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Monday night marketing - Session 1

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BEGIN TRANSCRIPTION

00:00:00:02 - 00:00:26:14

Unknown
Been going.

00:00:26:16 - 00:00:49:12

Unknown
Okay. So we're we're good. We're recording now. Okay. So we won't get into the topic for tonight. I'd like to start with a couple of quotes here that I think are, are, pretty important as we get going. I like to do use quotes as we can occasionally if it helps. Illustrative points. This is probably a quote from John F Kennedy that many of you have heard.

00:00:49:14 - 00:01:12:13

Unknown
The farmer is the only man in our economy who buys everything at retail sales, everything at wholesale, and pays the freight both ways. This quote was actually attributed to a campaign stop that Kennedy made during, prior to the, the, during the 1960 election season. And I believe he actually made this quote on a stop in South Dakota.

00:01:12:15 - 00:01:32:11

Unknown
Dwight Eisenhower, another quote that I really like. Farming looks mighty easy when you're plows a pencil when you're a thousand miles from a cornfield. And I think we can all relate to that as well. But here's what I think is, especially important for the topic that we're going to embark on starting this evening. And this is actually part of a quote.

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Unknown
It's not the full quote, but, Art Barnaby from Kansas State University, a fairly well known AG economist. In fact, one of the areas that he's quite well known is in the area of crop insurance and has been a consultant to Risk Management Agency of the USDA, for years and years regarding crop insurance issues. But again, a part of a quote, maybe that's why most farmers sell on the bottom third of the market.

00:01:58:10 - 00:02:21:23

Unknown

And so one of the things I found, over about a 40 year career now and working in the area of ag marketing, is that it is an issue. It's an area that most farmers don't enjoy. I would much rather be on the tractor or, on that horse, out moving cattle than, certainly in front of a computer or spending time on our cell phone looking at the markets.

00:02:22:00 - 00:02:46:06

Unknown

But it is a very, very important part of what we do. And hopefully the goal of this program would be if you feel like you're in that selling in that bottom third of the market, hopefully we can give you some techniques to at least move you to the the middle third of the market and hopefully provide some ways for you to capture a little better market prices for the commodities that you produce.

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Unknown

So I mentioned earlier, my primary job with CSU extension is to help farmers and ranchers manage risk. And if we look at all the risks associated with agriculture, we can take those risks and we can categorize those in five different areas. Marketing risk, financial risk, human risk, legal risk or production risk. And as you can imagine, most of our discussion the next eight weeks is going to be focused in the area of marketing risk.

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Unknown

Now, as you can imagine, there's some, crossover between several of these categories, depending on the type of risk we're going to talk about. And we're actually going to spend a little bit of time talking about how crop insurance is an integral part of an ag marketing plan. And so we typically think of crop insurance as fitting more in the production risk area.

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Unknown

But that's a good example of how we can take a look at a techniques that can cross over a couple of different, areas of risk management along further, definition. Then as we talk with risk management, and marketing risks specifically, I like this definition. Marketing risk is really the uncertainty about prices. The prices producers will receive for commodities or the prices they must pay for inputs.

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Unknown

And when we, go into more detail starting next week with futures and options, we'll actually show you how using futures and options can not only help a producer hopefully receive more for the commodities that they produce, and typically when we think about futures and options, that's usually what we think about. They can also be used to help you control the prices you pay for inputs.

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Unknown

For example, if you are a, cattle feeder and you are producing fed cattle ready for slaughter, one of the two inputs that, are very, essential to your level of profit is what you have to pay for feeder cattle and what you have to pay for corn. And we'll actually show you techniques using both futures and options.

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Unknown

We're a cattle feeder. Can put a limit, an upper price on what their, willing to pay for both corn and feeder cattle. So live by doing that where you lock in the most, you're going to have to pay for an input. Then you can guarantee, a profit, or you can guarantee a margin that's acceptable. So marketing and, what we'll talk about in this course not only pertains to prices we receive for commodities, but we can also use this to limit what we have to pay for inputs.

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So what do we want to accomplish tonight? Well, we want to become familiar with cash markets. And again a lot of people say, well I know about cash markets. Why do I need to spend time on those? But it's important that we understand, the association that cash markets have with bases and also with, how they, function with futures and options because they have a very important function as we look at using futures and options.

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Unknown

We want to learn how to read an online bid. Pretty straightforward. Probably most of you have seen this, but we'll look at a couple of examples. We want to spend some time becoming familiar with bases. This is a term we're going to use the next eight weeks. It's a very, very important term. It's one that you need to feel comfortable in using.

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Unknown

We want to learn how to track local basis. One of the things that I find, and that's mistakes that I make as well, is sometimes I get so carried away with the futures prices. I'm looking at my cell phone and I'm monitoring what the market should do, doing on a day to day basis. Or maybe it's hour by hour or even, minute by minute.

00:06:57:02 - 00:07:19:13

Unknown

You know, I can get usually, it's kind of as a five minute delay on futures prices. And if I'm so fixated on the futures price, it's very likely that I might miss an opportunity with a local basis change. So we want to talk about basis, how it's important. We want to give you some tools to help you track local basis.

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We also want to spend some time tonight with four contracts. Those are the, most straightforward, the most simple type of, of a commodity contracts that we'll talk about during the next eight weeks. But one of the things we want to do is give you an idea of, of some techniques you can use to evaluate for contracts.

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Unknown

Let me I got a little bit ahead of myself, so let's go back. So that's what we want to try to accomplish tonight. Cash markets basis for contracts.

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Unknown

So let's talk about cash markets and a good definition of what we're talking about. Cash market is typically a market in which physical commodities are bought and sold. It's typically the most familiar market. Most farmers and ranchers are familiar with it because you've used this, from the time you started producing commodities. Some of the common cash markets are what we might call delivery points.

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Certainly elevators, feedlots, dairies. If you've got an ethanol plant in your area, a flour miller, you know, if you're selling wheat to, ADM in Denver, you're selling to a flour miller, a livestock sell barn. And as we'll find out, as we learn more about futures and options, that's still going to be your delivery point.

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You're still going to, even though you have use futures and options to reduce your price risk, you're still going to deliver that product and receive payment in some kind of a cash market. So it's important that that we understand how they work and their importance to, using, advanced techniques to, take the risk out of prices, changing our price risk management.

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Unknown

So certainly, if we want to talk about, pure markets and the, aspects and influence of supply and demand, we see that playing out, probably in its purest form by our local cash, markets, and those local prices. And so let me give you a couple of examples where I see this really playing out, where supply and demand really has an impact on those cash prices.

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Unknown

And probably a couple of examples where we see the, again, that that pure working of supply and demand having almost, immediate, opportunities to change price one way or the other. If you're a corn producer and you're fortunate enough to have, that's an all plant in your community, or have one near enough that it's, feasible for you to ship, corn to an ethanol plant.

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Unknown

We raise corn. It's our primary crop. We do have an ethanol plant here in Sterling. I certainly think we're fortunate to have one, because it makes for a pretty liquid market for it, for us. But, and that's a ethanol plant is a good example of, a cash price that can change fairly rapidly. Most ethanol plants are continuous batch plants.

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Unknown

That's how they were designed. That's how they're operated. Corn comes in one end of the plant. It's ground. It goes through the process, and we produce three products. Ethanol, distillers grains, which are fed to livestock. And one that a lot of people don't realize. CO2 ethanol plants produce marketable CO2. The primary market in, in Colorado for, CO2 produced in ethanol plants, is sold in greenhouses and it's pumped in greenhouses.

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And we all know that plants take in CO2. So if you increase the concentration of CO2 within a greenhouse, you increase the, productivity of the plants that are in the greenhouse. So at least in Colorado, a lot of the CO2 from ethanol plants goes to greenhouses. It might be used to make dry ice. There's all kinds of other ways we can use CO2.

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Unknown

Most ethanol plants have less than two weeks of onsite storage, and usually that was by design. They're typically located in corn growing areas. Realizing that a lot of farmers have, on farm storage, we have elevators in the area that have storage. And so rather than spending money on a lot of storage, most ethanol plants, put more money in railroad sidings or, or other types of equipment or built a bigger capacity plant rather than put up a lot of grain storage.

00:12:22:17 - 00:12:48:04

Unknown

So what happens is, if they don't manage that on, site storage. Well, given the fact they've only got two weeks of that, in most cases, it can cause some real issues. And, what I seen happen at our ethanol plant in this area, and I don't know this for a fact, but I'm just speculating that, they probably have 1 or 2 people that are mainly responsible for purchasing corn, maybe one person.

