



Marketing Strategies

Overview

- Developing a marketing plan
- Cash flow considerations
- Marketing tools for your farm
- Contract considerations




Open Wheat and Barley Markets...



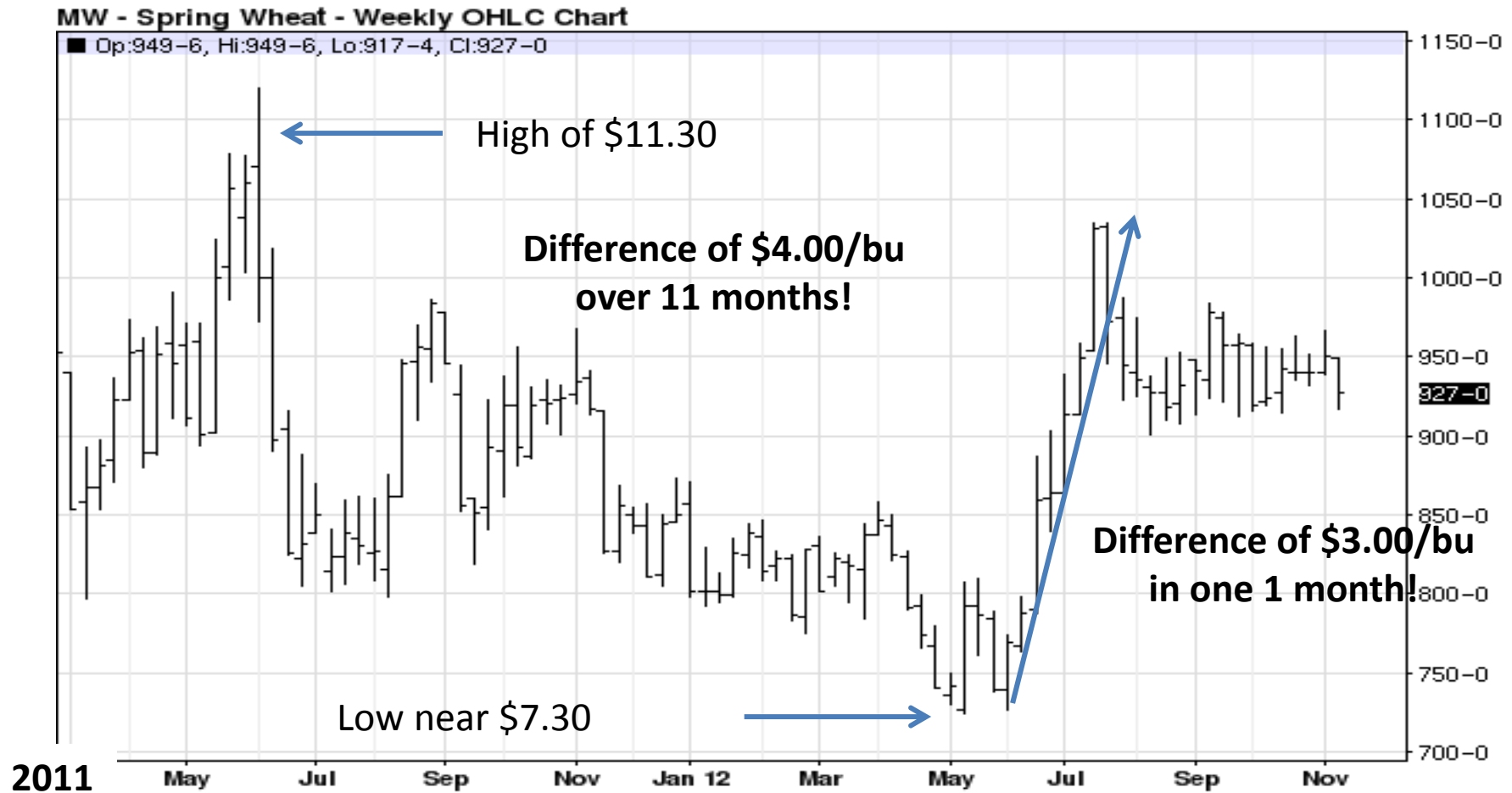
Farming is a Volatile Business

- Profit = Revenue – Expenses
= Yield x Price – Costs
- Variability in any of these components leads to changes in profit
- Variability is another way of saying “risk”
- Focus will be on managing price risk



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MGEX Weekly Wheat Futures Chart




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Price Risk

When faced with risk (uncertainty), there are three courses of action:

	Frequency of Loss	
Severity of Loss	Low	High
Low	Accept	Transfer
High	Transfer	Avoid



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Risk Considerations on **Your** Farm

