

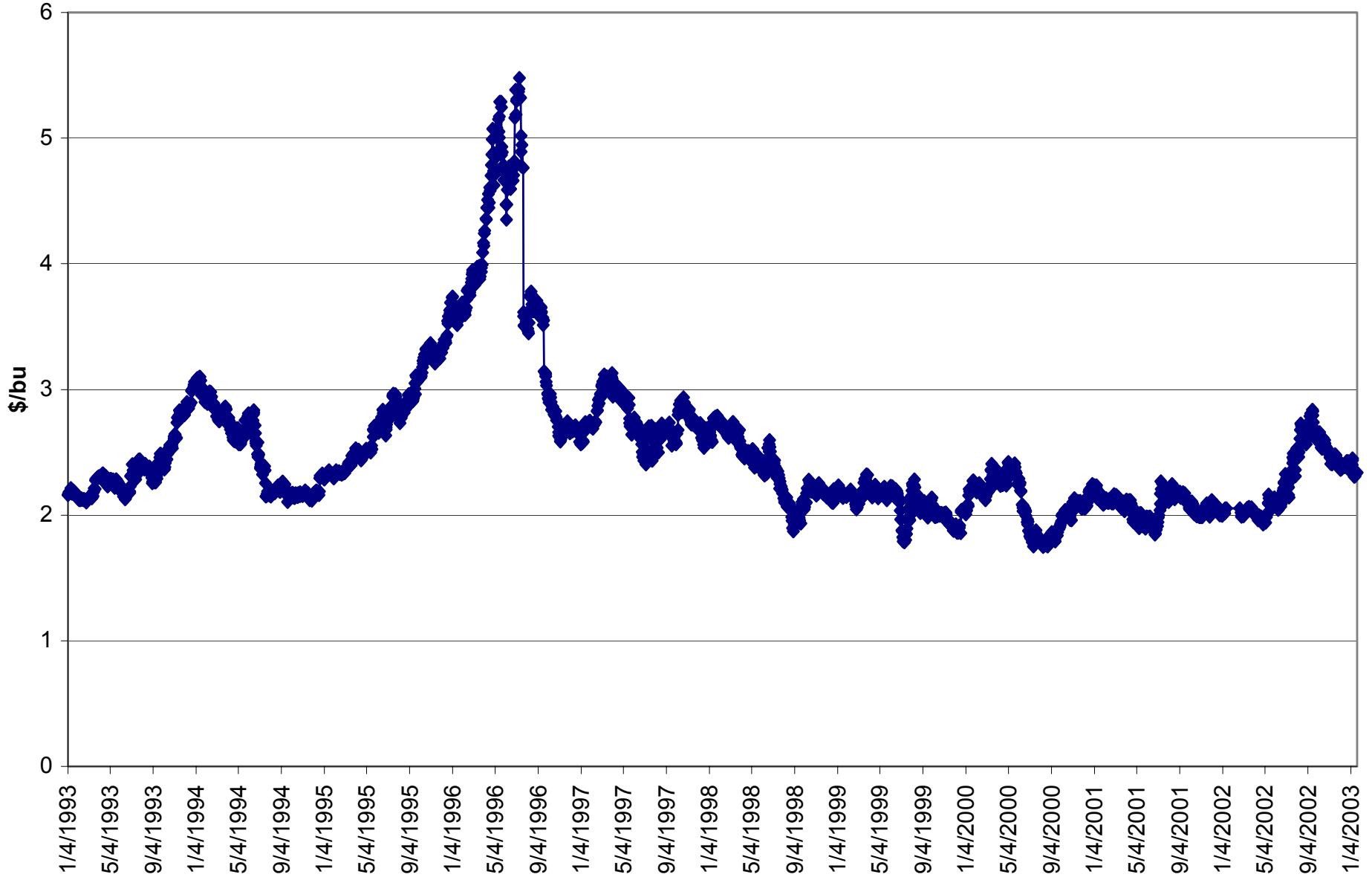
# Grain Marketing

Marketing has become an increasingly important part of managing a farm business. Price risk exists even at very low price levels, and the timing of cash grain sales has a huge impact on financial performance.

# The objective of marketing is:

- NOT to make money in the futures market.
- NOT to sell at the highest price of the year.
- NOT to generate accurate price forecasts.
  
- TO minimize the risk associated with achieving a target level of income.

