.56	\$ 0.56
2000	\$0.36	\$ 0.18	\$0.66	\$ 0.53	\$ 0.43
2001	\$0.62	\$ 0.74	\$0.60	\$ 0.92	\$ 0.72
2002	\$0.80	\$ 0.68	\$0.87	\$ 1.54	\$ 0.97
2003	\$0.83	\$ 0.47	\$1.43	\$ 1.23	\$ 0.99
2004	\$1.13	\$ 0.65	\$0.95	\$ 1.14	\$ 0.97
2005	\$0.94	\$ 1.13	\$0.91	\$ 1.21	\$ 1.05
2006	\$1.24	\$ 1.08	\$1.59	\$ 1.62	\$ 1.38
2007	\$0.64	\$ 1.28	\$3.04	\$ 4.32	\$ 2.32
2008	\$4.29	\$ 1.87	\$1.96	\$ 1.34	\$ 2.37
2009	\$1.89	\$ 1.28	\$1.89	\$ 1.28	\$ 1.59
2010	\$1.17	\$ 1.26	\$2.69	\$ 1.35	\$ 1.62
2011	\$1.81	\$ 0.15	\$0.07	\$(0.19)	\$ 0.46
2012	\$0.27	\$(0.12)	\$0.81	\$ 1.09	\$ 0.51
2013	\$0.39	\$ 0.39	\$1.65	\$ 2.40	\$ 1.21
2014	\$1.22	\$ 1.99	\$1.73	\$ 1.56	\$ 1.63
2015	\$1.33	\$ 1.04	\$1.28	\$ 1.40	\$ 1.26
2016	\$1.18	\$ 0.88	\$0.73	\$ 0.61	\$ 0.85
2017	\$0.61	\$ 0.61	\$1.04	\$ 0.78	\$ 0.76
2018	\$0.90	\$ 1.29	\$1.87	\$ 1.39	\$ 1.36
2019	\$1.40	\$ 0.65	\$0.87	\$ 1.27	\$ 0.97
2020	\$1.73	\$ 2.18	\$1.73	\$ -	\$ 1.88
Ave.	\$1.11	\$ 0.89	\$1.23	\$ 1.25	\$ 1.12
High	\$4.29	\$ 1.99	\$3.04	\$ 4.32	\$ 2.37
Low	\$0.27	\$(0.12)	\$0.07	\$(0.19)	\$ 0.43

Utilizing Data to Make Decisions

- ▶ So how does one take advantage of the futures price imbalances?
- ▶ Is this really hedging?
- ▶ How much does this cost?
- ▶ Has it worked so far this year?

Utilizing Data to Make Decisions

- ▶ So how does one take advantage of the futures price imbalances?
- ▶ Many of the spreads are traded as spreads and all you have to do is have your broker enter into the spread on your behalf
- ▶ You buy the undervalued contract (spring wheat or corn) and sell the overvalued contract (CME wheat)
- ▶ You then wait for your price target to be hit and then exit the spread

Utilizing Data to Make Decisions

- ▶ Is this really hedging?
 - ▶ If you use stored production, insured production and/or expected production to cover your positions it is hedging
- ▶ How much does this cost?
 - ▶ Many of these spread trades are relatively inexpensive to put on, some however, if not a normal spread that is regularly traded may cost significantly more in terms of initial margin

Utilizing Data to Make Decisions

- ▶ Has it worked so far this year?
 - ▶ Depending on how aggressively growers have used the strategies (some are on the third time around on CME wheat/corn and the second time around on CME wheat/Spring wheat)
 - ▶ Each time the return has been \$0.25 to \$0.30 per bushel
 - ▶ We encouraged growers to spread trade 100% of their expected production when CME wheat was \$0.07 to \$0.10 higher than Spring wheat futures.
 - ▶ We will most likely do the same for next year's crop (using July 2021 futures)

Utilizing Data to Make Decisions

- ▶ The spread trades have been in conjunction with futures (HTA or cash forward) hedging and selling out of the money call options to improve revenue.
- ▶ Would you sell Spring wheat futures for \$6.25 to \$7.00?
- ▶ December 2021 CME wheat call options with a strike price of \$6.00 have traded for at least \$0.25 premium this week

Utilizing Data to Make Decisions

Corn futures price - closing value end of week								
Year	2014	2015	2016	2017	2018	2019	2020	Average
Week								
1	\$ 3.62	\$3.84	\$3.34	\$3.74	\$3.71	\$4.00	\$3.08	
2	\$ 3.77	\$3.75	\$3.33	\$3.65	\$3.78	\$4.10	\$3.25	
3	\$ 3.71	\$3.77	\$3.43	\$3.53	\$3.62	\$3.71	\$3.27	
4	\$ 3.65	\$3.75	\$3.25	\$3.55	\$3.65	\$3.60	\$3.46	
5			\$3.28			\$3.58		
Ave	\$ 3.69	\$3.78	\$3.33	\$3.62	\$3.69	\$3.80	\$3.26	\$ 3.59

Selling the carry, in August we normally see some our lowest corn futures prices of the year. We most likely will see deferred September futures hit or exceed \$4.00

Sell September futures against the sales you make at or near harvest along with selling \$4.00 strike price September corn call options.

Exit futures when you can gain \$0.30 and keep the option premium

Old and new crop (and new, new crop) price targets

▶ Spring Wheat

- ▶ Old crop 2020 - \$5.49, \$5.59, \$5.69 - sell \$6.00 or higher strike price July 2021 CME wheat call options on up to half of next year's (2021) production to improve revenue
- ▶ New crop 2021 - \$5.79 or higher July or September 2021 CME wheat or Spring wheat futures
- ▶ No new crop 2022 opportunities yet
- ▶ Why so uncertain?
 - ▶ We want to utilize the contracts that will generate the most revenue and then use spread trades, if they are available to help achieve a higher net price.

Old and new crop (and new, new crop) price targets

▶ Corn

- ▶ 2020 - \$3.69, \$3.79 and up in dime increments
 - ▶ Sell out of the money July 2021 corn or CME wheat options on up to half of 2021 insured production to improve revenue
 - ▶ Sell the carry (September futures and call options and explained earlier)
- ▶ 2021 - \$3.89, \$3.99, \$4.09 and up using July 2021 futures, Once carry from July 2021 to December 2021 is at least \$0.13, we can move the futures out to December 2021

Old and new crop (and new, new crop) price targets

- ▶ 2021 continued - we can sell out of the money December 2021 and July 2022 corn call options to generate additional revenue as well
- ▶ 2022 - Using July 2022 futures - \$4.09, \$4.19, \$4.29, \$4.39, and \$4.49. We have hit all of these price targets over a year out, other than in 2020 for the 2021 crop for the past 5 years. \$4.24 was the high this calendar year for July 2021 futures
- ▶ This takes capital but the returns are very good with these sales averaging well over \$4.00 cash for the growers that utilize this strategy

Old and new crop (and new, new crop) price targets

- ▶ Soybean -
- ▶ 2020 - We started at \$9.59, \$9.79 and \$9.99. Our next targets are \$10.29, \$10.44 (using November 2020 futures)
 - ▶ We are selling July \$10.60 and higher call options to add revenue to our new crop sales
- ▶ 2021 - Using July 2021 futures, \$10.09, \$10.24 and up in \$0.15 increments. The July futures are \$0.45 higher than November. Spread trade?
- ▶ 2022 - Not time as futures are inverted

Thank You!

- ▶ Questions and comments
- ▶ Thanks to Minnesota Wheat and North Dakota Grain Grower
- ▶ Also thanks to AgCountry and Northern Crops Institute as sponsors