Your Personality

- Risk averse
- Risk neutral
- Risk taker



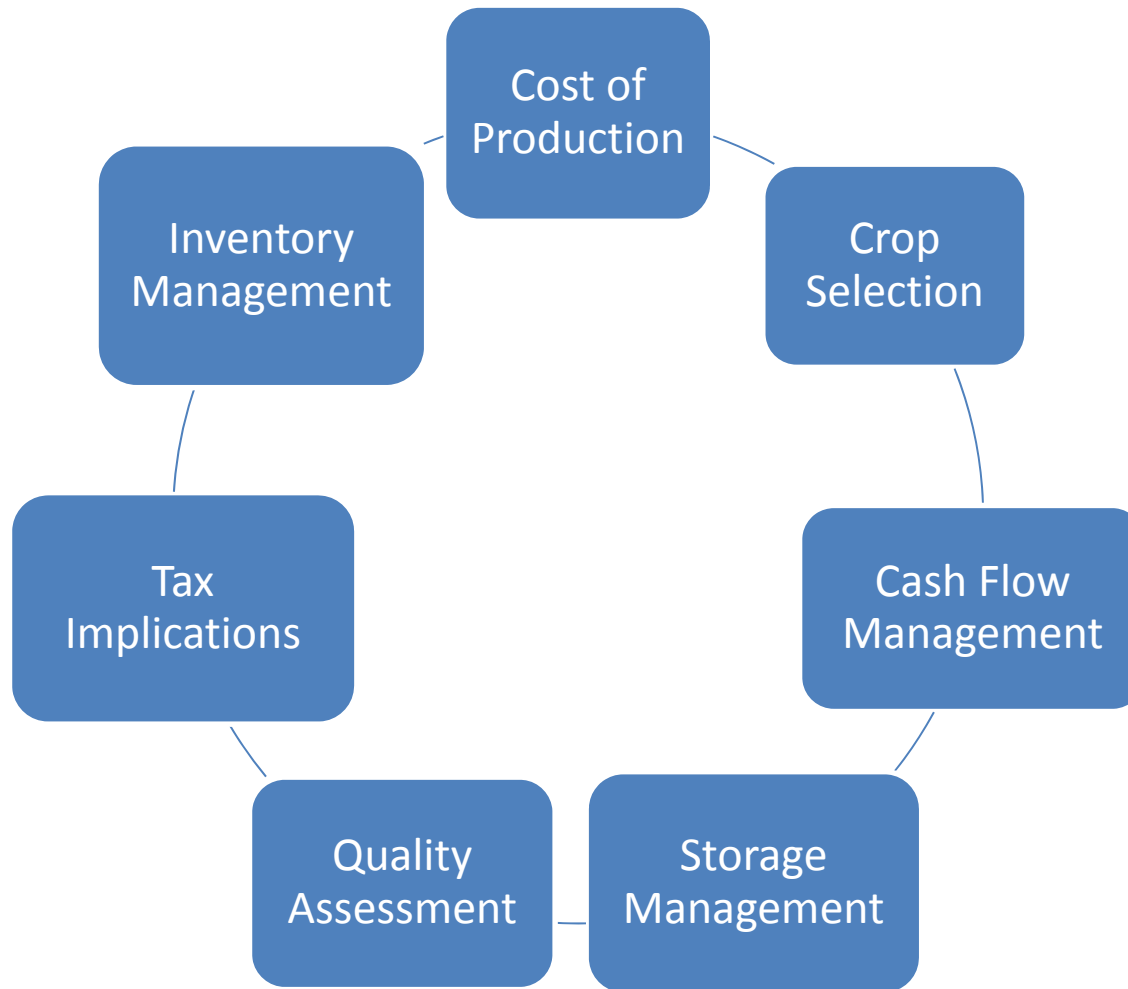
Financial Situation

- Leverage

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Overview – Factors to Consider



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Why start with Cost of Production?

- Knowing costs/unit → breakeven price

Example: Costs estimate \$250/acre on
40 bpa average yield =
\$6.25/bu. breakeven price

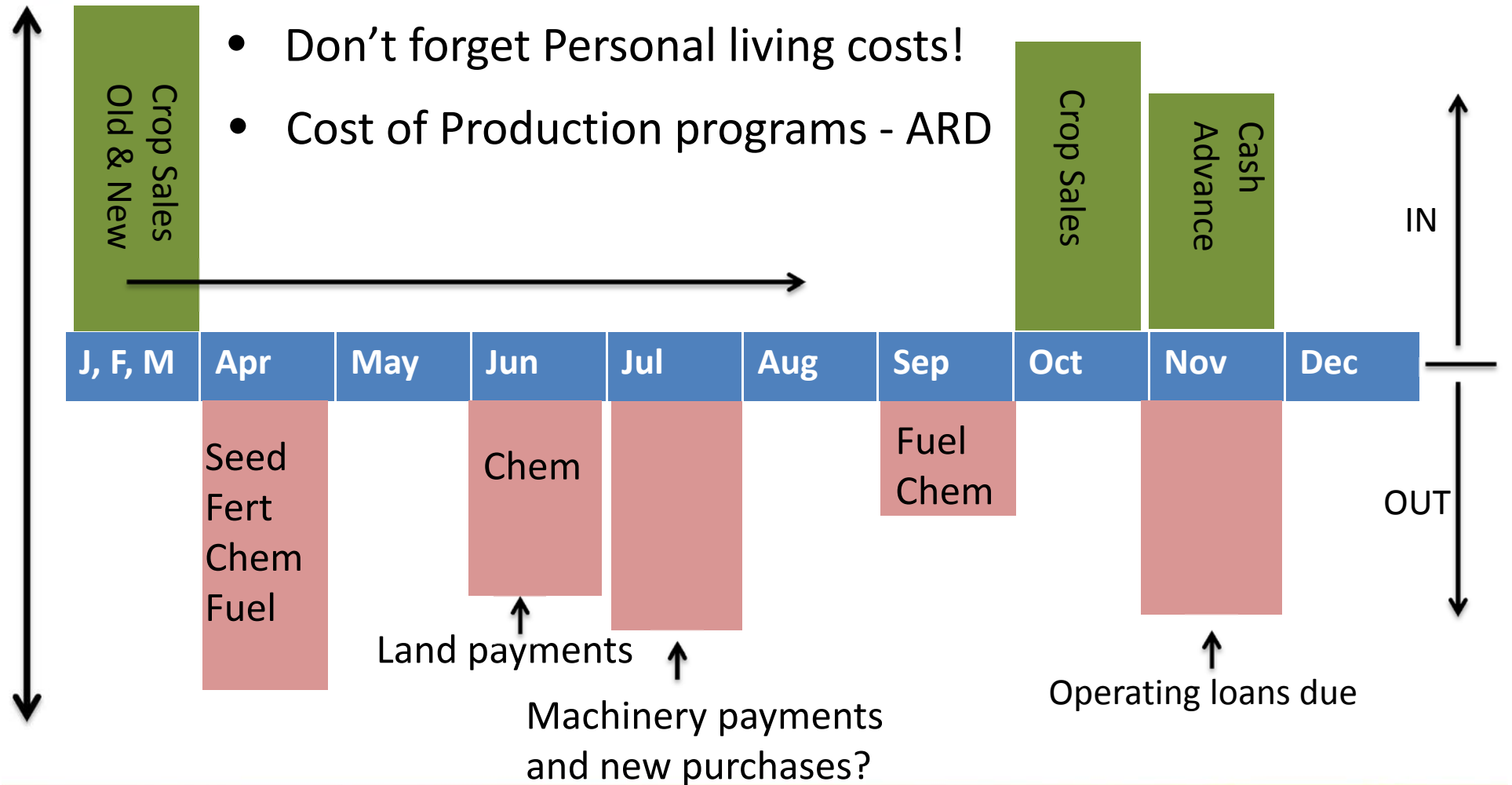
- Use to set your target selling price

AgriProfit\$



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Cash Flow Management



Storage Considerations


- Evaluate storage capacity vs. expected production
- Aeration or drying needs
- Risks: insects, moisture, temperature, theft
- Storage costs!
 1. asset cost
 2. cost of carry



Grain Quality Assessment

- Proper representative sampling at harvest
- Canadian Grain Commission Harvest Sample
- Shop samples to various buyers
- Calculate farm-based price:
CWB price at port, different base grades,
protein premiums and discounts!

