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Monday night marketing - Session 7: Price seasonality, pre & post harvest market planning, using advanced techniques, pricing tool strategies

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Well. Good evening. I have a 7:00. We are going to get started. As you can see from the title slide, we have quite a bit of ground to cover tonight. It's my hopes that, beginning tonight, we're going to start trying to put everything together regarding, what we've learned so far. And, be able to, talk about developing a marketing plan, during this session and, expand on that, for our eighth and final session next week, which is a point that we will be able to work with you, hopefully to at least start the process of developing a marketing plan that you'll be able to partially, together

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and activate for this current marketing year. And so let's go ahead and get started. Looks like we've got kind of a small group tonight. So if you have questions at any point, I'm taking a look at the chat. I've got that up and monitoring that. And also if you want to unmute your mic and, and ask questions again, the group is pretty small at this point.

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So please feel free to do that. Didn't want to start by talking about some of the concepts that Steve Kuntz covered, last week, and maybe put him, or provide some context of how you would actually use that information. Hopefully you, found his, talks helpful as related to grain marketing. I would mention that a week from tomorrow night, March 30th, Steve will be presenting a cattle marketing outlook program, for a group of ranchers in Routt County that I've been working with.

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And certainly all of you are, invited to attend that. I'll be sure and get the zoom information out to you. If you have, interest in the cattle market. Steve does a great job, in that area as well as with the grains.

He does make sense of writing and analysis for, cattle facts. And so, his work, especially in the area of cattle, is, is really pretty good.

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So I would highly recommend if you've got time to attend, that session a week from tomorrow night on March 30th. Please, try to do that. I will record that as I have all the other sessions. So if you can't make it again, I would highly recommend you go back and take a look at the recording.

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So what I want to do is put some context to the concepts that Steve talked about. So if we take a look at Steve's presentation last week, there really about five major, concepts that he covered as he went through outlook. And so I want to spend a little bit of time and talk about fundamental analysis.

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I'll actually pull some examples from Steve's, presentation last week to talk about what fundamental analysis is, how we use that as we, take a look at outlook and start developing marketing plans. We'll also talk about the other, major type of analysis, and that's technical analysis that deals primarily with, price movements. As we chart those movements, some of these, ways we determine a price outlook.

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And then what's probably more important than the price outlook, which typically just involves here, is the range of prices we expect a commodity to trade in, during a given period of time. Probably. What's more important than that is what factors affect that price outlook. Because if you understand those underlying factors as those factors change, then you have a feel for how that's going to affect that price outlook.

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And so that's another pretty important part of what Steve covered last week. And then he, I think did a nice job of talking about the economic interplay among commodities. And we will, discuss that from a grain perspective, giving, you some examples that Steve used, but also has some pretty far reaching ramifications if we look at certain livestock markets, as we'll talk in a few minutes.

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More importantly, it's something that we look at when we talk about the interaction between the corn market and the feeder cattle market, and we'll find that they do tend to move in opposite directions of each other. And that's something that that would make logical sense. If we look at, how, the price of corn and price of feeder cattle are

intertwined and, the profit potential that a, cattle feeder would be looking at down the road.

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So let's take a look at each one of those independently in a little more detail and provide some context to it. So when we talk about fundamental analysis, that's primarily, supply and demand, the fundamentals of supply and demand. And most people who provide, outlook, well utilize what we call a balance sheet. So this is a slide taken from, one of the slides that Steve presented last week.

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And it really looks at, this balance sheet. And the balance sheet is primarily, supply or are primarily, broken down into two big areas, supply and use of a particular commodity. And so if we look at, the forecast that we have here, on the supply side, we have, what's the anticipated planning acres will be or in the case of a, a marketing year that's completed.

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What were they? How many acres were or, harvested, yield. And then typically we're looking at the national average yield, beginning stocks, which would be carried over from the previous marketing year. And so, we add those together and we get total production that would relate to domestic production. And, then we also add imports. And even though, we are a big exporter of corn, we do import a little bit of corn.

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And as you can see, it's it's a pretty small amount. But we've got to include that in to have a total supply figure. In the fundamental analysis. And then for there, there we look at the primary uses of the commodity and our example being corn. We see feed and residual use, food seed and industrial. And as you can see, especially in the industrial side, we've done a really good job in developing, many, many other uses of corn other than just feed.

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Certainly a big part of our usage of corn in this country would be for ethanol and other byproducts. And then we can see that, export line, also being quite important when we look at, determining the total use for, corn as a commodity. And so then when we subtract, potential supply from potential use, then we're going to come up with the ending stocks.

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And those ending stocks then become the beginning stocks for the next marketing year. One of the things that we don't have listed is if you look at this very bottom row, that number represents, percent carryover. And as carryover, get smaller as a percentage of the total crop

production that has a very profound effect on price. And so if, for example, you look at the far right hand part of this table with Steve's forecast and green print, you'll notice that in the high price column, which would be the third column from the right, you notice that, that very last row indicates a carryover of a little over 6% of total production.

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And when we see carryover that tight, Steve is looking at an average price in Colorado at 575. If we take a look at, a normal price scenario, we've got that carryover a little over 10%, resulting in a 4.65 or \$4.65 cent corn price. And then anything that tends to be over about 12%. And corn really has a pretty negative effect on price.

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And so in a low price scenario, that's basically a product of, pretty high production and also, pretty high average national average yields, we see that we get that carryover to little over 13%. And we have a Colorado price of about 385. The other thing it's important to note here is Steve is taken into consideration, some general basis information or basis levels for Colorado.

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And we tend to be a state that's corn deficit. We feed more corn as the states than we produce. And so because of that, we're bringing corn into the state. And we typically have fairly, favorable, basis levels, in corn throughout Colorado. And that's pretty well reflected in the, the, last, three price lines on this table, the average U.S. farm price, average December futures price, and then finally, an average Colorado price, noting that we're showing a positive basis, between the December futures and that Colorado price and certainly a much better price Colorado than the average U.S farm price would be.

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So that's another consideration that we usually have in these fundamental analysis or balance sheet tables, is some overall indication of what basis levels might be. And so again, Steve has done a good job of of indicating those and really capturing the the situation we have in corn here in Colorado. Again, we're generally considered a corn, deficit state, and that we've got to import corn here to support, especially the large cattle feeding industry that we have in the state.