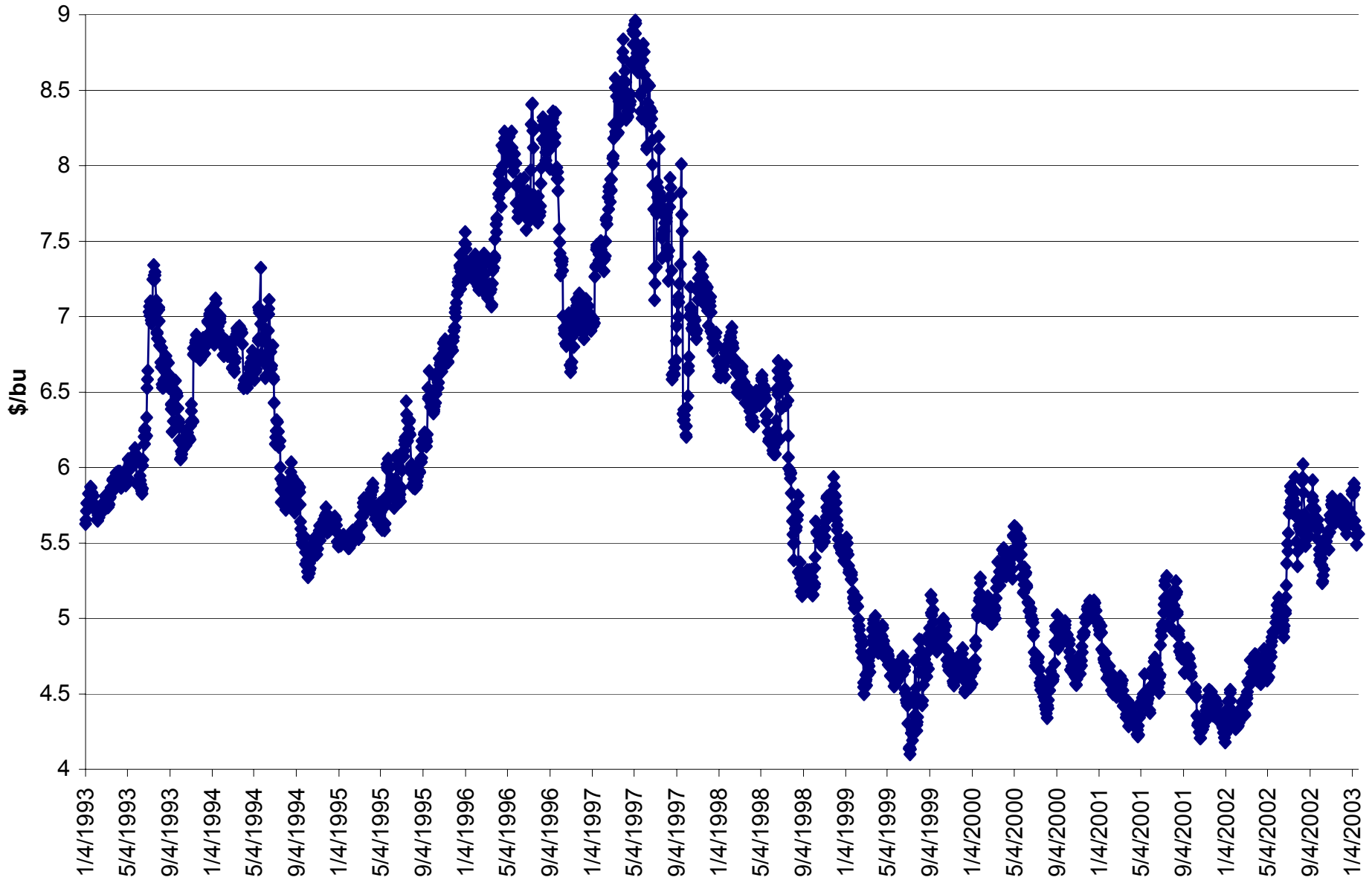
# Nearby Corn Prices







# Nearby Soybean Prices



# Soybeans Weekly

updated Jan 21



# Soybeans March 2003

updated Jan 21



How is your grain price  
determined?

## LOCAL ELEVATOR:

Grade Grain

Condition Grain

Store Grain

**Reveal the first public price for grain**

## SUBTERMINAL ELEVATOR:

Linked to local elevator by rail, barge, or truck

Often do not buy directly from farmers

Major function is to concentrate grain into large shipments

**Reveal second public price for grain.**

Basically the local elevator price plus transportation and handling costs.

## TERMINAL ELEVATOR:

Sell to export markets and processors. Do not buy from farmers.

**Reveal third public price for grain.**

Sub-terminal price plus transportation and handling costs.

## EXPORT TERMINAL ELEVATORS:

Very concentrated industry. Over half of the U.S. export capacity is owned by Cargill, Bunge, and Louis Dreyfus.

**Offer the export price to compete in the international market.**

# Futures Market

- Sends price signals to the entire system
- Actively used at all levels of the grain market chain EXCEPT the farm
- Is unique in its application of financial leverage

# Functions of the Futures Market

- Price discovery:

Price action in the futures market is transparent. All prices are publicly reported as soon as a transaction takes place.

- Price risk management:

Futures markets are used to protect against price risk in cash markets.

# Two Kinds of Traders

- Speculators

Care about futures prices, and try to profit as futures prices change. Often a pretty short planning horizon.

- Hedgers

Care about relative prices. Look for price protection by developing a position where losses in one market are offset by gains in another market.

# FUTURES CONTRACT

- Legally binding commitment to make or take delivery of some commodity on a predetermined date at a negotiated price
- Everything except price is standardized:
  - Quality
  - Quantity
  - Delivery location
  - Delivery date

# FUTURES CONTRACTS

- Traded on margin
- Marked to market daily
- Allow for offsetting legal obligation

Date	Price per Bushel	Action	Margin Action	Account Balance
Initial margin = \$500				
Maintenance margin = \$350				
17-Jan	\$2.50	Buy July corn	Deposit \$500	\$500
18-Jan	\$2.48			\$400
19-Jan	\$2.46			\$300
			Margin Call \$200	\$500
20-Jan	\$2.47			\$550
21-Jan	\$2.40			\$200
			Margin Call \$300	\$500
24-Jan	\$2.43			\$650
25-Jan	\$2.45			\$750
26-Jan	\$2.49			\$950
			Withdraw \$450	\$500
27-Jan	\$2.51			\$600
28-Jan	\$2.55	Sell July corn		\$800

Even for producers who never actually trade a futures contract, understanding what price could be achieved through the futures market is critical in making good cash market decisions. Most every cash price opportunity is tied to the futures market.