Note!



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Other Factors to Consider

- Inventory management: do I want carryover?
- Crop share rental agreements
- Tax management
- Personal aspects:
 - Busy seasons
 - Vacation



Estimating Market Outlook

Fundamental Analysis (*Price Direction*)

- Supply and Demand
 - Weather Conditions
 - Government Policies
 - General Economic Conditions



Technical Analysis (*Price Timing*)

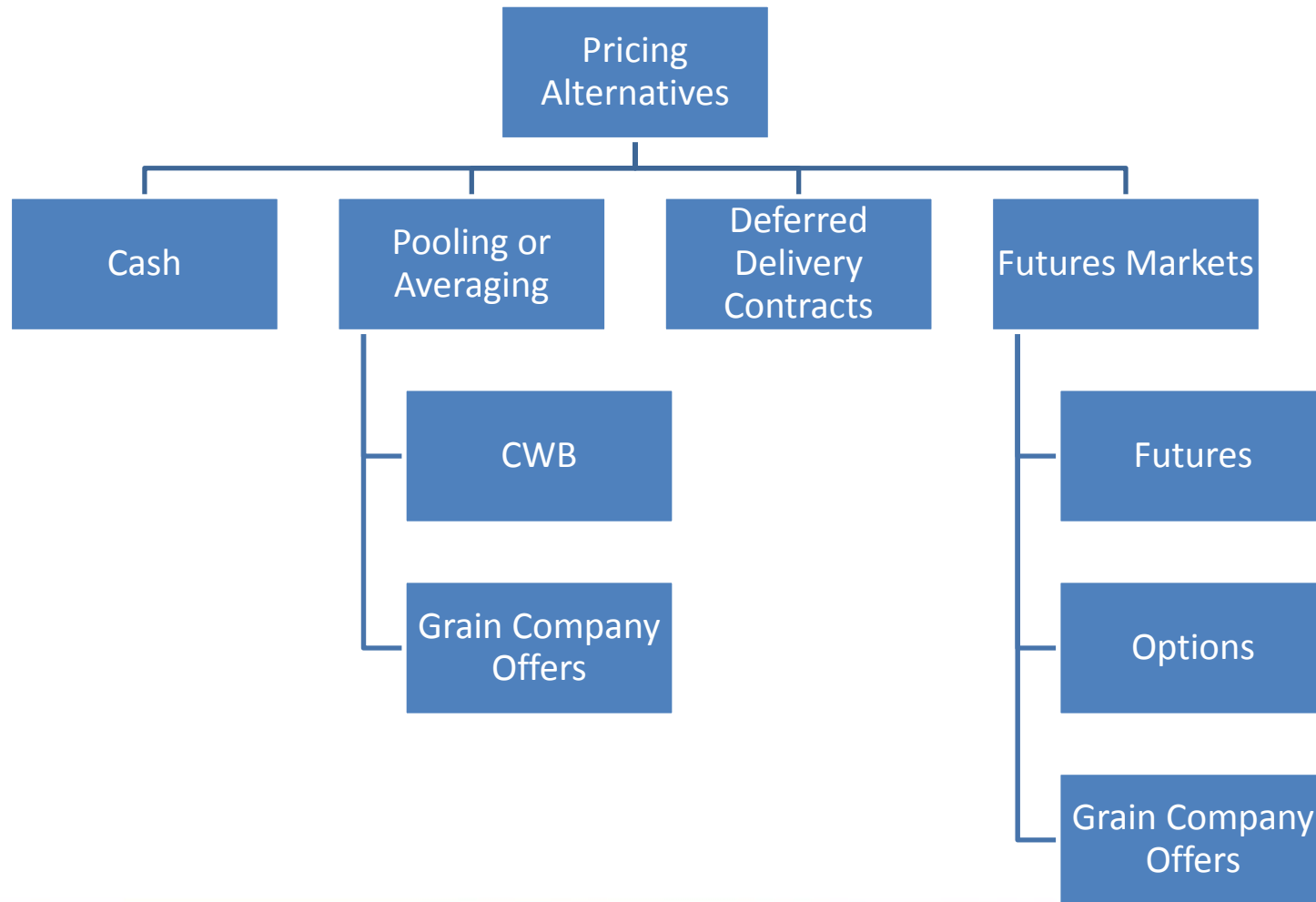
- Price charts & indicators



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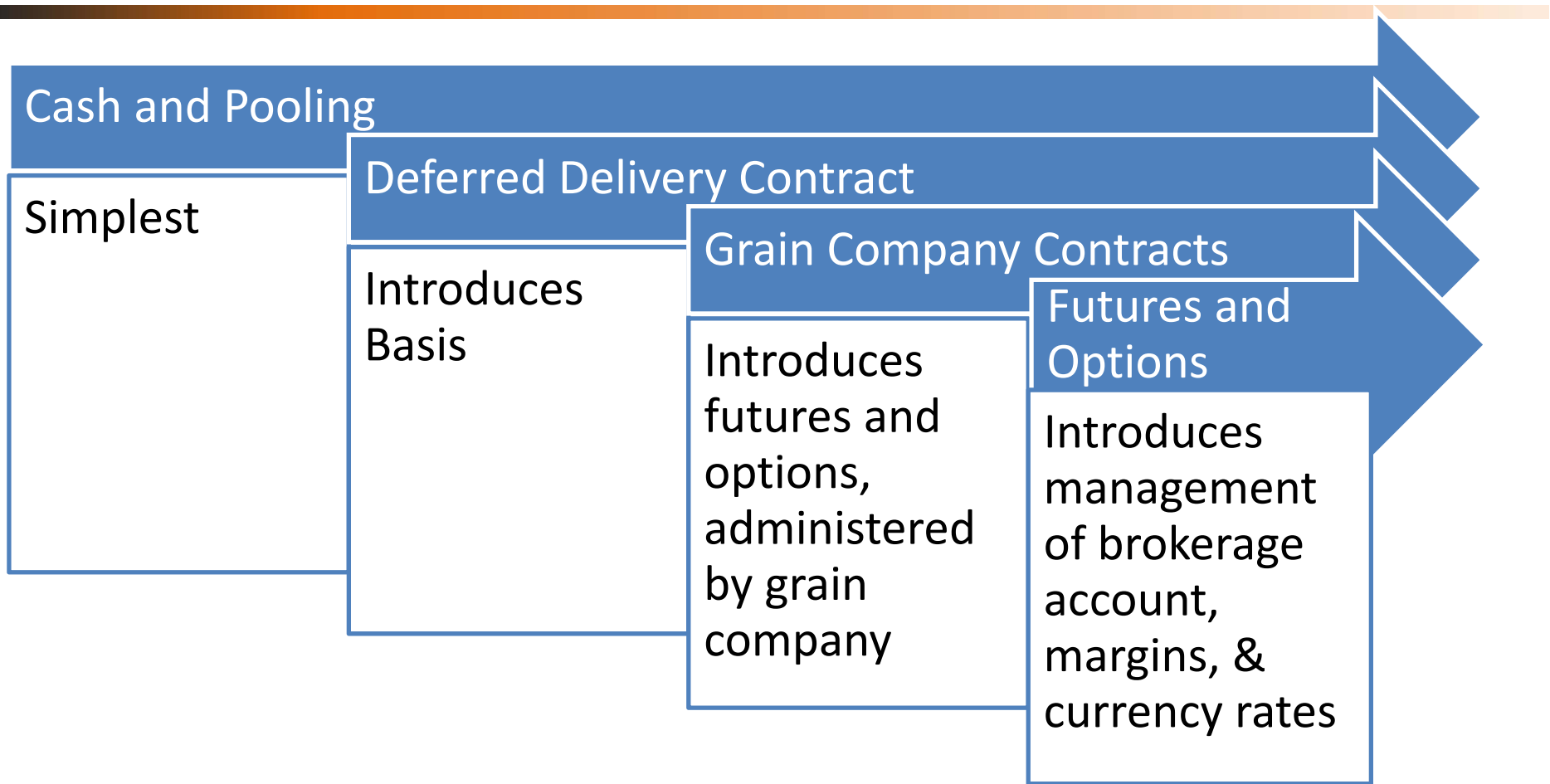


Grain Pricing Alternatives