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So fundamental analysis, probably the type of analysis that most people are most comfortable using. Certainly, the all of the information coming out of the USDA, I know we've looked at to see a couple of different times, it really focuses on fundamental analysis, what I see having, a little bit of, of, a different approach than Steve has given us here.

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Steve really drilled this down to what he considers, the potential for prices to be, at the state level here in Colorado, where, as you're aware, when we looked at that was the report that's really a world, fundamental analysis of a number of commodities, both crop and livestock, commodities. So, again, this is the most common. It's the one that most people laying their hats on.

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And most people report. The other general type of analysis is technical analysis. And so as we're building a marketing plan, we really need to have a good feel for not only fundamental, approach or fundamental analysis, the supply and demand. And, and I really like how Steve does this, giving you a, high price scenario, a normal price scenario and the low price scenario, they kind of give you a range of prices and give you a feel for what happens with, when certain factors are in play.

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As I mentioned, the second type of price analysis is technical analysis. And this really relates to, the movement of prices over time and a visual representation of those movement of prices over time in the form of a price chart. And these are all fairly standard in that typically we don't have, time, a time element on the horizontal axis.

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And then we'll have, prices on the vertical axis. Now people that really get into the weeds as far as technical analysis, make a lot of, of predictions based on, the movements both up and down of the market, the, high, point at which a market might reach a low point, that a market might reach, and the number of times it goes through those gyrations, if you played any attention to, the Brock Report, Richard Brock, who is the person that that, basically founded, that company puts a lot of stock in technical analysis and some very detailed technical analysis.

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For example, one of the things that that he's really big on is what he calls a five way sell signal. So the market, goes through an up and down cycle, five different times. And based on the, highs and the lows or those ups and downs or up to a high down to the to the low, then he indicates, the timing for a sale.

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And he bases a lot of his recommendations in terms of buying and selling futures on what these charts do. There's a, a fairly large group of people that, again, think that prices move in predictable patterns. And if you watch those patterns and understand them, then you have a pretty good idea of what prices are going to do in the future.

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I think what's more important for, producers who are looking at technical analysis to develop a marketing plan is it's really three different things, and they're quite well, illustrated on this particular slide. The first thing that that we ought to be familiar with is, the trend what trend is the market going in? And certainly if we look at this May 2021 corn contract, this is, certainly a, contract.

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And in a, a month that has an upward trend, a fairly steep upward trend. And so if I am, putting together a marketing plan and I look at this particular chart, if I were going to be marketing in the month of May, I would see that prices are on an upward trend. And so if I am, if I own the commodity, I'm probably looking to, buy at a low price and sell at a higher price, which we can do that.

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If I am looking at the possibility of, using some other kind of, marketing tools we'll talk about later, I'm going to select tools that are most useful when I think futures prices are going higher, because that certainly what this trend line tells me about this particular market. The other two lines that are really important are this bottom line, which is the support line.

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And what that support line represents is, the lowest level that we expect the market to, retreat to. And so basically that support level was developed back here, when the market was trading at about 425. And we can pull a slope from that low back to this low, back to this low, draw a straight line and we have the support in the market.

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So basically what this is telling us as time goes on based on this support line right now the market has support to the level of about 476. And what that means again, if you believe in technical analysis, that that market could go down as low as 475, but it's unlikely that it would go lower than that. And so, that gives us a trading range at that point.

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Now, what that does tell us is if the market were to break that support line, we would trace it all the way back here and find that our next level of support is about 425. And the theory here is that, markets, may come close to that support line, but typically they'll go back up after that because that's where that market is supporting itself.

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But in a case where it goes below a support line or would would break support, then we trace back and say, okay, what's the next level of support? And the next level is 425. And so if we break below 475, we've got about another \$0.50 in that market before it hits another level of support. We can trace that all the way back over to here to that \$4 support.

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And so the next level of support after 425 is four. So if we were to break for initial support here at 475, we can expect that the market, is going to trade down to 425. Typically it takes a pretty significant, you know, series of bad news or bad news or change in the supply demand aspect of a market for it to break support.

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But we know if it breaks at 425, the next level support is \$4. And so again, it's I'm developing a marketing plan. Technical analysis is very helpful because it gives me an idea at what level the market is likely going to go down, what level will it find support, and then if it breaks a certain support level, how far it has to go or retrench till it gets to the next level, support.

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The opposite of support is a resistance line and resistance as it would, as you would think about it, the term resistance would be, resistance for the market to go higher. And so, this market is showing that it topped out here at about, a little below 475. And then retreated to the next level here, a little over, 550.

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So if we draw a trend line from that top to this top, we then get a resistance line. And just as markets tend to try to trade above support, they tend to trade below a resistance line. We can have the same situation and resistance though as we have in support, with good news. Strong supply, demand, fundamental news.

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It could be a situation where we break this support level at that. Maybe it's, 560 and then we know the next level of resistance is 575. So if we break resistance here, based on what the market has done in the past, it could hit up against that next level of 575. And in this particular market, if we break 575, we don't have any other resistance.

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So one of the things about a market is when they break resistance, typically they have some strength. So this market could go, you know, a fair distance before it makes another resistance or another turn down. So again, the idea here is to combine both of these. The,

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Fundamental analysis gives us an idea of what we can expect in terms of prices giving levels of production and usage scenarios. And so, for example, one of the reports, USDA reports, it'll be coming up at the end of this month is a planting intentions report. And that report tends to be a real market mover, not only for grains but also for livestock, because that can have some implications on grain supply and demand.

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Grain prices and obviously feed is a big part of livestock. Budgets have a big cost of producing gain as feed. And so anything we do that affects feed prices has an effect on livestock. So everyone is really watching that. Planting intentions report. It comes out the 31st of March. So the end of this month. And we're really looking at what happens here.

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What, will be the planting intentions for corn again, if we have that 91 million acres or less, that's going to be, bullish for corn, we can expect higher prices if we see that number come in at 93 million bushels or million acres or higher. Obviously, that's a negative factor for the price of corn as the season goes on.

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Unknown

Once we've kind of established this planting intentions number, then we turn to to yield. What's that yield going to be? And if we think we're having a good weather year and the yield trend is going to be higher, then we plug a yield number in with whichever level of, planted acres we anticipate. And again, that has a definite impact on, supply.

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Unknown

Maybe we have a situation in the ethanol market where we're really recovering from the pandemic in a faster rate than we thought. People were, out driving around the summer vacationing. And we see the these ethanol numbers, go up. And so that would indicate that we have a larger demand for the crop. And so obviously that has a factor.