00:12:48:06 - 00:13:11:06

Unknown

And, you know, that person needs to take a vacation from now. And now I'm there, and so. And that person takes a vacation. Someone else in the plant has to take that corn buying duty on. And what I've noticed is sometimes, they forget to buy corn. And so that plant gets in a bind. And what we see is they bid up corn for a short period of time.

00:13:11:08 - 00:13:32:07

Unknown

And, and sometimes they can bid it up, or the local price of corn is actually higher than the price in Chicago at the exchange. And that's because they need corn. They need corn right away. The worst thing that can happen with the continuous batch plant is to be in a situation where you don't have corn coming in, because we don't have corn coming in, and we have to slow down production.

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Unknown

It takes a while to get up to full production again. So you don't want that to happen. Cattle feed lots are another example of, a time when both feeder cattle and corn might be locally priced higher than the board price in Chicago. And it can be a situation where, you know, it looks like cattle that we can buy and put on feed today are going to be at a profit, when they're ready to go out of the lot.

00:14:01:16 - 00:14:29:21

Unknown

And so there's an incentive for a feedlot manager when, you know, when they're making money to keep that feedlot full at capacity. And the primary reason behind that is, that feedlot, as most ag businesses do, they have a certain number of fixed costs. And those costs don't go down, very much, regardless if they feed one head of cattle or 100,000 head of cattle.

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Unknown

And so if we can keep that feedlot at capacity or as close to it as possible, we can take those fixed costs and we can spread them over more animals. And so the per head costs and fixed costs go down. So this is a couple of examples of some local situations again based on supply and demand where we can see local prices change fairly quickly in some cases overnight.

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Unknown

So some cash marketing terms. First we have a bid. A bid is a willingness to buy the commodity at a specific, specified price. So when I mentioned one of our objectives tonight is to look at online bids, that's what we're looking at. We're going to be looking at the willingness of, a buyer of commodities to buy that commodity at a specified price.

00:15:28:09 - 00:15:53:21

Unknown

That's their bid. On the other hand, an offer is willing to willingness to sell that commodity at a specified price. And we call that an asking price. So a couple of terms that are important. And then one more term that we want to make sure you understand is this idea of a Ford contract. Because we're going to start off as we look at ways to pre harvest price commodities.

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Unknown

And we'll talk about why that's important as we go through the next several weeks. We're going to again tonight look at kind of that in its simplest form being a four year contract. So it's an agreement requiring the producer to deliver a specified quantity and quality. And I say grain here. It could be any commodity. It could be livestock, it could be grain, and that commodity delivered to a destination.

00:16:23:19 - 00:16:51:13

Unknown

It could be an elevator. It could be a feedlot. It could be a ethanol plant at a specified time and location on a previously agreed price. So again, it's it's, fairly straightforward of all the techniques that we'll talk about where we can pre harvest price of commodity is by far the easiest one. So it's a good place for us to start with that kind of a discussion.

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Unknown

So let's take a look at some online bids. I'm going to actually go through some examples that are kind of close to home here. But in a couple of different formats. But you're, you could, see something similar to this basically wherever you were, certainly in the state or anywhere in the nation. So I've got to do a little bit of, manipulation here.

00:17:17:10 - 00:17:30:11

Unknown

I've actually got a, hyperlink in this,

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Unknown

PowerPoint. And so I'm going to stop sharing the PowerPoint for just a minute.

00:17:41:02 - 00:18:16:10

Unknown

And then I'm going to do another share. And on this one I'm going to share a website. Let me see if I've got let's go with this one. Here's where I really want to go. So I'll just say share. And so hopefully you're seeing a website for the Pete's Co-op. Kerry, do you mind, unmuting your mic and letting me know if you see that?

00:18:16:12 - 00:18:48:23

Unknown

Yes, I can see that. Thank you. Okay, so here's a fairly common, online, bid. And we can see this is, was actually, today's bid from, Pete's Farmer's Co-op. I see Wayne Schumacher here as a grain merchandizer. You can sell grain to this co-op between 8 a.m. and 1210, Monday through Friday. Those times are important.

00:18:48:24 - 00:19:11:06

Unknown

We'll talk about those a little later. But you see, we have, a couple of bids here for wheat. The first one we see at the top is the cash bid

today. If you delivered wheat to, Peet's Colorado to their facility, they would pay you \$5.79 a bushel today. How did they come up with that price?

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Unknown

Well, it's based on the nearby contract, which the nearby for Kansas City Wheat is March 21st. That contract traded today at, six 39.5 cents per bushel. We can see that the market was actually up. It looks like 14 and, 0.2 \$0.05 from the closed yesterday. And we've got some terminology here. We've got basis 61 under.

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Unknown

So if we take that price of, 639, we subtract \$0.61 from it. We get their, their, bid it at 579 if you wanted to for crop or excuse me for contract. New crop, 21 wheat to be delivered in July. They would write you a Ford contract today at 585 a bushel. July wheat was 644 and 0.7 5/10 of a cent.

00:20:12:19 - 00:20:41:10

Unknown

That was up 13.5 cents from the previous day. And again, if you take that 644, subtract \$0.60 from it. You're going to get the 685. A couple more things. We'll look at, Pete's co-op actually has, two places that they will receive corn. They will receive corn in their elevator at Pete's elevator that also accepts wheat, cash corn.

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Unknown

Today, they would have paid your 569, you could contract new crop Pete's corn for delivery in, October through about the middle of December at 443. Now, here's something that's kind of interesting. Same co-op, but they also have a facility in Colorado which is familiar with where I live is I live is along the South Platte River, probably a ten minute drive, north east of Stirling.

00:21:12:18 - 00:21:38:14

Unknown

And so the thing that's interesting here is, if you were to deliver corn to Pete's, they're going to pay his 659. If you delivered that same corn today to I live, they're going to pay you. 574 so there is, a nickels worth a difference there. You're actually going to pay paid \$0.05 more to deliver corn to I live versus Pete's.

00:21:38:16 - 00:21:58:20

Unknown

And so a question I would have if you want to put an answer in a chat or if you want to unmute your mic and offer, an answer, why would the Pete's Co-op be willing to pay you \$0.05 a bushel more if you deliver corn to eyeless versus Pete's? Anyone have an idea why they might do that?

00:21:58:20 - 00:22:32:23

Unknown

I know we have a few people that are from the Stirling area here, so you might kind of have an idea why they would be willing to do that. Same corn, same buyer, Pete's co-op. But if you'll deliver it and I'll still pay a nickel a bushel more. Okay. Had a great, answer. Railroad access. Actually, the railroad access is better than their Pete's location, so although that may work in some cases, it's not exactly the issue here was, was this particular situation.

00:22:33:00 - 00:23:02:17

Unknown

Great. Scott Garrison, thanks for providing that. Okay. Robert had the the answer the location. Not only is the eyeless facility closer to the ethanol plant, but it's also closer to most of the feedlots that utilize corn. So in this case, they want to give you an incentive to deliver to Eilis because it's closer to the markets. So here's an example of a basis difference that we'll talk about a little bit more.

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Unknown

Kind of a neat example and one that you can really see why there. You know, we have a basis difference. You'll notice that that basis difference is also on for contracted new, crop corn. 443 is the offer for a are the bid for a a contract for contract. Yeah. Delivered to Pete's. It's 448 if you'll agree to deliver it to eyelets.

00:23:26:20 - 00:23:34:21

Unknown

And again it's for the very same reason. So that's an example of,

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One form of a, online offer. And the nice thing about this one, as compared to a lot of, this one's really straightforward. All of the information you need to determine, how they came up with that price is, is there we have the, again, the Kansas City or the, the, the price of the commodity on the board in Chicago.

00:23:58:16 - 00:24:21:22

Unknown

We have the basis and then we can subtract or in this case, add the basis to that price to get the, the bid price. One other thing. It's kind of interesting here. Let's look at the very last, quote here. This is from millet, and I believe this is 100. What price they're willing to pay you, \$25, 100 way for millet.

00:24:21:24 - 00:24:44:11

Unknown

On that particular, bid, we don't see any, futures information whatsoever. Why is that the case? Why aren't they quoting some kind of futures information to help set that? Or at least explain that millet price.

00:24:44:13 - 00:25:16:08

Unknown

Very good. Thanks, Caris. And it's not traded. It's not traded on the the Board of Trade or any other, any other, exchange and so, because it's not traded, obviously we wouldn't have that, market to quote. So let's stop sharing here. I'm going to go back to our PowerPoint.

00:25:16:10 - 00:25:33:00

Unknown

And so that's an example of one online bid, Pete's Farmers Co-op. And as I mentioned, the nice thing about that one is it is again, pretty straightforward for us to take a look at.