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Complexity of Pricing Tools

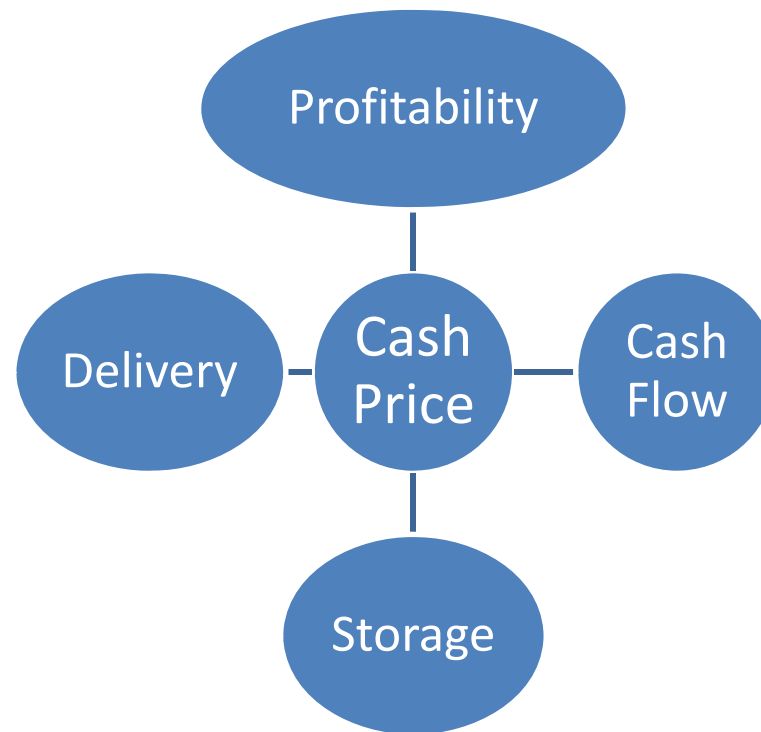


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Cash Marketing – Decision Process

- Sell now or in the future?
- Spot price or deferred delivery



Futures Traded Crops – Decision Process


- Do I sell on the cash market or use futures?

If Cash:

Do I sell now (cash market spot bid) or

Do I sell later (deferred delivery contract)?

What is the basis doing?



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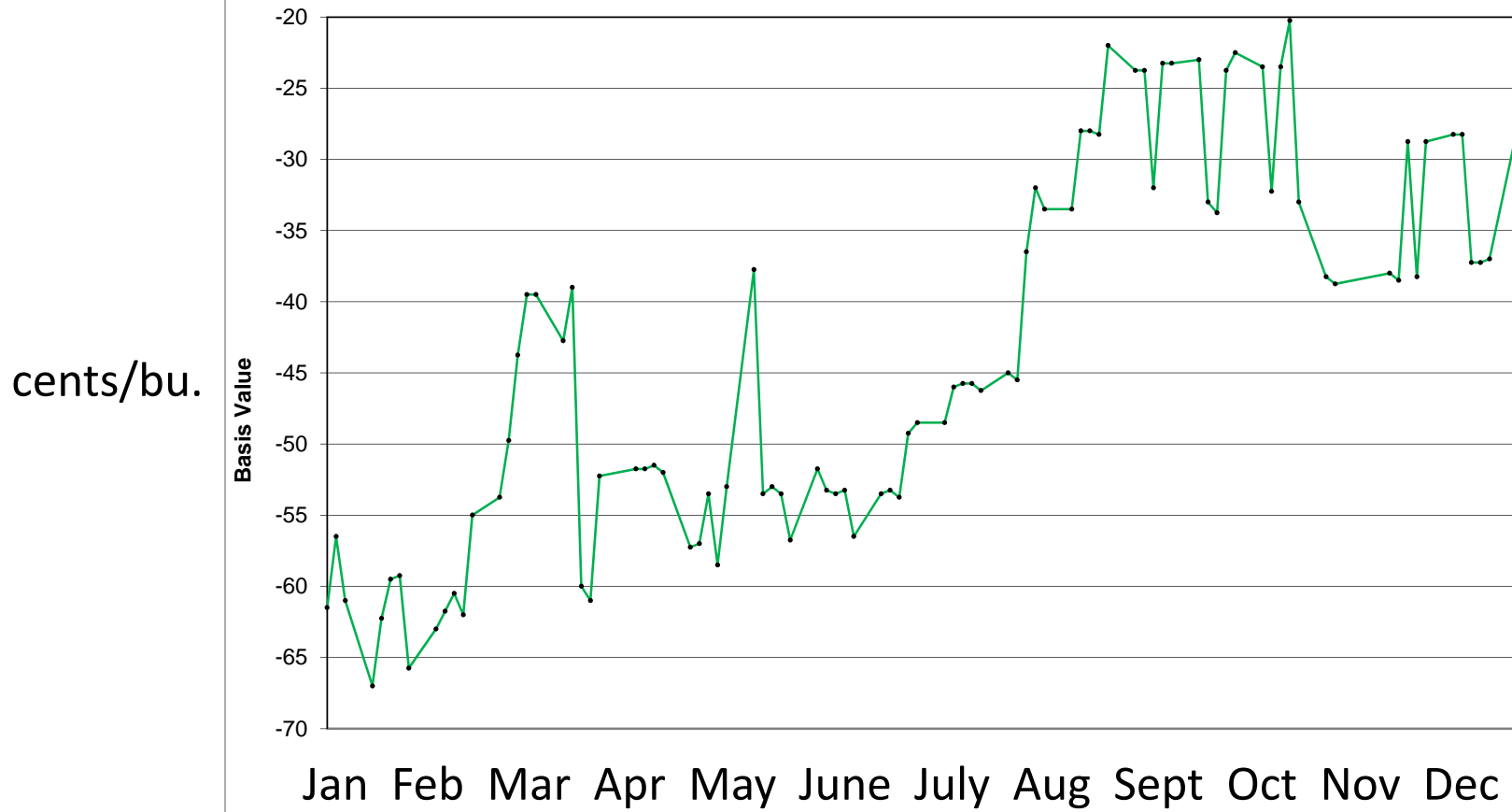
What is “The Basis”?