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Unknown

Same thing with exports. China has really been buying a lot of corn. If they come to the table and buy a considerable amount more of new crop corn, then that could be a factor. So we use a fundamental analysis to kind of get a feel for where prices are going, or what price levels could be based on supply and demand factors.

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And then the technical analysis with the charts, provides a couple of things that provides us with the direction of the market. If we look at

trends, then it gives us an idea how low a market might go or how high a market might go. Looking at most support and resistance levels. I want to stop right there and, see if you have any questions, because this is, a couple of pretty important things for you to, take a look at, be aware of, certainly a really good place to start with this would be that washi report.

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Unknown

It's a USDA report. So it's free to you, comes out usually about the second Tuesday of every month. And so that's going to give you an idea of supply and demand, technical analysis, although you can take a look at charts. We've shown you a number of those pulled right off the same CME site. They're free to you.

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You can pull them off at any time, and you can kind of get a general feel for what trends are. It takes a little bit of, effort to learn how to draw both, accurate support and resistance lines and so one of the values of a marketing service, like the Brok report or cattle facts, is someone who has experience in establishing those resistance.

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The support lines typically will provide those. And again, giving us that general direction of the market. And then also where we might expect the market to retreat to or being the downside potential, where we think the market might go in terms of upside potential. So again, a couple of pretty important pieces of information as you develop the marketing plan, to give you an idea of prices and market direction.

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So questions either in the chat or if you want to unmute your mic and ask regarding technical and fundamental analysis.

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Okay. So the next big piece of this is price outlook. And again Steve has done a really nice job of that in addition to, the price outlook being a part of the balance sheet. This price outlook has a little bit more detail to it in terms of, you know, basically in addition to what we're seeing with actual, prices looking for.

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Unknown

But but some of the factors that might affect that, for example, soybeans, Steve has talked about, you know, in addition to improved prices based on the demand for soybeans, worldwide and domestically, also, the fact that the expected improvement in basis and actually has, if you recall, a couple of maps that showed base differences across the country and certainly that improved basis is a function of not only a

robust, export market for soybeans, but also, increased feed usage in this country.

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Unknown

And so, the basis improves because the local demand is, is pretty good as well. Corn also improved prices and basis for a lot of the same reasons. And the big, three questions right now determining what end of that 4 to 5 bushel range we might be looking at would be how many acres of corn do we plant?

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How many acres soybeans should we plant? And then whether, especially as we move into the planting season, wheat. The big idea here is there's really not a lot of, fundamental support right now because, worldwide especially, we've we've got a lot of wheat out there. But any rallies that we will see in wheat, how prominent primarily weather driven.

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And so, basically the idea is when you see a rally, you probably ought to sell that rally. And take advantage of those higher prices.

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In addition to having that idea of what prices are, where they're going and at what level, we think prices could, get to, the other ideas know what is affecting those. And so again, that's why Steve did a, spent some extensive time talking about, how the, crops interact with each other. What are the opportunities for demand growth?

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You know, well, the the Chinese, continues to, be in the market to purchase more corn and soybeans, especially new crop corn and soybeans, supply impacts. You know, one of the big things that we're looking at now, especially corn, is, is what is the pandemic really, rebound looking like, are we going to see people, the economy open up the opportunity for for travel improve?

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Will people be going back to an office, to work? All these things would increase the demand of gasoline and consequently would increase the demand of ethanol. And so some things that we need to look at, regarding, why those, prices may move one way or the other. Again, we talk about even though we see reduction in acres, in wheat in the, in the U.S really, it's, again a world market and there's a lot of wheat in the world.

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And that's continue to be a kind of a dark cloud hanging over that particular market. So again, the point here is not only knowing, a trading range or a range of prices, but what other factors are affecting those prices and really driving the trade. So as factors change, you have a feel for, what effect that's going to have on the the market, either positive or negatively, as you develop a marketing plan.

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Unknown

Economic interplay among commodities. One of the things that I think, again, Steve does a really good job with is demonstrating how corn and soybeans affect each other. And, and this was a chart that he, he provided during his presentation. And he usually uses that disclaimer that he did with us and that we don't raise a lot of soybeans in Colorado.

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Unknown

We're on a big soybean state. But if you're going to talk about a corn market, you have to understand the soybean market. And that's primarily because the two crops are pretty interchangeable. As we get into the corn Belt and we look to the large corn producing areas, did we have a question?

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So again, Steve did a good job with this, interplay among commodities. The one that's probably more important to us in Colorado would be the interplay among corn and, feeder cattle. So typically we see those markets as working inversely with each other. When corn goes up, typically we see feeder cattle go down. When corn goes down, feeder cattle will go up.

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And the reason behind that is if you're feeding cattle, the purchase of those feeder cattle and corn are the two big items in your budget. And so in order to, to to lock in a profitable position in your feeding operation, you're constantly concerned about the price of corn, the price of feeder cattle. When the price of corn, corn goes up, you're less likely to bird feeder cattle that because that affects the bottom line.

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Unknown

The profitability of feeding, cattle. On the other hand, if corn comes down, your feeding costs go down, and you can be a little bit more aggressive in bidding up the price of feeder cattle, especially if you're able to put cattle in the lot at a profit. And so understanding this is pretty important as you look at developing a marketing plan and setting, price goals.

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Unknown

So again, the whole idea behind, kind of rehashing what Steve had talked about is to put it in context, give you an idea of how you would take the information he would provide or anyone might provide in a good market outlook program to help you set some, pricing levels as you develop the marketing plan. So I want to give you one more shot at it.

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Unknown

Questions regarding, outlook and how we use that to, to, set price triggers and, and price forecast.

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Unknown

Okay. We're going to go ahead and move on. If you have questions be sure and let me know. So you've seen this slide multiple times tonight we're going to focus in on the fourth common mistake. And that's failure to have a pricing strategy. So as you recall we've we've talked about why it's important to know cost production.

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We've really talked about that being a function of your record keeping system for those that you've that use quick. And we actually went through a little bit of detail about how you can use the tag function and quicken to determine cost production, bottom line for me, as it relates to cost production, if you currently if your current record keeping system, will not allow you to determine cost of production, I would highly recommend you look at using a different system, because you really need to be able to do that, and in order to do it, you've got to be able to analyze, input cost and cost of, our income, our input

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Unknown

cost and production levels. At an enterprise level, be it, corn, wheat feeder, cattle wing, calves. So if you're again, if your record keeping system won't let you to adequately do that, you really need to look for another system. Reluctance to pre harvest price commodities. Hopefully, you really understand that by this time, I'll make a plea to you, as I do at the end of every one of these marketing programs.