00:25:33:02 - 00:26:04:15

Unknown

So let's go ahead and move on. Let's look at another example. Let's look at Grain Land. And that is again, if you're in eastern Colorado, northeastern Colorado especially, CSS grain land is a fairly large operation, not only in northeastern Colorado, but throughout the, The, the, Midwest. They have, again, a lot of, elevators.

00:26:04:17 - 00:26:18:13

Unknown

And so, this is, a company that maybe many of you have actually done business with before.

00:26:18:15 - 00:26:40:06

Unknown

And came so hopefully at this point, you're seeing a, website, grain land, just an I see you've got your hand up. You want to ask a question either with your, I'm muting the mic or put something in chat.

00:26:40:08 - 00:26:58:11

Unknown

Yeah. Just a quick question to go back to that grain price and the difference between Ellis and Pat's Beach. Oh, he's got them running figures trying to figure out, ETF, if you're selling if they are selling the corn to the feed yards.

00:26:58:13 - 00:27:17:09

Unknown

Are they are the two co-ops different? Are they sell at different prices on that too? I'm just kind of figuring out different freight rates or for the difference of I figured about \$47 a difference for a load of corn going to olive. First peaks. And so if you're buying corn for 17 mile difference, would you if would it be the same.

00:27:17:10 - 00:27:44:10

Unknown

Would they have that five cent difference on there or of. Yeah. And I may they may change that on a delivery price because the prices they would quote either a buyer or seller would be typically, you know, delivered to or picked up at the facility. So if they're going to salt, you know, if they're going to deliver it to you, it's it's probably going to be, a different price.

00:27:44:10 - 00:28:07:10

Unknown

And remember, it's a great question. Remember what I showed you. These are bid pages. So these are what they're willing to pay. What they're willing to sell would be an offer. And in a lot of cases, they don't publish the offers. You don't see those. And so if I'm buying corn, I'm probably calling them to see what they're, you know, what they're going to sell it for.

00:28:07:16 - 00:28:56:05

Unknown

And it may be different than the bid price. So that's a great question. It gives us a, you know, the idea between a bid and an offer, those can be different. Great question. Other questions. Okay. So, moving on then a little different format. So, let's look at what we have here. We actually have and the way they, this, this website works, you can actually designate a location or a commodity or you can just scroll through and based on the commodity, in this case, wheat, you can look at all of their different locations that they're going to accept wheat.

00:28:56:07 - 00:29:24:01

Unknown

Also we've got corn, millet, red millet and soybeans, sunflowers and grain sorghum, yellow peas. They do take bids sometimes for, for like for post bids for pinto beans, but, not at the current time. So again, to just show you a little different format, let's look at wheat delivered to either Jackson or Fleming. This one's a little different to read.

00:29:24:03 - 00:29:50:14

Unknown

Notice that they talk about the futures month and they use a, some kind of a coating. Here we have K1, H and k1 in they do lists the price they're willing to pay. So they're willing to pay you. If you delivered today, 577 a bushel, they'll fork contract it for, new crop at 581. They do tell you what the basis is.

00:29:50:16 - 00:30:15:15

Unknown

They also tell you what the futures price they're using the base that and then the change from the previous day. And, anytime you see that change on this side in green, that indicates the market is higher today than it was yesterday. So this is a little different format. Probably the only thing it's different is, the way they code this thing.

00:30:15:17 - 00:30:42:09

Unknown

And so we'll talk about how this is coded, in the next couple of slides. Are you familiar with that? Again, we can take a look at, corn, for example. We see in, the Haxton Fleming location. The, price are willing to pay based on, contract. Again, a little different script here. We have C1 eight and C1, Z.

00:30:42:11 - 00:31:06:03

Unknown

So it's important that you understand that we'll go through that. Something that's, that's interesting here, we notice there's really not a basis difference. If you deliver in, Jackson or Fleming, it's 566. You took it to, Amherst or Holyoke. 566. If you want to deliver to joules per kg, it's 5 to 666. Brule. Nebraska is 566.

00:31:06:05 - 00:31:34:20

Unknown

And so, we're not seeing, basis difference here. Just because it's a big company and, they have their, you know, their own truck transportation. And so, they're shipping corn and buying corn or commodities, across a large geographic area. So they're, they're not showing any differentiation here with, between locations. Here's that.

00:31:34:20 - 00:32:06:16

Unknown

Quotes from millets as we talked before, millets not traded. So you don't have any of that information. And now we're in red millet. If we look at soybeans, we have the soybean contract S1HS1X. Again, they're \$0.90 under in all of their locations. Sunflowers that only take those and Holyoke again, sunflowers aren't traded. Now, here's an interesting one.

00:32:06:18 - 00:32:35:13

Unknown

This is grain sorghum. And we're going to talk about, process a little later on in the course as it's known as cross hedging. And so, one of the things we're going to find about Milo or sorghum is Milo is not traded on the CME either. But notice they list a contract, they list a cash price, and they list a basis number.

00:32:35:15 - 00:33:08:07

Unknown

So, I just told you that Milo's not traded on the the, Chicago Mercantile Exchange, but they're using a futures contract to determine a price. Anyone of you know what futures contracts is used to determine, price for Milo or grain sorghum? Corn? Exactly. So, because corn and, Milo are or grain sorghum are livestock feed, in this country.

00:33:08:07 - 00:33:32:23

Unknown

That's how we use it. We have used for years, the the corn price to determine the value of Milo. Typically, we priced Milo at 85% the value of corn because it has about 85% the feed value of corn. That's not always the case, though. There are times when, the cash price of corn. Or choose me.

00:33:32:23 - 00:34:03:12

Unknown

A Milo is higher than corn, and that may be the case. Now we've got cash price. Milo, it's 596. And if we go back to corn, cash price for corn is, 438 are actually 555. So, they're actually paying more for Milo than they are for corn. Even though we use that corn contract to determine, the price for Milo.

00:34:03:14 - 00:34:41:14

Unknown

And so we're in a situation, and this happens occasionally where, the demand for Milo or sorghum is higher. A country that uses a lot of grain sorghum is China. And they will bid grain sorghum, at a premium to, corn on a fairly regular basis. And that would be my guess. What? Just in terms of what they're doing right now.

00:34:41:15 - 00:35:00:03

Unknown

Okay, let me get back to our PowerPoint here.

00:35:00:05 - 00:35:38:24

Unknown

Okay, then a couple of examples. Some online bids, a little different format. As you said, pizza's a little bit more user friendly. Provides the information, I think, certainly in a more friendly format than we saw with cash. But basically the the information is the same. So I did allude to earlier that, when we looked at, futures quotes, they do use, a series of symbols to designate the contract and also the trading months.

00:35:39:01 - 00:36:07:00

Unknown

And so here our list of the common, commodities that, that especially we'll be talking about in the course of the next eight weeks together. We're going to talk about corn corn's, symbol a c, live cattle, LLC feeder cattle, f c lean hogs, lh soybeans as, Kansas City wheat. You'll either see it as k e or kW.

00:36:07:02 - 00:36:43:05

Unknown

And you noticed on that CME page it's listed as KW. Chicago shop red one and wheat is as w h. What we'll find next week when we talked about futures contracts is we'll find out that they're not traded every month of the year. They're traded at various months for various reasons. And so we also have a letter assigned to each one of the months, we have, if we all know, three months, that in our start with the letter J.

00:36:43:07 - 00:37:13:20

Unknown

And so for January, June and July, we didn't use the letter J, we use an F for January, for June and for July, April and August both start with the letter A again, we didn't use an A for either one of them. And so, we did see, for example, a shorthand for corn, the corn for contract on the Grain Land website.

00:37:13:22 - 00:37:45:17

Unknown

Was, the symbol was C1Z. So by looking at that, that tells us that it's corn, the one it relates to, the last digit of the of the trading year. In this case, it's the 21 contracts. Our, number of the grains actually can be traded up to two, two years in advance. So c one means the corn contract in 2021 and the Z would be the December contract.

00:37:45:22 - 00:38:02:11

Unknown

So C1Z corn December 21st contract. And so it's important that you have an understanding of the symbols. If you see the shorthand then you have an understanding what contract we're talking about.

00:38:02:13 - 00:38:30:20

Unknown

Okay. Basis. Again this is a very very important term one that we're going to, use throughout the next eight weeks. So it's pretty important that you feel comfortable with it. So the definition is basis is is the difference between a cash price and a futures price of a particular commodity or basically the same commodity on a given futures exchange.

00:38:30:22 - 00:38:55:11

Unknown

And so the way we determine basis is we look at a cash price and then what we call the nearby futures price. And so if we're looking at if you notice on both of the, bid, unlike bid sheets, if we were looking at, the current cash price once they're willing to pay for corn, it was based on the March contract.