Cash Price - Futures Price = Basis

Basis includes:

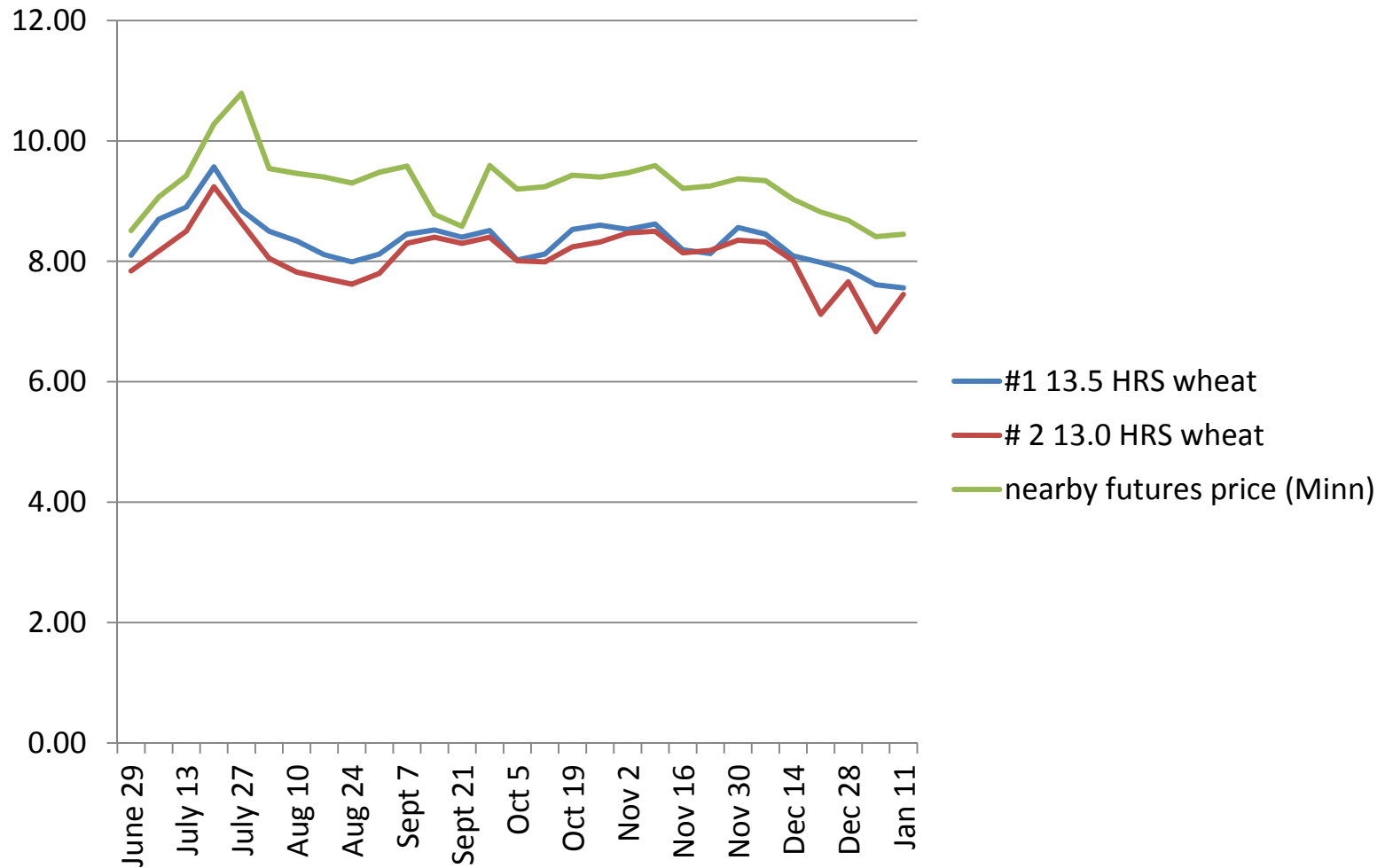
- Freight
- Elevation, Handling & Administration
- Cleaning
- Storage
- Interest
- Exchange rate
- Company profit