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Unknown

I put on our last session next week, if you learned nothing, from, this program or you take, you know, if you don't take anything away from it, the one thing that I would hope you would take away is that I've convinced you to look at very seriously about pre harvest pricing commodities. And, one of the most simple things you can do if you're a grain producer is just use a for a contract.

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Usually there's no fees and sor involved with that as soon as you sign the dotted line, you know exactly what you're going to get for your commodity. If you're a cattle producer, look for opportunities like video

auctions or ways to market those cattle or price those cattle in the middle of the summer versus waiting for the fall.

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Unknown

So you're to track and understand local basis again. Hopefully we've given you some tools to do a good job that, and then we spend a little bit of time on item number five, holding on price, grain and storage, long. So tonight it's going to be let's let's really hone in on this idea of failure to have a pricing strategy.

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Unknown

And this is so very, very important to, doing a good job in marketing. If you don't have that pricing strategy. Typically, you get caught up in a situation where a marketing opportunity has presented itself. You don't have a strategy to deal with it. And so you let a good opportunity slip through your fingers.

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Unknown

And the only way really to avoid that, again, was with a pricing strategy. And this we'll find out in a few minutes that pricing strategy is, is really the centerpiece of your marketing plan. Without that strategy, it's really not a marketing plan. So it's it's again, a very, very important part of of, what we'd like you to do is you develop a marketing plan.

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Unknown

Basis tracking, just mentioned that briefly. I've continued to follow through with this. Basically, as you see the grains, we've been tracking, we really haven't seen much change in basis. We've seen a little bit of narrowing of wheat basis in piece. That corn basis in action has been consistent \$0.11 under throughout. We did see a widening of the basis for feeder cattle.

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Unknown

And, again, I don't have that many, reports utilized, but, we started off as you can recall, basis is six six. The under that narrowed to 547. And then the last report that I could pull there, feeder cattle market on March 8th started wide into 6.72. So hopefully again, we're giving you some tools to do, make this much easier.

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More technology base was a couple of the websites we've, encourage you to take a look at, but outside of that, just simply, if you would, you know, keep a table like this, at least it gives you an idea of what's happening at that local basis. So what do we want to accomplish tonight? Well, first of all, we want you to become familiar with price seasonality of various commodities.

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And we've tried to make some point throughout the class, starting actually with the second session, that there are typically opportunities, to price commodities at an advantage prior to harvest. And so we're going to hone on this in on this a little bit and talk about seasonality of various commodities in particular times of the year where prices, tend to be higher than others.

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We want to go through and the steps to develop a pre harvest marketing plan, those steps are quite different as we'll find from a post harvest marketing plan. But both are very important. They really take on a different approach, a very different approach. Pre harvest. Post harvest we want to talk about that actually show you some examples of, of some pretty what I consider pretty good pre harvest and post harvest marketing plans.

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We want to talk about some advanced marketing tools. At this point we really if only put three in your toolbox. Those being for contracting hedging with futures and using options. And so I want to introduce you to, to, I think five additional marketing tools that you can use that are a little bit more advanced than what we've initially talked with, I talked about previously.

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And again, that, that metaphor of a tool box, I think that works really well for marketing. What we're trying to do in this, this program and what you should continue to do is, feel that that tool box is marketing tool. So we're going to, add a few more to the box. One of the things I encourage people to do when they evaluate a marketing plan.

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And we'll talk about that, our final session next week is one of the pieces of that evaluation of your your marketing plan should be, a list of tools, new tools that you'd like to learn something about, or maybe a tool you know, something about you've not used very often. Maybe you need to become re familiarize yourself with that tool.

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But, marketing education is really an ongoing process. I don't think anyone ever gets to the point where they've learned everything there is to know. And so, it's if you view yourself as a lifelong learner, view your hopefully you'll view yourself as a lifelong learner as it relates to marketing, because you certainly need to think of it in those terms.

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And then finally, pricing tool strategies. So not only do you have to have a toolbox, and in that toolbox you need to have various tools and understand how to use those tools. But you also have to understand when to use those tools. What condition, are the markets? Do we think they're leading us to that would, tell us that one tool would be better than another one?

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And again, that that toolbox and tool metaphor, I think works really, really well. When we have a job to do, we go to the toolbox and we try to select the tool that's most appropriate for the job is same thing with marketing tools. There are certain situations relating primarily to what we think are going to happen with futures prices and with basis.

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That would dictate which tool is the best tool for us to use. So that's what we hope to accomplish tonight. Again, once you have a good understanding of these objectives, then you've got pretty much the basic pieces put into place to develop a marketing plan. And again, we'll we'll pull those together and, and try to put together a comprehensive marketing plan for you.

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When we meet for our last session next, next week. So price, seasonality, I think all of us are, are fairly, knowledgeable about this or have a feel for it. Typically year in and year out, we realize that during harvest time tends to be, the lowest point of crop prices. Again, that's a supply and demand, function.

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We have the greatest supply coming to the market at harvest time. Most, producers don't have enough storage on farm to store all of their production, so they're always going to have some, crops that they'll bring up to market at harvest time. They may be in a situation where they have bills to pay, and so they've got to sell some production at harvest.

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There are ways around that, over and above storage. One of the things that that, we may spend a little bit of time next week is the, market assisting loans, assistance, loans that are offered through the Farm Service Agency. Those were designed to help, producers who have bills to pay at harvest time, realizing that, prices are typically low at harvest, to borrow against grain and storage either stored on farm or stored, in an elevator so owned by the producer, they can borrow money against that stored grain.

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Use that money to pay off, bills that are due to production, bills that are due, at harvest time, but not have having sold the crop. The idea being that the typically we see, post harvest rally and so the producer would be able to take advantage of that post harvest rally, be able to then pay off the loan and, receive a price better than they would receive if they were forced to sell at harvest.

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I did provide a pretty good handout for you that goes into crop seasonality in a lot more detail. If you're involved in crop production and marketing crops. I would highly recommend that you spend some time and look at them, livestock. Again, it's, supply and demand production follows, natural seasons. Typically calves and lambs are born late winter, early spring.