00:38:55:11 - 00:39:26:05

Unknown

That's the nearby futures contract. And so we're looking at that futures price of the nearby contract. And we're comparing it to the local cash price. And as we talked about earlier and we gave you some examples. Again that peach website was a great one because we could talk about the differences in price between what they were, bidding and pizza versus delivery and islands.

00:39:26:07 - 00:39:51:17

Unknown

And we talked about that mainly being a rate difference. But that basis or the difference between your local cash price and a futures price, is determined by demand freight costs. It can be other factors. And so I mentioned this demand being a factor. When I looked at early on we talked about the example of a cash price at and that's an all plant or a feed yard.

00:39:51:19 - 00:40:14:19

Unknown

Feedlot. It's, it's a situation where they need the commodity. The, the buyer for the ethanol plant went on vacation, and whoever was responsible for doing their job, I was asleep at the wheel. And they, you know, wake up one day and say, wow, the bins aren't full. We need corn. You know, if we don't get corn, we're going to have to slow down the plant.

00:40:14:20 - 00:40:49:06

Unknown

We don't want that to happen. And so we might offer, \$0.10 higher than even the Chicago price, or certainly \$0.10 more than the best local price, because we've got to get corn. And so, those are the factors that that really relate to that cash price. And if the cash price changes,

obviously basis changes. So when cash is lower than futures and this is the typical situation, we say that basis is under.

00:40:49:08 - 00:41:27:18

Unknown

So if the cash price is 450 for corn we take cash for 50. And let's say that the futures price for corn in Chicago is \$5 for 50 -\$5.50 under. So the formula is always cash compared to futures or cash minus futures. So cash is four 5450 -\$5 basis of \$0.50 under. And typically we see basis being under and we'll talk about that next week when we talk about where futures contracts could be delivered.

00:41:27:20 - 00:41:56:00

Unknown

But typically the reason that local cash prices are lower than futures price is determined in Chicago is where that commodity would have to be delivered if you decided that you wanted to deliver it. When cash is higher than futures, we say basis is over. So let's say that our local cash price for corn is \$5. The futures price is for 50.

00:41:56:02 - 00:42:29:18

Unknown

So five -450 is \$0.50 over. This does happen. It's not as common as the basis under situation. But again, when we get into a situation where, for whatever reason, local demand is high, we can see situations where basis is higher than the futures or cash is higher than futures, and we have basis being over. So when the spread between cash and futures decreases we say that basis is narrowing.

00:42:29:20 - 00:43:01:09

Unknown

So if we go from that 50 cent under basis to a 25 cent under basis basis is narrowed. And as we'll see next week, if you've got a commodity to sell you like narrowing basis. The opposite of that is when the spread between cash and futures increases. Basis is widening. So if basis goes from \$0.25 under to \$0.50 under basis wide.

00:43:01:11 - 00:43:24:00

Unknown

And as we'll see next week if you are buying commodities, if you're a feedlot and you're buying corn and you're buying feeder cattle, you like it. When basis widens, it's to your favor and we'll explain how that works. Next week. And then finally, when cash and futures are equal, we say basis is zero. This is pretty rare.

00:43:24:00 - 00:43:55:10

Unknown

This normally doesn't happen. We are going to use this conditional next week to explain how futures trading work. Because basis kind of confuses and confounds. So what we will be doing next week when we explain how futures work is all work problems initially was what we call a perfect hedge or when basis is zero. And the reason we do that is a mask works out really, really nice.

00:43:55:12 - 00:44:19:12

Unknown

And then once you understand the concept of zero basis or a perfect hedge, then we'll throw basis in basis muddies the water a little bit. But we have to deal with basis in real life. And so we'll discuss that. We'll add the basis components to all of our equations. And all the problems will work next week so that you can understand that.

00:44:19:14 - 00:44:51:24

Unknown

So I want to stop right there for just a minute and give you an opportunity to ask questions about basis. It's a very important concept that you understand. We will use it, a lot moving forward. And so, I'm still very confident by the time we get through this first four weeks, you're going to understand basis pretty well because, we'll use it a lot, but it's it's a really, really important concept that you, start to get a grasp on.

00:44:51:24 - 00:45:06:04

Unknown

So before I move any further, move along any further, any questions about the concept of basis?

00:45:06:06 - 00:45:50:17

Unknown

Okay. If you have a question as we go through again, raise your hand. Put it in the chat or unmute that mike and just ask. So one of the things that's great about basis as compared to markets and market prices and especially futures and options market prices basis, is fairly predictable. It follows certain patterns. And so one of the things that's important for a producer to be able to do, regardless if you're selling, cattle or cows or whatever commodity traded commodity is to be able to predict local basis.

00:45:50:19 - 00:46:17:16

Unknown

And in years past, this was not easy. In fact, the first marketing class that I took and some of the first classes that I taught 40 years ago, we actually had to track basis on our own and develop these basis charts on our own. And it was a very time consuming, wasn't, nearly as exacting as it is today.

00:46:17:18 - 00:46:46:20

Unknown

We're very fortunate to have some really powerful tools to do this. So I want to introduce you to one of these tools, and the tools that I'm going to introduce you to are, for grain marketing. Unfortunately, we don't have any really good tools for, livestock basis. And we'll talk a little bit more about that as we go on and kind of explain why that's an issue and not that basis isn't important in in cattle.

00:46:46:20 - 00:47:12:07

Unknown

But we got to work at it a little harder than we have to do in grains. So one tool that I want to introduce you to is this interactive, crop basis tool. I've actually given you the address for this on the handout that I sent to you, along with, that PowerPoint presentation, that basis chart, one page is a chart.

00:47:12:07 - 00:47:37:18

Unknown

The other page had a list of, of, web addresses. Those are actually active links. If you look at that, word document on your computer, you can click on those links. One of those links will take you to the interactive crop basis tool. And this is a tool that's been developed and maintained by Kansas State University. And, it's a great tool to use.

00:47:37:20 - 00:48:05:23

Unknown

The only downside of this tool is, if you are in northeastern Colorado, most of the markets here are part of this tool. Outside of this area, it gets a little spotty. And, I'm going to introduce you to another tool that will kind of take up the slack. But the way this tool works is it asks you for a city, a state, or you can simply put in a zip code.

00:48:06:00 - 00:48:34:15

Unknown

And if that city based on the zip code is one that they have, basis data from, it'll populate these boxes. Then you select the commodity that you're after. And again, most of the traded commodities, including grain, sorghum, which is not a traded commodity. We mentioned it's based on the the corn contract, that are grown in this area of Kansas, Nebraska, Missouri, Oklahoma and parts of Colorado and Texas will come up here.

00:48:34:17 - 00:48:55:17

Unknown

And so this is a screen view from a couple of years back. But you can select a year and this will be current to 2021. More. You can select an average average of the last three years, an average of the last five years. I personally like to use a three year average chart. I think it's pretty accurate.

00:48:55:23 - 00:49:22:16

Unknown

And it kind of takes out some of the noise from one year to the next. I at one time recommended five year charts, and I'm probably going to start recommending them again. During the period of time that we would have pulled up a five year chart that would have included, 2012, 2013, they were so skewed with those really good markets in those days that there were some issues with them, but we're far enough away from that now.

00:49:22:16 - 00:49:46:09

Unknown

A five year chart would probably work. So once I've determined either, a particular year, a three year or a five year chart, or if I want to go some custom ranges, we can do that. I can then click to create a chart or create a table. So let's look at what I've actually put in one the work.

00:49:46:10 - 00:50:15:10

Unknown

What I'm going to show you Pete's is one that they do chart. I pulled commodity corn and I wanted a three year chart. So I've inputted my data. And so then this is a chart where you. So on. And so what we have on this chart, zero would be, zero basis, meaning the, cash price at Pete's and the CME price for corn are exactly the same.

00:50:15:12 - 00:50:48:05

Unknown

In this example, 2014 through 2017, that didn't happen. Very rarely. And so, the legend on this chart, on the, vertical axis is \$0.10, under \$0.20, under \$0.30 under or \$0.40 under. Then we have, the weeks of the year along the horizontal axis. And so we can see then what happens with basis on a three year average throughout a marketing year.

00:50:48:07 - 00:51:14:23

Unknown

And you can see that there's quite a bit of difference. It goes from a, narrow point of almost even to a wide point of pretty close to, to \$0.40 under. So there's a pretty wide variation of 40% variation in basis over a one year period of time for this particular market. If you're a table person, you can also get the information in a table view.

00:51:15:00 - 00:51:43:16

Unknown

And again, it's the week of the year and then the basis information. And since the the data is in parentheses that indicates that that's a negative basis basis. It's under. So that's one tool that's available to predict basis. And as I mentioned luckily for us in the area of marketing basis follows predictable patterns. Market prices don't basis does.