DNS 14 %Wheat Basis – Montana 2012



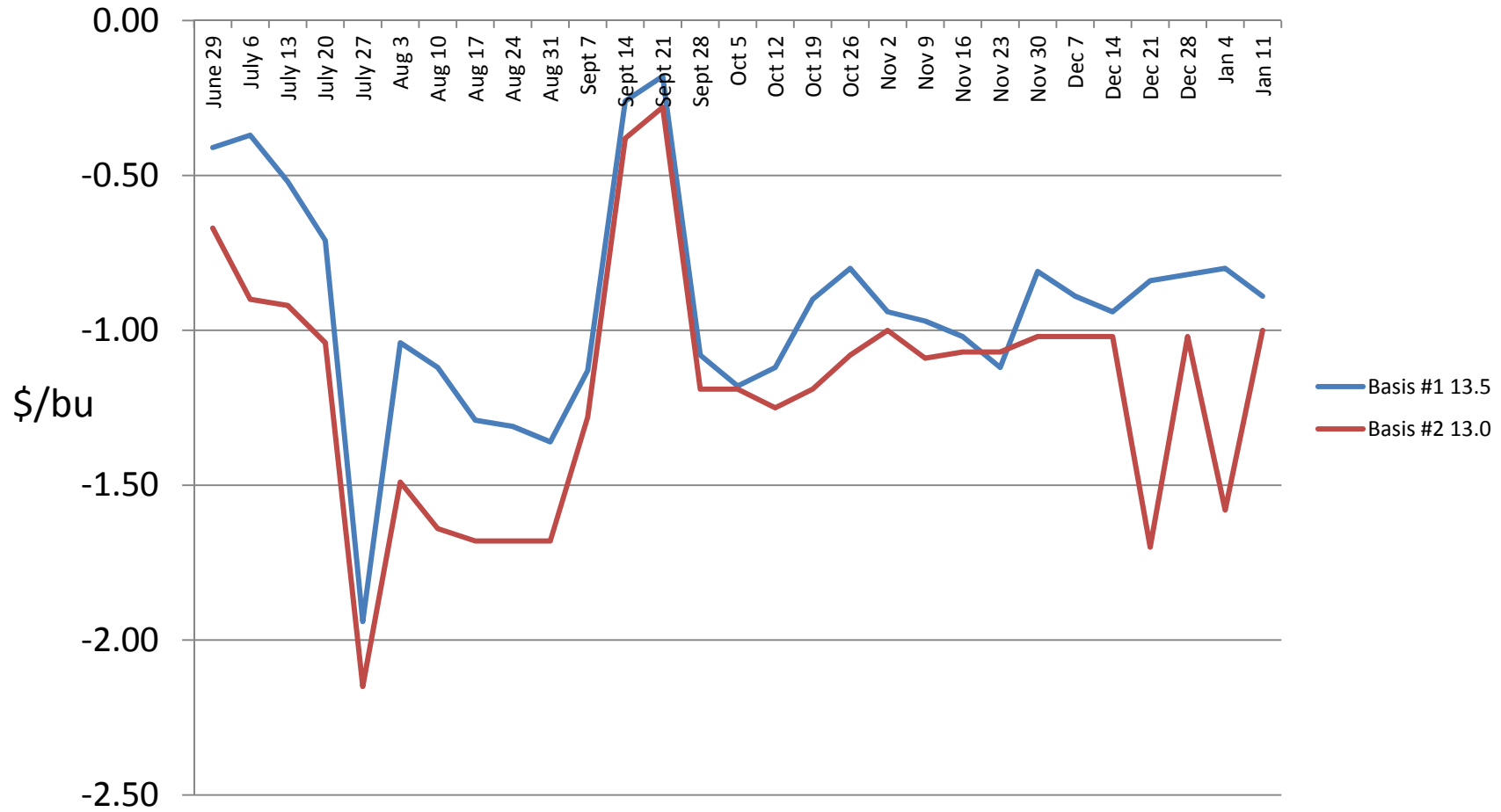
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HRS cash wheat price vs. nearby Minneapolis wheat futures