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And so when they're ready to hit the market as a feeder, that's typically in the fall and we can see, lower prices, and again, a pretty good handout, I think that really does a good job of explaining, seasonal patterns in livestock. So again, I'd highly recommend that you take a few minutes and, and go through that when you get a chance.

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Visually, I think these next slides are pretty compelling. Again, if you're a corn producer and you, you don't, use some method to pre harvest price corn, you're really, really missing the boat. If you look at this pattern over, 37 years, that's pretty compelling that, you know, May, June, July is, is kind of the time of the year that we really look, to market corn.

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And certainly that's based on, a real, concern of, of production issues. Did we get some corn planted on it? Are the crop planted on a timely fashion? Do we have timely rains, especially in the Midwest? And that corn belt area that's going to produce, good pollination, good seed set. And then do we have enough, moisture in the soil to really produce that yield and test for that?

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We need. So again, if you're a corn producer, you really have to look for opportunities to pre harvest price corn, based on seasonality and year in and year out. You know, based on that, some of the other information I provided, you know, three out of four years, you're going to have an opportunity to price corn typically in the spring, early summer at an advantage over, you know, this November, December time frame.

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And we're harvesting that crap also gives you a pretty good indication, if you look at this chart, the value of having some storage or utilizing some, techniques that we discussed earlier to capture, an uptick in prices in the spring for that old crop corn, because you can certainly see a pretty strong influence of, of markets. That would give us, again, a return for storage or other methods we can use as a proxy for storage feeder cattle.

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Again, a pretty, distinct, seasonality pattern, again, based on the fact that those spring born calves are going to come to market as feeders in this, early springtime. And as we get away from that, then we see some, seasonality and prices here. Prices react, you know, throughout the summer, early fall, and they tend to drive also those rain cat prices.

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So you can see why, video auctioning and for contracting of feeder cattle in those summer months can have a positive impact on winning calf prices as well. Live cattle again as we get into the time of the year where we see greater consumption of, beef products, that that kind of the grilling season, and then also a decrease in the number of, fed cattle based on, the typical pattern of calves being born in the spring, going to feed.

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And then when they're available as a finished animal. We just kind of a different beast altogether. Although we do see seasonal patterns in, wheat, they're certainly not as clear and distinct as they are in corn. Part of that has to do with the fact that there are many classes of wheat, we can produce wheat.

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That's, you know, what are we planted in the fall? Harvested? Summer, we have spring wheat planted in the spring. Harvested late summer. We're producing wheat almost on every continent, of the world. And that a little different variation in terms of, when that, crop comes to market. So wheat seasonality is just not nearly as straightforward as corn seasonality for that reason.

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One of the old marketing,

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Theories or methods for wheat was a third, a third, a third. And by that, that typically meant, try to pre harvest price a third of the crop, sell a third of a crop at harvest, and then store a third of the crop and given, wheat seasonality, as you can see, it here, not a real distinct pattern.

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That's not, so far off in terms of, maybe a method that can be used. And so again, I think a real contrast, if you look at wheat seasonality and then if we flip back a couple of slides here and look at corn, where we have a very distinct pattern in corn, and then when you see that pattern, pretty much road, when we look at wheat seasonality and as we approach those crops, quite differently, when we think about how we would develop a marketing plan for each, one of those questions, comments about crop seasonality, again, hopefully we're continuing to build this case for, the need to really look at

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opportunities to pre harvest price commodities. It just fits, that pattern of seasonality.

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So let's take a look at developing a marketing plan or market planning. And especially when we talk about grains, we have to split this up into two phases. The first phase is pre harvest marketing. Excuse me.

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And I think that pre harvest marketing also fits with, cattle as well as livestock. And then when we talk about post harvest marketing obviously it has some real implications for grains because of our ability to store grains. We can think about pre harvest market our post-harvest market planning in cattle. But we've got to look at it mainly from a situation as it relates to a cow calf producer and looking at the opportunity to retain ownership to the, feeder cattle phase.

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So there are some implications there. Obviously not as strong as it is with, pre harvest market planning. So pre harvest market planning is a really a strategic approach. We're going to spend a lot of time in planning this pre harvest market approach to marketing livestock and especially grains regardless of your commodity. Again we're going to harp on this.

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Again. It's really really important you know cost of production. Because again if you don't know their cost of production, it's difficult to determine if the market is offering you an opportunity to, price a commodity at an advantage or over your cost production. The very best, source of cost production is actual historical data. That would be an analysis of your your records in terms of input costs, both your fixed input and your variable input costs over a number of years, divided by production and trying to come up with an average, if you don't have actual historical data, use your cash flow.

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If you are, using, an operating note if you, require or renew an operating note on an annual basis, chances are probably pretty good your calendar as part of the documents, you've got to provide them in order to extend that line of credit. One of those documents tends to be, a cash flow statement.

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And so you can do a projected cash flow or projected cost reduction from a cash flow statement. And so if you don't have good actual data, at least that projected cash flow is a place to start. It's certainly better than nothing. As we talked to the for the other really important part of a pre harvest market planning approach is to have an idea of how many bushels, how many pounds, how many had that you can pre harvest price.

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And we talked about certainly with grains we can use revenue protection, crop insurance, grains and livestock. We can use whole farm revenue protection. And then hopefully those of you that were able to attend the Tuesday night program a week ago, learned about, the Livestock Revenue Protection program, our livestock risk protection program, which, again, is a way that we can, guarantee a certain level of production so that we can go out and pre harvest, market that, commodity and be assured that if we have some hiccups in production that we've got a certain level, locked in through our insurance efforts, that allows us to feel comfortable that we could

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either fulfill a contract if we had to, or at least be able to pay, any cancellation fees that we might have if we, can't produce the, amount of, of, products that we've, pre harvest priced.

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So let's look at, a pretty good example of, a pre harvest marketing plan. And hopefully you'll, you'll, recognize the author of this plan. And I said, certainly we've been utilizing it's thoughts regarding marketing mistakes throughout the program. Those of you that that, dabbles a little bit with the commodity challenge online, that's actually something that Ed put together.

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He's got a number of, large agribusiness firms that sponsor that, but that's kind of, his brainchild. And, certainly, it's been a real help in helping people understand how to use, futures and options markets. I would, show you that there is a typo in this example. He lists the date of this pre harvest plan is December 12th, 2021.