00:51:43:18 - 00:52:16:03

Unknown

And so part of the equation we've got to look at to determine if a particular marketing opportunity is a good opportunity. The basis part of it luckily we can we can predict it was some reasonable, feeling of some accuracy. Okay. So I'm going to talk to you now about a, for profit site. And the attorneys at CSU require me to provide this product.

00:52:16:03 - 00:52:41:14

Unknown

Disclaimer anytime I have anything to say about a for profit site. And basically it says I'm not recommending it or I'm not criticizing it, but I'm using it, because it's another example. Now I've taken my CSU cap off. And so if the CSU lawyers are are monitoring this website, I'm sure they're not. They've got better things to do on a Monday night.

00:52:41:16 - 00:53:13:14

Unknown

And now I'm talking to you, farmer to farmer. This is the site I've used. There's some things I like about it. I even currently have a subscription to it. One of the things that I'm going to encourage you to do is, they

have a 14 day free trial. And unlike a lot of free trials on internet sites that require you to give them a credit card number to get your so-called free trial, and then you've got to go in and physically cancel it before the 14 days or free trial period is up, or they charge you.

00:53:13:16 - 00:53:40:15

Unknown

This one doesn't ask for a credit card. It's a true 14 day free trial, and I recommend that you, take a look at it. Again, the web address is on that handout, that I provided for you. So this basis tool is called Geo Green. And you can see this is a screenshot from their website. Again, the button for the 14 day free trial.

00:53:40:17 - 00:54:23:05

Unknown

This site was the brainchild of a couple of students from, I think Montana State. One was a computer science major, the other was an AG major. And somehow they were trying to come up with a way to make money, and they came up with this idea. And basically what they came up with is they developed an algorithm whereby any market in the continental U.S. grain market that has an online presence, an online bid, presence, this tool will find it and it'll collect information from that site.

00:54:23:07 - 00:54:32:15

Unknown

Excuse me. Like a quick survey right here.

00:54:32:17 - 00:55:00:06

Unknown

And to the point that if, you find that a market that you want to get data from, they don't carry, you can send them an email and give them a link to the website. And, in most cases they will start providing data from that location so they can help you customize what you're looking for. So, again, website what it looks like I did provide you with the address.

00:55:00:08 - 00:55:36:18

Unknown

So if you do this, it's a 14 day free trial. And the set ups they're going to ask you to provide, one of two things. Either the, mailing address of your farm I'm going to mute for a minute. Cost. Sorry about that. Second.

00:55:36:20 - 00:55:59:23

Unknown

Okay. Apologize for that. Thinking back. So again, you can either give the mailing address, your farm or the GPS coordinates, and they will then give you the opportunity to do some basis mapping. So here's a basis map that that I put together. And our farm is young land. And livestock. The commodity I want to look at was corn.

00:55:59:23 - 00:56:24:24

Unknown

I want to look at spot deliveries. I wanted to look at 100 miles different, radius from the farm. And I wanted to just display basis differences. So if you're familiar with Stirling area, this is actually North Sterling Reservoir in North Sterling State Park. Our farm is about right there. And so when I plug this in and it gives me this hundred mile radius.

00:56:25:01 - 00:56:55:09

Unknown

And so basically on this particular day it's telling me what basis is doing in that area. And so it's kind of a stoplight format. Green is the best base. So on that particular day, if I wanted to, grain to Seaboard Farms, I could have, got, so corn at 19 under, that was the best basis in the area.

00:56:55:11 - 00:57:22:12

Unknown

And then it goes from, from green to yellow. So peats was 35 under Pine Bluff, Wyoming, was 35 under orange. Those are 40 under. And then if I get into red, those are, 46 and higher under. So it would give me an idea what basis is doing on any given day, for, most, most commodities or most grain commodities.

00:57:22:14 - 00:57:52:19

Unknown

So that's, helpful in, being able to, monitor local basis, know what's happening with basis on a large area. And the other thing that this site will do is that it'll develop those charts. And so this is a chart much like the one that we looked at before was peach CoA. But it does a couple of things that are one thing, especially that I really, really like.

00:57:52:21 - 00:58:26:00

Unknown

In in addition to giving me basis for, that particular market for corn. And actually this was, was price not basis, what price they were paying. It also gives me, how they compare to a regional, other, delivery points within the region, other elevators, other companies. And that regional range is, is 200 miles. And this is both of these are a five year average.

00:58:26:02 - 00:59:01:24

Unknown

And so the cool thing about this is I can see that, for a 90 day period of time, that 90 days from November through February, that's a pretty good market. That's a market that's offering a better price than everything in that region. And again, I can make some changes here to take a look at that. So, I find that to be a very, very helpful, page is that opportunity not only to look at either basis or in this case, an actual price and compare it, what's happening within that region?

00:59:02:01 - 00:59:22:21

Unknown

The other thing will do is will give me cash bids. And it does this a couple different ways. You can either go on site and ask for this, you

can pick out some selected markets and it'll send you a, an email at the close of the day. And I believe now you can even get this information via text if you want it.

00:59:22:23 - 00:59:48:04

Unknown

And so this is giving me an example of what cash bids are in the area. The other thing that this will do, since I program into the website, the location of my farm, I can also put together or put in a transportation report. And so in addition to taking a look at price, it'll also calculate the cost of transportation.

00:59:48:06 - 01:00:06:04

Unknown

And then give me the net. And it'll organize the information by based on the price, based on the cost of transportation. What market is going to result in the highest net price. So again, the couple things we're going to find out in a minute we need to be able to do is we need to be able to predict basis.

01:00:06:06 - 01:00:50:13

Unknown

And again a chart like let me go back a little bit here that will help us predict basis. We can make this chart predict basis as well. If we change the display, the basis, we need to be able to predict what's Macy's going to do in the future. And as I said, luckily for us, it's fairly predictable. But we also need to be able to track local basis because as I mentioned early on, it's really easy to get, so focused on what futures prices are doing that we might miss an opportunity to market a crop, an advantage because we've had some changes in local basis.

01:00:50:15 - 01:00:57:05

Unknown

So you need to look at both of them.

01:00:57:07 - 01:01:18:13

Unknown

Questions again about basis being able to predict it and track it. Pretty important that you're able to do both of those. And I said luckily, as I mentioned earlier, luckily now especially in the green area, it's much, much easier than it had been in the past.

01:01:18:15 - 01:01:48:00

Unknown

Okay. So let's go on. This is something I really, really like. This is actually I'd love to take credit for this. I can't I'll give you the the name of, the person that puts this together. But this is something that that we use on our own farm with our own marketing. And the whole idea behind this is rather than trying to learn how to hit the high of the market every year and top to market or every season or whatever, which is, is impossible.

01:01:48:00 - 01:02:08:11

Unknown

And if you can do it on a consistent basis, I guarantee you you wouldn't be in in this class tonight. You probably wouldn't be involved in agriculture. You'd have a seat on the Board of Trade or that Mercantile Exchange, and you'd be making money by the wheelbarrow load. Very few people can do it. I if anyone. I mean, you just can't do it.

01:02:08:13 - 01:02:28:18

Unknown

So the whole idea here is rather than trying to top the market, which is a tough thing to do, if not impossible, let's identify the mistakes we make, and let's just try to do what we can to avoid those mistakes. And hopefully, if you can avoid these mistakes, then you're going to market your commodities, for a higher price than you typically would.

01:02:28:20 - 01:02:54:22

Unknown

So let's look at these five mistakes. And I'm just going to go through these fairly quickly because there's one we are going to concentrate on tonight. So the first mistake is not knowing your cost of production. And we're going to talk about this a couple different times during the eight weeks. Why this is important. And hopefully give you some message that you can, easily, come up with your cost of production.

01:02:54:24 - 01:03:26:11

Unknown

Okay. The next thing is reluctance to pre harvest price commodities. And I'm going to give you some, some actual math that proves that for most commodities this is really important. In corn for example, I think it's 76% of the time. If we look at that December corn contract and we look at the price of that contract in May versus the price of the contract in October, 76% of the time, the market's higher in May than it is in October.

01:03:26:13 - 01:03:49:12

Unknown

And that just makes common sense. We all know that as we get closer to harvest, and we have a lot of supply coming into the market, prices go down. And so it's important that you learn how to pre harvest price commodities, not only grain also livestock and have a plan of how to do it and be comfortable doing it.

01:03:49:14 - 01:04:15:13

Unknown

It's also important that you understand and track local basis. And this is in red because this is kind of the five mistakes, the one we're going to concentrate on tonight. Since we're having a discussion regarding basis failure to have a pricing strategy, we're going to build on that and talk about developing a marketing plan. We're going to give you some real basic thoughts about it as we go through the first four weeks.