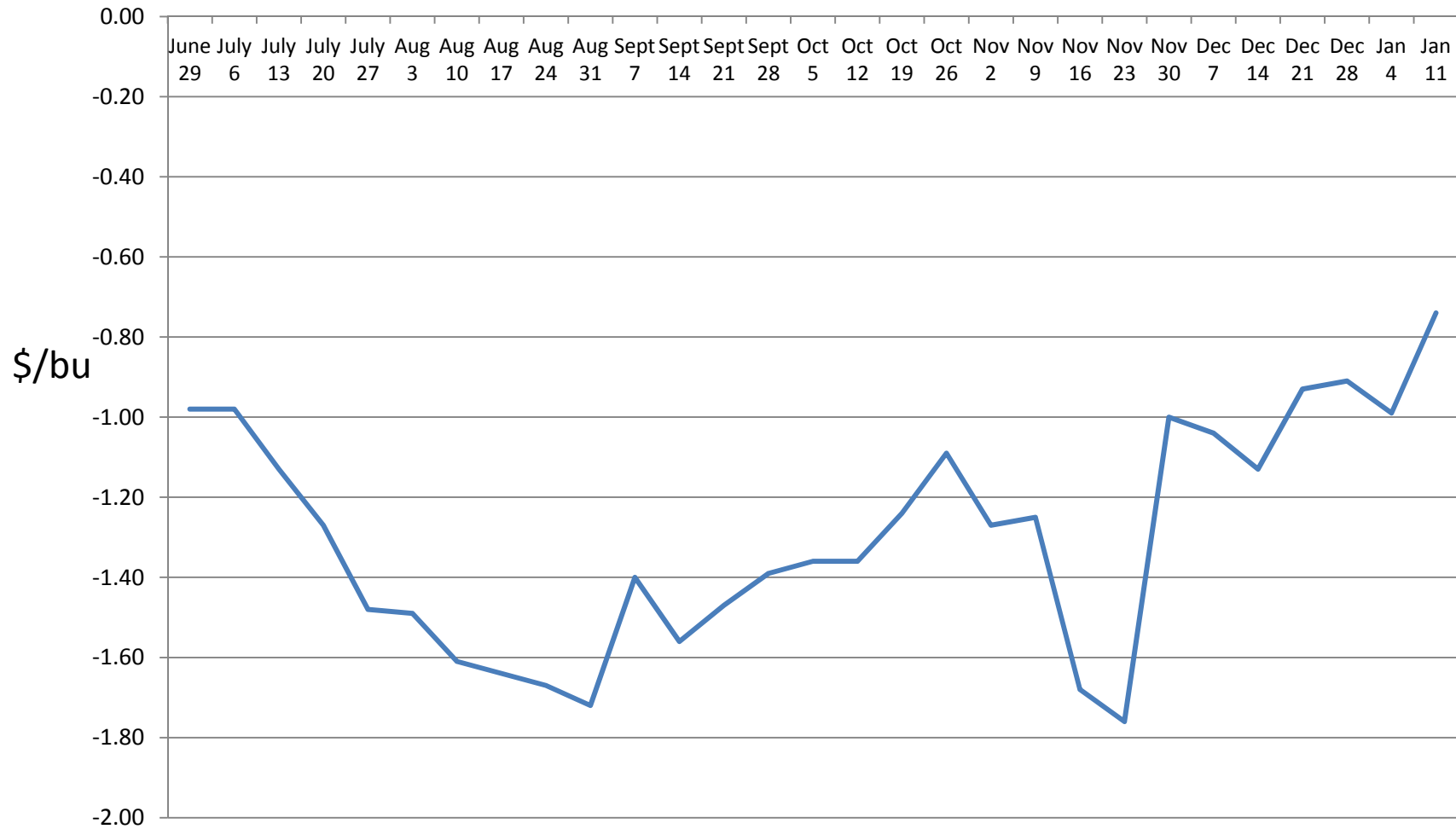


Basis – #1 13.5 HRS wheat vs. #2 13.0 HRS wheat

vs. MGE futures




Basis: #1 CPS (cash MINUS nearby KC wheat)



Advantages of following Basis Levels

Basis:


- provides market information
- reflects local supply and demand
- change gives commercial demand indication
- can move independently from futures
- can be locked in separately from futures



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Futures Traded Crops – Decision Process


- Futures
 - Do I open a futures trading account?
Should I let a grain company do this instead?
 - Do I want to achieve an average price or
do I want to set target prices?



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Grain Company Contracts

- Grain company pricing examples
 - Minimum price contracts – grain company version of cash pricing PLUS purchasing call option
 - Averaging contracts – automatically price a portion each month over a period of time



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Prairies - Grain Marketing Contracts

Cargill brings you a variety of Grain Marketing Contracts to help you manage risk, provide control over cash flow, and potentially increase profitability.

Creating a Grain Marketing Strategy is the first step in the process, and Cargill Farm Marketing Representatives are available to help you develop a Grain Marketing Strategy and select the right Grain Marketing Contracts for your operation.

14 contracting alternatives

Deferred Delivery
Fixed Basis
Futures First
Pacesetter
Pacesetter Ultra
Pacesetter Extra
Pacesetter PROtector

Price Protector Call
Price Protector Put
Price Protector Target
Grain Pricing Orders
Bonus Offer
Market Tracker
Hedge Maker

Grain Marketing Contracts

Contracts
Deferred Delivery
Fixed Basis
Futures First
Futures and Market
Contracts
Series:
Pacesetter
Pacesetter Ultra
Pacesetter Xtra
Pacesetter PROtector
Price Protector
Price Protector Call
Price Protector Put
Price Protector Target
Grain Pricing Orders

- [Bonus Offer®](#)
- [MarketTrackers®](#)

Professionally Managed Contracts

- [HedgeMakers®](#)

Pricing Order Contracts

Grain Contracts that provide you with the ability to set grain pricing targets. If the futures market meets certain pricing

- [Grain Pricing Orders](#)
- [Bonus Offer®](#)
- [MarketTracker®](#)

Professionally Managed Contracts

Grain contracts where customers can choose to have their grain hedged by a trading professional

- [HedgeMaker®](#)


[Cargill Grain Contract Terms and Conditions](#)
[Disclaimer](#)

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To better manage your risk while getting more for your crop, please drop by the nearest Cargill location, contact your Farm Marketing Representative or call 1-888-855-8558

CWB contracts

- Harvest Pool – Spring to Fall signup; delivery by July 31
- Early Delivery Pool - Spring to Fall signup; delivery by Jan 31
- Winter Pool – last half crop year; delivery by July 31
- Futures Choice Winter Pool – price against MGE futures
- Producer car sales
- Malting barley contracts
- Canola Pool




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CWB contracts

- Cash contracts:
 - Futures first
 - Basis
 - Deferred delivery contract

Alternatives for Crops with Futures


- Deferred Delivery Contracts – can “lock” price for delivery in certain month
 - Set price, quantity, quality, delivery location & date
- Trade directly on futures exchanges



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Hedge vs. Deferred Delivery Contract

	Futures Hedge	Deferred Delivery
Delivery	No obligation	Yes
Tied to company	No	Yes
Basis	Risk remains	Locked
Trading account	Required	Not Required
Margin Deposit	Required	Not Required



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Futures Hedge Example - canola

Date	Cash	Futures
Spring 2013	Fall 2013 canola bid \$575	Nov 2013 canola \$595 Hedging Action: Sell Nov 2013 canola
Fall 2013	Canola bid \$550 Cash Market Action: Sell cash canola	Nov 2013 canola \$570 Hedging Action: Lift Hedge (Buy Nov 2013 canola)
Net Result	\$550 cash + \$25 futures = <u>\$575 total</u>	Gain \$25/tonne futures

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Put and Call Options

- Option to buy/sell futures at a certain price-
but not the obligation
- **Call options** provide the **right to buy**
at a specified price
- **Put options** provide the **right to sell**
at a specified price (sets floor price)
- Option purchase does not require margin,
just a premium

July 2013 Minneapolis Wheat futures

MWN13 - Spring Wheat - Daily OHLC Chart



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Example Put Option

Date: December 3, 2012


July 2013 MGEX futures = \$9.45/bu.

Month July 2013 Strike Price 9.10 Premium 0.47/bu.

i.e. minimum futures price of \$ 8.63 /bu. net of premium

MINUS estimated BASIS \$ 0.42 /bu.

Equals Estimated Minimum Cash Price \$ 8.21 /bu.



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July 2013 Minneapolis Wheat futures

MWN13 - Spring Wheat - Daily OHLC Chart



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Example Put Option (sale)

Date: January 7, 2013

July futures = 8.64

Sale Premium of \$9.10 Put Option: \$ 0.82 /bu.

MINUS Option Cost \$ 0.47 /bu.

Equals Option **Profit** \$ 0.35 /bu.

Futures markets

Intercontinental Exchange (ICE)

- Canadian contracts
 - canola
 - barley
 - milling wheat
 - durum



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Futures markets

CME group

- soft wheat
- soybeans
- corn

Not all contracts are liquid!
US exchanges involve exchange rate risk!