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Obviously that should be December 12th, 2020. So the idea is that we we start looking at developing marketing plans. We, before we plant the crop or those calves hit the ground. And so most people, will think about developing marketing plans said that November, December, January timeframe. And, that's when a lot of the, outlook, information is being provided.

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We start to get a feel for what we think, prices are going to be with that, that new crop, be it, a corn crop, wheat crop or cash crop. We'll be looking in the future at that timing so people can start developing these marketing plans. And so one of the things that that Ed has done over time is he's actually developed a fictitious, farm in Minnesota that produces, corn, soybeans and spring wheat.

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And so he develops a marketing plan for this fictitious farm based on, its production in a given year of those three commodities. So based on, his rotational plan in 2021, and is expecting that this farm produce 100,000 bushels of corn so that represents the total production that you're expecting. And again, based on your rotation, based on the number of, acreage you're going to, plant, your expected yields, number of cows you plan to calf, the expected calf crop, your, expected, culling rate for your cows, the number of heifers you're going to retain, if you're if you grow your own heifers.

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So in this case, if you were a cow calf producer, how many steers and heifers are you going to have to market that year? That would be the expected production. So you can see now where crop insurance comes into this. The objective is by crop insurance protect production risk and have about 75% of anticipated corn crop based on a, actual production history price by mid June.

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And so in this case, based on that appellation and the level of insurance that this farm would be able to purchase, they could actually insure about 75% of that crop for about 75, thousand bushels. So this is where the have plan gets interesting. And this is really a great example of a price trigger. And, again, the, one of the, you know, those failures is, is to have these price trigger points or, establish when we're actually going to, to pre harvest price a commodity.

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And so a good price trigger consists of three, very important things. One is, an amount the next thing would be a price. And in this case, what Ed has, put together here would be a cash price and a futures price. So, at the location of this fictitious, grain farm in Minnesota, they typically

see, as you can tell from this example, they're typically \$0.50 under, basis in this particular location for corn, because in order for a the local cash price to be 375, we have to have a December futures price of four and a quarter.

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So there's a \$0.50 under basis that's built into this plan. And, then in addition to the amount, the price, we typically have some sort of a method says using forward contracts, futures, a hedge, a futures fixed contract and then one of the things that we don't have with this first example is a date. So this is really an open order.

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It says any time, the first time we had a local price at 375, a December futures price of four foreign a quarter, we're going to go ahead and price 1500 bushels using these methods. This is a pretty common approach. It's a stepped up approach. So what we if you look through this, we see, increasing price levels that we're going to look at pricing this, this commodity.

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So if we can price 15,000 bushels at 375, if and when the market moves to four, 405, we're going to price a, another 10,000 bushels. And our goal is to do that on or before March 29th. And our pricing tool would be to be determined so we can use, a lot of different tools. 15,000 bushels at 435 on April 27th, 10,000 bushels at 465 at 515 by May 26th, and 15,000 bushels at 495 cash price by June 10th.

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And then if we've made all those cells, then we're going to take that last 10,000 bushels of the 75,000 we have to market. And we'd like to get, five and a quarter cash. And we're going to do that on or before June 24th. This plan starts July 1st. Earlier sales may be made. A 40 cent premium would be, and would limit that to 30,000 bushels.

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So basically, if we could get \$0.40 over this 375, we'd let some go earlier. Ignore decision dates, make no sales. The prices are below 375 local. And then if we have any options positions, we're going to exit all of those by mid September.

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One of the things that we can get a little bit of an indication by looking at this plan, is that 375 is a magic number. Typically when, Ed puts together a plan, his goal is to never plan to market, crop it below the cost of production. And so this gives us a hint that in this particular fictitious farm, he calculates his cost of production to be 375 a bushel.

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For corn. So that's what a, pre harvest plan might look like. Any questions about that?

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Okay. What I did was I took a look at this plan, and I actually, looked at those, those price points and, this plan would have already marketed about, 35,000 bushels today. And I say that because we had these first three price triggers, were hit, and so we're on or before, we actually would have sold, 15,000 bushels on December 29th because that December, 2021 contract, hit that 426 level on February 8th when it sold another 10,000 bushels at 458 because we hit a price trigger and March Aids, we would have sold another 10,000 because we would have realized the 485, trigger.

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And so if we had made those sale cells based on that plan, we would have had an average selling price of that 35,000 bushels of corn at 452. If we believe the cost of production for this particular farm is 375, we could realize obviously, that's way above that cost of production. So we certainly locked in a pretty nice profit on, you know, not quite half of the production that we have available already in this market.

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So, plan this worked out pretty well so far. Soybeans again, we're not producing quite as many soybeans here. But we are going to cover those at 75% of, risk through probably a, our PR or, our, crop insurance, product. We have those, pricing triggers established 5000 bushels at nine cash, 2500 at nine, 75, 5000 at 1050, and then 5000 1125, again, we're looking at a cost of production, probably somewhere below that \$9, price, because, again, \$9.

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If we can't make anything at nine, we're probably not going to, pull the trigger on any of these. And again, if we look at, what would have happened based on movements in the soybean market, we would have sold, 7500 bushels on December 12th at 1059. Another price trigger would have, come into play on on January 4th at 1147, February 19th, we were sold another 5000 bushels at 1202, average price at 1125.

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I think it's kind of interesting about this particular, Plan. We have already sold everything that we've had decided we would sell when we developed the plan back in December. So this might be an example where, a producer might have, maybe sold this hit, this first price trigger, and then maybe based on the fact that, let's go from, offline, let's go back to the soybeans.

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We've sold everything, by February 19th. That may have been a situation when we made this first sell that we would have gone back to our combination of our price analysis, fundamental analysis and technical analysis, looking at charts. And this might be an example where we revise a marketing plan. And we may have certainly revised these plans higher because are these prices higher, these trigger points higher because it appeared we were going to hit, a little better price as we went forward.

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And that's a pretty good example of, of the fact that although, marketing plans are important, we certainly want to develop them. We also have to realize that they're not written in stone and they can be modified. And this could be an example of where we might modify a, pre harvest plan after the fact, because it appeared that markets were going to, go higher than what we anticipated they would, when we developed the plan.

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The converse of that could be the case as well. We may have developed a marketing plan based on, an upward trend in markets, some pretty, favorable prices. And then the situation changes drastically. We have to go in and revise that marketing plan and maybe reduce those price triggers in order to actually, have a portion of our crop pre harvest, marketed.