01:04:15:15 - 01:04:35:07

Unknown

And then we're going to spend some detailed time on it, the last four, with the hopes that when you finish this eight weeks, you can actually

put together a marketing plan that would work for your farm or ranch. And then the final one, which again just relates to grain because it is a storable commodity. It's holding in price, grain and storage too long.

01:04:35:07 - 01:05:01:04

Unknown

And we'll talk a little bit about that. Again, I wish I could take credit for this. Gentlemen, smarter, far smarter than I am. An asset from the University of Minnesota, has actually come up with this. And so, again, idea of being here, don't try to talk to market, understand these common mistakes, and do what you can to avoid these mistakes.

01:05:01:06 - 01:05:42:00

Unknown

So let's talk about tracking local basis. So I provided for you this handout you have this as a, word document. And so it's a table that you could use to track basis in the old days prior to having these really nice computer programs and access on the internet. The way we did this is if we were looking at grains, or cattle is we could either call the local elevator or the cell barn where we typically sell our commodities.

01:05:42:02 - 01:06:02:15

Unknown

If it was an elevator that that will buy grain on a weekly basis, we would say, okay, every Wednesday I'm going to call the elevator and get their spot price. If it was a sell barn, I'll call when they're selling livestock, or I'll just be careful and I'll watch for the market report in the local newspaper, and I'll record this information.

01:06:02:17 - 01:06:22:21

Unknown

If you were fortunate enough to have a really good local, paper that had an AG influence, they might, not only, include the market livestock report from the local sell barn, but maybe they gave you the the cash grain, prices every day, too. But the thing is, on the grain, you pick one day a week for convenience.

01:06:22:21 - 01:06:49:10

Unknown

A lot of people would say Wednesday and you would record, the date, the commodity, the location of that market. You know, if it's an elevator, sell barn, whatever their spot cash price on that day. And then you'd have to look up the futures price for the same day of the nearby contract and then subtract, futures from that cash price to get the basis.

01:06:49:12 - 01:07:35:15

Unknown

So again, it was very, time consuming and, a lot of, a lot of hand labor to get this information. So let's look at a couple of sources of information. Again, if we're doing it now, it's it's much easier. If you, couldn't use one of the two tools that we've, we've mentioned earlier, either, the tool from K state, which is free or geo grain, for whatever reason, as long as you could get this information off a website or maybe

in a paper, you'd have what you need was a Grain's is pretty straightforward because I want to get that spot cash price.

01:07:35:17 - 01:07:59:19

Unknown

I'm also going to get the futures price, and they're going to give me basis. So all the information I need to complete that table on the grains is pretty easy to find. I would just have to have the discipline to try to look this information up about the same day every week. Try to be consistent again, we get the information from, another website.

01:07:59:19 - 01:08:27:18

Unknown

Again, it's pretty straightforward for the grains. You're going to have the cash price. In this case, we want to know that cash price, the nearby futures contract is the March contract. They give us basis, they give us a futures price. We have all the information we need. Cattle a little different. Here's an example of, this is actually a, livestock market in Longmont, Colorado.

01:08:27:18 - 01:08:55:03

Unknown

Those of you that are familiar with where Loma is, it's on the far western side of the state. If you're familiar with Grand Junction, you go about 20 miles west of Grand Junction. You'll come to Loma. So it's a pretty good little cell barn there. I use this example tonight because it's got a lot of information. I told Centennial Market, I know probably some of you, have marketed cattle at Centennial.

01:08:55:05 - 01:09:28:17

Unknown

Unfortunately, they're they're pages as easy to use as this one. So this one makes a good example. But you can you could do it off of any market livestock. Information. Excuse me. The cattle side is a little bit more complex. Maybe mute. Just a minute. And and.

01:09:28:19 - 01:10:00:03

Unknown

And just pardon me. Again, livestock is a little bit more complex. What we're looking for here is we'd like to track, basis on feeder cattle. So we have to know that the feeder cattle contract is a 50,000 pound contract, and it's for steers and heifers. That way, between, 649 and 800 pounds each. And so really, to come up with an average, I have to look at that table.

01:10:00:05 - 01:10:25:14

Unknown

I'll come back to it for just a second. And it's got the weight range number had price range and an average. And I have to take the average price for a 650 to 7 weight heifers, 7 to 7, 57, 50 to 8 weight from that report get I have for average to do the thing from the steers. Get us to your average.

01:10:25:16 - 01:11:05:03

Unknown

And if I average these two numbers, I get an average price to that market of \$129.48 100 weight for cattle in that market. The other thing that makes it a little bit of a challenge is I have to also determine a futures price, because that's not given to me in that market report. And so what I have to do is actually go to the feeder cattle futures page on the Chicago Mercantile Exchange website and manipulate this interactive, chart just a little bit.

01:11:05:05 - 01:11:28:06

Unknown

So I'm going to click on that, and that's going to open up the CME website. This web address I've also given to you. In that handout. So you have it.

01:11:28:07 - 01:11:38:23

Unknown

Okay. I should be sharing then. The feeder cattle, website from the CME. That's what the website looks like.

01:11:39:00 - 01:12:06:04

Unknown

And so this is what the, information we have the month, we have the options contract. We'll talk about options. Our. And during our third night, this is the information for the chart. And then we see, the last quote change from the previous day prior settle the price at the open. The highest price during the trading session.

01:12:06:06 - 01:12:43:05

Unknown

The lowest price, and then the number of trades for that particular contract that day. And then when the last information was updated. So in order to determine that futures price, we need to click on this interactive chart. The chart comes up here. And so. The information that we received from the market in low mom was for December 1st or excuse me February 1st.

01:12:43:05 - 01:13:04:00

Unknown

I just made that a little smaller so I can show you what we want to look at here. So with this interactive chart, I'm trying to manipulate that a little bit so you can see what I can do is I can put my cursor on the horizontal axis and dates come up. So I want to go February 1st.

01:13:04:00 - 01:13:32:01

Unknown

I've got that data up. And then if you notice at the top of that chart you can see the feeder cattle across the top. And then you see some red numbers. So those numbers we have an open a high number or a low number. And the close what I'm after is the close. And you notice as I move along that bottom axis to different dates, those numbers change.

01:13:32:03 - 01:14:09:00

Unknown

And I'm interested in February 1st. So I put my cursor on February 1st. And it's a little fun to do. There we are. And I noticed that the market closed at \$137, 92.5 cent on that day. So I've taken the market report. I've averaged it to determine the average cash price. I go this the future side, manipulate this data chart or this graph, find out what the market price was on that day.

01:14:09:02 - 01:14:40:24

Unknown

I've got the information then at that point, to be able to determine, what I need to complete my basis table. So let's stop sharing for a second here. I want to close out of that. I'm going to pull up a PowerPoint and let me share that with you.

01:14:41:01 - 01:15:06:22

Unknown

And so basically again, I've manipulated that price to get to proper day to find out what the market closed at. So with that information I can then complete the table. I've got to apologize a little bit for my handwriting here. It's not the best anymore. Probably too much time on an old tractor without a cab in my use.

01:15:06:24 - 01:15:35:23

Unknown

But anyway, I've got the information. So from that Pete site, that was the, market on December 4th for wheat. The cash price was 558. The futures price the nearby was 619. So our basis was 61 under corn from Haxton. Cash prices 539 futures was at 550. So basis was \$0.11 under. And then we did all that manipulation feeder cattle from Loma.

01:15:36:00 - 01:15:50:06

Unknown

The average cash price is one 2948. Futures contracts we pulled off the web was one 3793. So we had a basis of -845.

01:15:50:08 - 01:16:03:12

Unknown

Questions about basis track.

01:16:03:14 - 01:16:30:01

Unknown

Now, I provided that table for you, and I would highly encourage you to do a little bit of basis tracking, especially if you have an interest in livestock contract. And for most of you that are with us, I would, assume your interest is probably the feeder cattle contract. You're probably a cow calf producer. I mentioned that, technique of of cross hedging.

01:16:30:03 - 01:16:57:02

Unknown

We're actually going to go through and show you how you can use the feeder cattle contract to cross hedge. Wean calves as a way to use the futures to do some price risk management for, wing calves. And so, I would encourage you to find the cash market that you, haul cattle to, or you market your cattle in.

01:16:57:04 - 01:17:24:18

Unknown

And, my guess is they, they probably post, sell results on a website. They'll have to go through the math that I demonstrated, but I would encourage you to track, feeder cattle. I also encourage you to track, if you raise a grain to track a market. In that case, pick a day of the week and look up the information, every day.