Minneapolis Grain Exchange

- dark Northern wheat

Kansas City Board of Trade

- hard red winter wheat



Strong Futures
Weak Basis



Strong Futures
Strong Basis

Futures traded commodities

Decision Flexibility



Weak Futures
Weak Basis

Weak Futures
Strong Basis



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Strong Futures
Weak Basis

- Price futures and target stronger basis
- Buy put option and target stronger futures & basis

Strong Futures
Strong Basis

Weak Futures
Weak Basis

Weak Futures
Strong Basis



Strong Futures
Weak Basis



- Price cash grain
- Sign deferred delivery contract

Strong Futures
Strong Basis

Weak Futures
Weak Basis



Weak Futures
Strong Basis



Strong Futures
Weak Basis



Strong Futures
Strong Basis



Weak Futures
Weak Basis



- Sign basis contract
and target stronger
futures

- Sign basis contract
and buy put option

Weak Futures
Strong Basis



Open Wheat and Barley Markets...

Strong Futures
Weak Basis



Strong Futures
Strong Basis



Weak Futures
Weak Basis



Weak Futures
Strong Basis



Strong Futures
Weak Basis

- Price futures and target stronger basis
- Buy put option and target stronger futures and basis

Strong Futures
Strong Basis


- Price cash grain
- Sign deferred delivery contract

Weak Futures
Weak Basis

- Wait
- Watch markets and target basis & futures
- Re-evaluate as needed

Weak Futures
Strong Basis

- Sign basis contract and target stronger futures
- Sign basis contract and buy put option



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Portfolio Approach

- Evaluate your price outlook for each crop produced
- Compare likelihood of price movements and set targets accordingly
- Consider seasonality of price for different crops

Example: If you have three crop types in storage and one is offering you profitable prices, this is valuable management information


Grain Contracts

Some things to consider ...



Why we contract

- We can take advantage of favorable prices even before the crop is grown
- We can manage our cash flow needs
- Is normal business practice



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Production Issues


- Does the contract require you to:
 - Invest in equipment or facilities?
 - Increase your production costs?
- If specialty variety, is the projected yield less than the conventional variety?
- Are there agronomic obligations?

Payment Issues

- Payment Terms
 - How & when will you be paid?
 - Base Grade? Premiums? Discounts?
 - Storage payments?
- Crop condition?
 - Moisture, test weight, dockage?
- Is the buyer licensed? Bonded?

Delivery Issues


- Where and when is the crop to be delivered?
- Specific amount of grain to deliver?
 - Transferability
 - Are there penalties for shortfall?



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Legal Issues


- Do you have to purchase crop insurance?
- Under what conditions can it be terminated?
- How are disputes resolved?



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Some last thoughts...


- Read your contract!
- If you don't understand the contract, seek advice



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Grain Marketing Resources

- Grain Marketing Manual → ARD
- CWB, Other Grain company representatives
- Brokers
- Marketing courses
- Subscription Services
- “Learn to do by doing”



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Summary

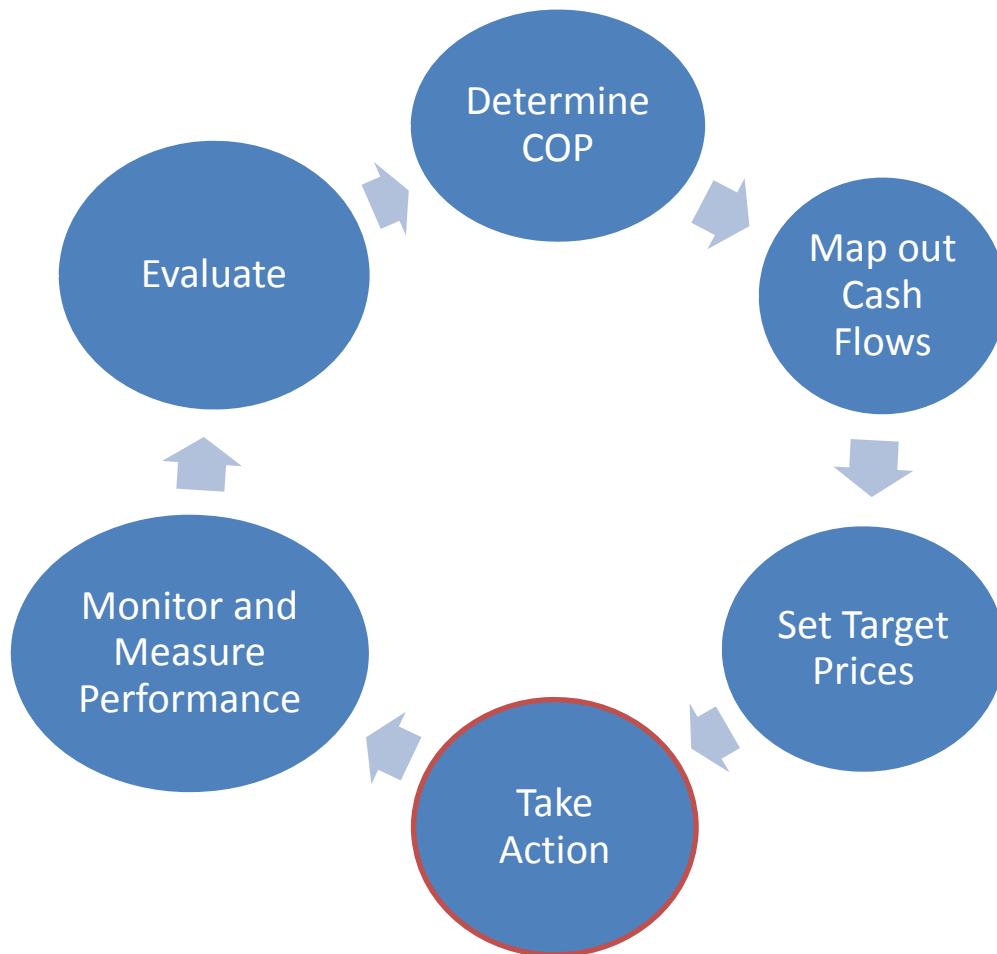
Price and basis risk exists

There are ways to alleviate risk

- Different levels of risk tolerance

Starting point to manage risk is developing a marketing plan.

Where to from here?



- Develop and follow your marketing plan for your farm
- Network with like-minded individuals
- Evaluate & improve

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