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And so, again, they're not written in stone. There are times and we have to make revisions and this 2021, pre harvest marketing plan for soybeans would be a good example of where a person might go in and, increase those trigger points because we're dealing with an upward market.

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Spring wheat harvest plan. Again, kind of the same basics. We've got our production level. We've determined how much of, the crop we're willing to pre harvest price based on insurance. And then we have a series of pricing points for cash and futures, and dates in which we're going to pull the trigger, on those particular, prices.

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If they reach the level that we're comfortable with, that we've got built into the marketing plan, and we'll go ahead and price a certain amount of commodities. Each one of those levels. There have been some, dates in which this plan was executed and, those are indicated in, in the red overlaid with the, marketing plan.

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So some pretty good examples in of, a pre harvest plan is that relate to grains. Obviously you can use the same kind of format with cattle. You could determine your total production. Maybe you're going to determine it in the head or in hundredweight. You could use that livestock risk program and predict, and protect production risk to a certain level.

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And then based on that, you could, look at opportunities to, pre harvest price, those caps as well. So although the terminology would be a little different, obviously the price points and the dates would be different, for weighing calves, for feeder cattle, the concept is basically the same.

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So we're going to leave the pre harvest planning phase. So again kind of an opportunity. Any questions or comments about the pre harvest Planning.

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Okay. So we're going to move to post harvest market planning. And it changes considerably from pre harvest where pre harvest was strategic. The ability can plan post harvest is more tactical or using the tools you have available to you. And typically the tool we talk about in the the crop side of it is storage either on farm storage that you own or your opportunity to, purchase storage space, or to use, options as a, as a proxy for storage, for cattle, it may be a situation where maybe I have pre harvest, marketed certain percentage that a calf crop.

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But I want to consider the option to, retain ownership and keep those calves to the feeder or feeder, stage. Maybe it's a situation. Not this year for, for sure, but maybe a situation where the cost of gain is relatively inexpensive or less expensive. Grain cost or our low cost of corn is low cost. The gain is low.

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I've got a group of cattle that gain. Well, and so maybe there's some advantages for me to retain ownership. So that might be a way to consider a post-harvest marketing plan with, a cow calf operation. At this point, your cost production should be based on actual data. We should have, most of the production costs, taken care of.

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Or at least have a really good idea, what those final costs are going to be. And certainly by this point, we should have total production. It's the crop side. We've harvested the crop. We know how much we produce to the bushel. Crop insurance is not a part of a post-harvest plan because, you know, crop insurance has been taken out of the equation.

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We've probably settled any claims you might have, and so it's not even available. So what we're really looking at is, carrying charges or what we mean by that is an uptick in, the futures market of a particular commodity after harvest, or is that market providing an opportunity to, sell at a later date at a better price, which sometimes is referred to as a carry in the market?

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And then we've also got to look at, local basis. And typically what happens after harvest is basis start scenario because we're utilizing the local supply of that of that commodity. And as we use that up and there's, continued demand for it, that basis will go down, if we think prices will rise after harvest, what are the opportunities to capture those higher post-harvest prices and how do we utilize, again, storage that we have access to the ability to retain ownership in order to, capture that post harvest plans also differ from pre harvest plans is because, they're likely to change more year to year, pre harvest plans

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tend to be a little bit more stable because we have a pretty good feel what markets are going to do over time. And, and we can we can predict that from our, seasonality, our charts. What's happened in the past. Post harvest plans, the amount of, of crops that we have to sell post harvest, is highly dependent on our yield.

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And those change year to year. And then also, there can be real changes in, how the market reacts to that old crop that's available. For, use, after harvest. And so, we'll spend a little bit more time probably developing a post harvest plan, because there's those year to year changes where the pre harvest plans, a lot of cases, we can pull them on off the shelf from the year before and just reestablish, pricing goals and timing goals and put together a plan.

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So here's an example of a post harvest plan from 2020. Obviously, we would be able to look an example of a post harvest plan for 2021. Notice the date of this plan. So we're probably actively in harvest, on October 16th, to the point where probably, have a pretty good idea of what we're going to have to, to market, in this case, we have our 2020 production, and, we have priced some product, previously, but in many cases we've, we've, we've not actually cash sold it.

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So, we may have and you can see in this example, we've got the 400,000 bushels that were produced that we sell to have the cash market, even

though we have, utilized some, tools to price it earlier. And so how are we going to, to price this in some cases if we for contracted, as part of our, pre harvest marketing plan, if we've used for contracting as a method, then that's going to reduce the number of bushels we have to sell, because those have already been accounted for.

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In this case, if our total production in 2020 was 100,000 bushels and we still have 100,000 bushels to post harvest market, it means that we used marketing tools other than for contracting to price those bushels. And so we've price those bushels. We've taken advantage of, the, gains and the futures of gains and options, but we still have those bushels.

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Then to market.

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Again, before I move on, questions about pre harvest, post-harvest marketing plans.

01:15:15:15 - 01:15:43:09

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Okay. With the time remaining tonight, I want to talk about, again, some advanced tools that you can add to your toolbox. And then the last slide that we have tonight will be to look at all of the tools we've discussed to this point and then talk about, when is that tool appropriate? What when we go to that toolbox and we have all those tools in there, we've got to consider the job.

01:15:43:09 - 01:16:05:02

Unknown

We need to do the task at hand. And based on that task, that's how we select what tool to use. And so that's that's where we'll wrap this up tonight actually looking at a matrix that takes a look at changes in basis and changes in futures prices, and gives us an idea of what's the appropriate tool to select.

01:16:05:04 - 01:16:30:04

Unknown

So one tool that we can use is known as a delayed price contract. And this is a situation in which the price is established. The grain is delivered but payment is postponed to another year. We can actually deliver the grain and, also establish the price a little later. But again, the idea is were delaying the receiving the payment for the grain.

01:16:30:06 - 01:16:54:07

Unknown

Typically this is used to shift the taxable income into the following year. One of the things that we have advantage of, as farmers and ranchers and tax laws in this country is if we are, on a cash accounting

system, which most farmers and ranchers are, most farmers and ranchers file their income taxes on a cash basis.

01:16:54:09 - 01:17:26:14

Unknown

We can use, the opportunity to shift income between years and shift expenses between years to, negate, issues with, taxes, or at least try to, stabilize our tax burden across a number of years. As soon as, this contract is, signed the title, the grain transfers to the buyer. Even if you've not delivered it yet, it becomes a buyer's, producer can choose when to price the grain.