01:17:24:20 - 01:17:55:05

Unknown

You can do that in the evening. You know, the data will be there and do a little basis tracking. It's not a bad idea just to get a feel for it. As I mentioned, with the grains, it's it's really easy. Now, but, at least it puts you in the mindset of, of seeing what basis does on a day to day basis or at least a weekly basis within your local community, or that that cash market you have an interest in with commodities that are important to you?

01:17:55:07 - 01:18:03:07

Unknown

Questions about basis tracking.

01:18:03:09 - 01:18:30:04

Unknown

Okay, so the final topic of the evening is, forward contracts. And it's again, these are pretty simple to understand, pretty simple to initiate. It's a good place to start the idea of how would I go about pre harvest pricing a commodity. The idea being I want to try to capture a better price that I'm going to get at harvest.

01:18:30:06 - 01:18:51:22

Unknown

Or when I sell my wine cabs or feeder feeder cattle. And so I've got to look for a method where I can lock that price in before harvest. And again, for contracts are very simple way to do that. So simply it's a contract for the cash sell of grain or livestock at a specific price for future delivery.

01:18:51:24 - 01:19:19:08

Unknown

So you've basically agreed I'm going to deliver so many bushels of grain, so many pounds, 100 weights of cattle, at this price, at a future time. So the, advantages of for contract, besides being very simple, you set a price once you sign that for contract, you no longer have price risk. You know what that price is going to be?

01:19:19:10 - 01:19:42:10

Unknown

You can work it into a budget. You could include it in a cash flow for a lender. You know what? You've locked the price in for? Also, they, typically don't require any additional marketing costs. In most cases, there's not a marketing cost for setting up the for contract. You just sign on the dotted line and, you're ready to go.

01:19:42:12 - 01:19:59:18

Unknown

Some disadvantage. Usually there's little flexibility, if any, in the delivery point. That delivery point is specified in the contracts. And typically that's where you're going to deliver the commodity. And so you just need to be aware of that upfront and be prepared for that.

01:19:59:20 - 01:20:24:08

Unknown

Now this next bullet point I've got to give it, kind of a qualifier through a for contract itself. There's no way for you to take advantage of improving prices. If you sign up for a contract for \$4 corn and the price goes to \$5, they're not going to renegotiate. You've set you've agreed to \$4. That's what you're going to get.

01:20:24:10 - 01:20:54:13

Unknown

Now, there are other ways we can do this and we'll show you how to. But it doesn't involve before contract. It involves using options market. So we will, talk about that. The other point is you may be required to deliver the contracted commodity if you, agree that I'm going to, that you're going to deliver, 20,000 bushels of corn and you don't have 20,000 bushels of corn.

01:20:54:13 - 01:21:32:10

Unknown

You may have to deliver it. And so I know that we have a number of people that are involved with crop insurance, in the program. We'll show you how this works out. But this is why we, we try to tie for contracts or other opportunities to for price commodities to commodity insurance. The commodity insurance guarantees us that if we have a loss due to a covered a covered loss, then if we had to, we could go in the open market, take the proceeds from our insurance payment by that commodity and deliver it.

01:21:32:12 - 01:22:00:19

Unknown

Now, those of you involved with livestock may be saying, well, I can't do that. There's not commodity insurance for livestock. Well, there is probably the simplest form would be whole farm revenue protection, which will cover livestock. So there are ways that we can use commodity insurance to make sure that if we have to deliver the commodity and we don't have it due to a loss that we can, we can make that good.

01:22:00:21 - 01:22:33:04

Unknown

As far as a grain, Contracts are concerned, it may be possible and even a livestock contract, it may be possible. Rather than delivering the contract, you may just pay, a, price per unit, a price per bushel for not delivering. So I've got a question. Is a feeder cattle contract based on, a 775 pounds tier or an 825?

01:22:33:06 - 01:22:45:11

Unknown

The contract is actually 650, 800 pounds. As long as you're within that range, you fit the contract.

01:22:45:13 - 01:23:06:20

Unknown

Okay, so let's go through the process of how we would evaluate a for contract bid. And so this is a recent bid that thinks this may have been maybe last week last Friday Thursday or Friday. But we could have sold new crop corn delivered to eyelet for 440 to a bushel. We could have signed a contract that day.

01:23:06:22 - 01:23:36:06

Unknown

Some important information here. That 442 was based on, December 21st. Corn at 451 and seven, $73/4$ of a cent and basis was \$0.10 under. So the price is important that they're offering. And basis is very important. We need to know both of those in order to evaluate a for contract. So what information do we need to look at.

01:23:36:10 - 01:24:00:16

Unknown

Well first of all we know that the the offer after the bid at the delivery point of Island is, 442. That's a basis of ten under. So what would we information would we have to consider before we decided if this would be, something we want to do? Is this a good price for us? Well, probably one of the first things we got to look at is cost of production.

01:24:00:16 - 01:24:26:01

Unknown

That's where this comes in and why it's pretty important. If our cost of production is higher than 442 a bushel, this may not be a good thing. We may want to wait. And and, if it looks like the market will provide a better opportunity to lock in a better price. And when we talk about cost production, that's total costs, variable costs and fixed costs.

01:24:26:03 - 01:24:50:06

Unknown

And we'll go into that all the more detail in another evening. If I look at a basis chart and remember I said I can predict basis pretty well. If I look at a circa basis in November when I typically deliver corn, is saying that the basis is usually \$0.35 under. So this contract as it relates to basis looks pretty good.

01:24:50:08 - 01:25:29:02

Unknown

Because it's actually offering a price. That and considering basis is \$0.25 better a bushel. Then if I wait and sell that corn, on the cash market in November, I would also want to take a look at market outlook. If I think the market is going up and there's an opportunity for, a better price in the future, I might want to hold off, then also, if I've developed a marketing plan, as we'll find out as we talk about marketing plans as we go forward, a good marketing plan has a set of triggers, price triggers.

01:25:29:04 - 01:25:52:04

Unknown

And basically that plan says if price hits a certain point, we're going to pull the trigger and market a certain amount of commodity. I've got to tell you a little story that when I talk about price triggers and marketing plans, we've been, offering a program with, CSU extension across the state since, January of 2017.

01:25:52:06 - 01:26:21:15

Unknown

And that program is called any project. And any project is a risk management program for women in agriculture. And, we offered, the first class in Colorado here in Sterling in January of 2017. And I mentioned our, family farm, my son and daughter in law and my wife and I, obviously the adults involved. And so, my wife and daughter in law took the first any class.

01:26:21:17 - 01:26:56:24

Unknown

And, my Annie's testimonial is I think it's a great program. And the example I use is prior to my wife and daughter in law taking Annie's, most of the decisions about our farm were made via text between my son and I. Once they took the class we still use. Texting is probably our primary way to communicate and make decisions, but my wife and daughter in law are included in the text message string, so I think we make much better decisions now that everyone's included.

01:26:57:01 - 01:27:18:22

Unknown

One of the things that we cover in Annie's project is, is marketing. And the group of women that that we had here in Sterling really, really liked the marketing part, and they wanted to learn more. So the next, January 2018, I offered a marketing program just for women, and my wife and daughter in law both took that.

01:27:18:24 - 01:27:50:02

Unknown

So now when we develop our marketing plan for the farm in November, December, all four of us get together, put together the marketing plan plan, which includes price triggers. So, I think it was Mayor April of 2019. We had developed a marketing plan, and the market, got to a trigger point. And so I almost simultaneously get a text message from my wife and my daughter in law.

01:27:50:02 - 01:28:11:02

Unknown

And I know that they hadn't talked behind my back because when works and Sterling the other works in Sydney and the question was the same, have we marketed corn? And I text back and said, no, my son and I think the market's going to go up. Let's wait. Well, about two seconds later I get a text back from both of them and it was, hell no, we're not going to wait.

01:28:11:07 - 01:28:31:15

Unknown

We all agreed in November and December that when corn hit this price, we were going to sell so much corn by the end of the day, we expect you to sell it. And I did, and we all know those of us that are, of the male gender and married when your wife says tells you to do something normally you do it.

01:28:31:20 - 01:28:54:20

Unknown

If you don't, you wish you had. So we sold corn based on a marketing plan and a trigger, a price trigger. If it was left up to my son and I, we would have waited because we were sure the market was going to go up. Any idea what happened to the market? The very next day? Well, if you think it went down, you're right.

01:28:54:22 - 01:29:15:05

Unknown

The market dropped a dime. So were we glad we marketed corn? Yeah, we were. Now, that's not to say we haven't pulled the trigger and the prices have gone up the next day. That happens as well. But it's important that, if you develop a marketing plan and you've got those triggers, you probably need to pull them because you'll feel better about it.

01:29:15:05 - 01:29:40:13

Unknown

And of course, we had analyzed, our plan. That particular trigger was above our cost of production. So if we sold at that price, we were going to make money. We didn't sell all of the corn. We sold some of it. So again, if we were to look at this particular offer or bid from Peet's for 42, a bushel, that's higher than our cost of production.

01:29:40:15 - 01:30:32:01

Unknown

The basis is favorable. If we think, the market is, not going to go up significantly, or maybe 442 is a price trigger, we might go ahead and contract a certain amount of the corn. There's also something pretty telling about this particular example as it relates to basis. If we look at this example where the grain merchandizer in Peet's has put together this bid at 442 was the basis of ten under an historic basis at delivery time in November, is 35 under what is that grain merchandizer telling us about what they think supply and demand will look like locally in November.

01:30:32:03 - 01:30:41:08

Unknown

Any idea what they're maybe projecting to us through this information?

01:30:41:10 - 01:31:01:23

Unknown

They're going to be short on supply. Yes, very, very much so. They're thinking that this grain merchandizers they can supply is going to be short or demand's going to be higher in some. For some reason, the combination of both of those from one or the other, there's going to be a bigger demand for corn than we have supply.

01:31:02:00 - 01:31:30:07

Unknown

And so, people are going to be paying more for corn. And so won't talk a little bit more about, if we think basis is going to move one way or the other and how that would result in what marketing tool we might want to use, that's pretty important information, that we'll learn how to use in the future is, an idea of what we think basis will do down the road.

01:31:30:07 - 01:31:58:21

Unknown

Is it going to widen, is it going to narrow? And based on what we think it's going to do that can determine what marketing tool we want to use? Okay. I'm going to talk a little homework here. But I do any questions about anything we've covered so far.

01:31:58:23 - 01:32:22:02

Unknown

Okay. Hopefully I haven't scared you with the term homework. And let me talk a little bit about this. Mentioned I've been doing this for 40 years or so. I have, taught, high school education. I've taught at a junior college, taught at a university. And obviously, in those circumstances, this was a four credit credit course.

01:32:22:02 - 01:32:47:06

Unknown

Those were four credit courses. And homework took on a totally different meaning than it will for us. You're adults. You're not getting a grade for this class. You're taking it because you want to. And so when I talk homework, this isn't mandatory by any means. It is highly recommended. And this class is no different than probably any other experience you've had in life.

01:32:47:08 - 01:33:12:22

Unknown

The more you put into it, the more you get out of it. So, one of the, opportunities that you have during this class is to be involved with a program called Commodity Challenge, and this is actually an online commodity simulation. Unfortunately, it's grains ultimately doesn't go into livestock. But the things that you'll learn in the grain side of it apply to livestock.

01:33:12:22 - 01:33:40:08

Unknown

So there is some crossover, purely, optional. I would highly recommend that you be a part of it. Basically, the way this will work is I'll be sending an email either tomorrow or Wednesday with instructions on how to establish an account on commodity challenge. It's free. Won't cost you a dime. I've set up a practice, a practice challenge for us.

01:33:40:10 - 01:34:16:01

Unknown

And so basically, on this practice challenge, you'll be able to go in and, do cash marketing, do futures trading, option trading. On paper, you

don't have anything. Invest in the reason that I have you do this is you learn the mechanics of how all this works. So with this, first week, I'll give you the, the instructions on how to go online, set up your account, and then we'll have you make some cash cells of some commodities just so you get a feel for how that works.

01:34:16:03 - 01:34:41:21

Unknown

And then every week after we complete, a learning exercise, next week, we're going to spend our time on how futures work. Then you can go on, commodity challenge and I'll give you, a scenario and you'll actually, buy or sell some futures contracts. So again, you learn the mechanics and then we'll, we're able to track what happens with those contracts as we go through the class.

01:34:41:23 - 01:35:16:09

Unknown

So again purely optional. But I would highly recommend that you do it. I think you'll find it enjoyable as well as learn something for it through it. Again, I would recommend that you do the 14 day trial subscription of Geo Grain. They don't collect, credit card information. So it's a true free trial. Just to see how that works and the information you can get from there, plug in you know, the location of your farm or ranch and just see what kind of information you get about, grain markets in your area.

01:35:16:11 - 01:35:44:05

Unknown

And then finally, I'm going to start sending you some market reports, and I would encourage you to take a look at those. I have a subscription to Cattle Facts. And also Brock Associates both provide market reports and guidance or, well, market guidance, for both the grains and livestock cattle facts. There's probably a better job on the livestock side.

01:35:44:07 - 01:36:22:05

Unknown

Brock does a better job on the grain side, but you get both information. What I'm going to provide for you is each one of those services does a weekly kind of a newsletter format with, kind of a, description of what markets did particular commodity markets did that week, why they think they, behave the way they did, and then some recommendations about what you as either a, producer of the commodity selling it or a user of the commodity buying it might want to do with futures or options or cash markets looking forward.

01:36:22:07 - 01:36:43:10

Unknown

So the reason I do this, I want you to get a feel for what these services are like and the kind of information they provide. And again, I'm not trying to sell you a subscription to either one of these. I just want you to look at a couple of examples. There's probably 50 or 60 of these out there that you can actually purchase, and some of them are free.

01:36:43:12 - 01:37:05:19

Unknown

The other thing I want you to do, and I've provided you with the address for this is, tomorrow, and it'll be posted at 10:00 mountain time. A very, very important report comes out. The USDA, it's it's known by its acronym was d was d in fact, I think I've got some slides on this.

01:37:05:21 - 01:37:29:11

Unknown

Let's just go through these. This is that common commodity challenge. Homepage. Do you have an idea what it looks like? Geo grain. We've looked at, these are two the two market reports. These are, electronic reports. And so I'm going to send you an electronic copy. They're, they're PDF files, so you can look at and then, what you see.

01:37:29:13 - 01:37:58:07

Unknown

So what you see is a world agriculture supply and demand estimates. These come out every month or around the ninth or 10th of the month. And so, we have one coming out tomorrow. And again, it'll be posted, after 10:00 mountain time. And so I would recommend that you get online and pull this report. You can get it in several different formats.

01:37:58:09 - 01:38:24:17

Unknown

One format is a PDF file. And take a look at it. This one is going to be a pretty critical report because, the trade people who, watch futures and options and cash markets and commodity markets are expecting the USDA to further, decrease the carryover in corn. If they do that, that's bullish for corn.

01:38:24:19 - 01:38:50:16

Unknown

Corn markets are probably going to go up. So it has an effect on corn. It could pull wheat with it. Soybean prices could go up and it could have a very definite impact on livestock prices because corn is a major feed commodity. If corn prices go up, typically feeder cattle live cattle and lean hogs go down. So this is a pretty important report.

01:38:50:18 - 01:39:13:20

Unknown

The timing of this report is one that just got a lot of people nervous. So, we'll talk about this a little bit next week, but I would highly recommend that. You know, tomorrow or the next couple of days, download this report and look at it. Can't get it before 10:00 tomorrow, but, you'll see that, that they archived these reports for several years back.

01:39:13:20 - 01:39:36:22

Unknown

So that's something you've got to do tomorrow. But I would encourage you, before we meet next week, take a look at this. And, and, kind of get a feel for, what kind of information? It provides. So. Pretty busy night tonight. Threw a lot at you. Again, we're going to read this is being recorded.

01:39:36:24 - 01:40:00:19

Unknown

Hopefully tomorrow, by end of day, I'll send you an email. We actually post these on unlisted, YouTube as unlisted YouTube videos, meaning you can't, you can't search for them. You have to have the URL and, provide it for you to go back and review the class. If it's after the session, if you'd like to do that.

01:40:00:21 - 01:40:20:13

Unknown

So before we leave tonight, any questions about anything we've covered?

01:40:20:15 - 01:40:50:21

Unknown

A great, it's been my experience that, something will come up and you'll have a question about something. We've talked about, or maybe something you've seen or, you know, something about tonight, after we end the program, please feel free to send me an email message. I try to watch email very closely and, and try to get those answered within 24 hours of receiving them.

01:40:50:21 - 01:41:19:09

Unknown

In many cases, it's just within a few hours. So I try to be good about getting back to you. If you have questions, feel free to send those, via email. Be looking in your email. I'm going to be sending you some information, probably, primarily tomorrow and Wednesday, I hope to have the handout and any material that you all need for next Monday night's class in your inbox, by close of day on Wednesday.

01:41:19:11 - 01:41:36:10

Unknown

So, hope this has been helpful. I've really enjoyed it. It's, a topic that I love to discuss and, have a lot of fun with it. So, one last call for any questions you might have.

01:41:36:12 - 01:41:45:08

Unknown

While seeing none will wish you the best for the rest of the evening. And look forward to seeing you here. Next week. Have a great week.

END TRANSCRIPTION