01:17:26:16 - 01:18:03:09

Unknown

And again, it can be a situation where you can take advantage of, rising futures prices for improving basis. One big important, thing to note about a delayed price contract versus a forward contract until you've actually set the price, the grain, you have not eliminated price or basis risk. And so that's something to consider. What the delayed price contracts, more of an instrument to delay receiving the payment for a commodity that you've sold.

01:18:03:11 - 01:18:30:19

Unknown

But as we'll see later, it could be a way to set a price. Later on, that might be more favorable. So there are times in which people might consider delayed price contract. Minimum price contracts. This locks in them a minimum price, but has an upside potential. A good way to think of a minimum price contract is, selling a put option.

01:18:30:21 - 01:18:59:24

Unknown

You're going to set a price floor, but you maintain the upside potential. The nice thing about a minimum price contract, versus a, a put is that, you don't have to deal directly with the futures. There's not going to be any margin calls. You can negotiate the size of the contract. It could be less than 5000 bushels.

01:18:59:24 - 01:19:28:16

Unknown

For example, most, grain merchandizers elevators. Maybe it's a processor that will offer a minimum price contract. You do pay a premium in a transaction cost, because when you sign this contract, the person that it's on the other side of it or the person who has provided this opportunity for you, they have basically taken on your price risk.

01:19:28:18 - 01:19:53:11

Unknown

And so in many cases that are going to charge a premium for this, typically those premiums will be lower than, what it would cost to buy a put option premium. But because you're taking that risk, they have to offset it some way. Typically they get into the futures market. And so they're going to be a premium, in some transaction charges.

01:19:53:13 - 01:20:37:17

Unknown

And as you can imagine, when prices are very volatile, markets are going up and down on a a short period of time. That is a situation where the person selling you this contract is taking on more risk. And so they're going to, ask for a higher premium. A lot of people look at these minimum price contracts as they are trying to establish, operating notes, and they may lock in a minimum price contract on a certain percentage of their production, especially if they're in a situation where, for whatever reason, it may be difficult to get an operating line.

01:20:37:19 - 01:21:08:03

Unknown

Minimum price contracts could be helpful in establishing, a price that would be hopefully above cost production and could be helpful in obtaining and operating up. Basis contracts. When you sign a contract, you establish the basis and you, determine the cash price at a later time. So initially, what a basis contract does is it eliminates basis risk but not futures risk.

01:21:08:05 - 01:21:39:14

Unknown

And so, you know, you would use a basis contract, when you think basis levels will widen in the future. These are fairly common contracts that are sold in grain producing areas. Basis can certainly be a big concern. And as part of that overall price equation, as we've seen in the past. And so basis contracts again are fairly common, in grain producing areas.

01:21:39:16 - 01:22:07:21

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This one's a little bit more difficult, but one that that we see a lot of people looking at, probably not a strategy you want to use right out of the box as you begin to develop marketing plans and use, the marketing tools we've talked about, I would highly recommend that person get comfortable with buying puts and using puts before you, buy puts and sell calls or use what's known as a, window strategy.

01:22:07:21 - 01:22:36:09

Unknown

So if you do a window, you're simultaneously simultaneously buying a put option, then establish a floor and you're selling a call option, which in effect establishes a ceiling. Thus that window. So again, that floor price common a similar to buying a put what we've discovered, the way to determine that window price is your put strike price minus the premium paid.

01:22:36:11 - 01:23:01:14

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Plus the call premium received. If you sell a call or write a call, you get the premium, minus any local basis and then broker, brokerage transaction costs. So in our example, you're able to get a three, \$30 or \$3.30 put you pay a 20 cent premium for that. When you sell the call option, you receive a five cent premium.

01:23:01:16 - 01:23:27:11

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And, your basis is expected to be ten under and, brokerage fee of, \$2. Art. Excuse me, \$0.02, a bushel, which is a fairly common 1 to \$0.02, is a fairly common brokerage fee. So you set a floor at 295. So they're writing the call option on the other side establishes a ceiling price. So you take that call strike price.

01:23:27:11 - 01:23:53:08

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In this case we've got a 370 call. We subtract the put premium. We've already paid at \$0.28. We add back to it to call premium of a nickel minus that basis of \$0.10 to again us, minus the, brokerage fees of \$0.02. So, if you do the math there, we've set a ceiling at 335.

01:23:53:10 - 01:24:20:05

Unknown

Visually, looking at this, this is what it would look like. Regardless of what happens with that put or with the call, the lowest price you'll receive for that commodity is, \$2.95. Conversely, again, regardless of what happens to the value, the put the value, the call, the maximum price you could get would be 335.

01:24:20:07 - 01:24:40:17

Unknown

And so, this is a techniques that's used for, a lot of reasons. Probably some of the more common reasons why you would want to do this. If, you know, you get prices that are high enough to cover your breakeven or cost production, but you really don't know what the direction of, the, market is going to be.

01:24:40:19 - 01:25:08:11

Unknown

One of the downfalls in using, options is sometimes the premiums are pretty high. And so, one way to reduce the, cost of that put option premium is to sell the call. Again, we want to protect the downside, but we want to retain some of the upside potential. And again, we're willing to accept the ceiling if the futures price moves above that strike price.

01:25:08:13 - 01:25:38:07

Unknown

So, as you remember, just simply buying a put allows us to set the floor, but we have unlimited upside potential. When we sell the call, buy the put, sell a call and develop a window strategy, we've limited that upside potential. But again, we do it as a way to reduce the cost of the put premium. Now, one of the things you have to understand about this, too, is once you sell a right, a call, you're subject to margin calls.

01:25:38:09 - 01:26:02:16

Unknown

And so that's why we don't recommend this strategy for people who are just becoming, accustomed to or beginning, their experience in, utilizing puts. Get a year or two under your belt, understand the concept. And this is a strategy that a lot of people utilize.

01:26:02:18 - 01:26:23:08

Unknown

Another tool that we can use is what's known as a non roll hedge to arrive. So basically this is kind of the opposite of a basis contract. We set the futures price of the contract. But we make the basis open, will allow the basis to be set at a later time. So we've locked in the futures price.

01:26:23:08 - 01:26:49:15

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We've taken that risk out of the equation, but we still have basis risk in involved in the equation. So it's very, very important that you understand and track that local basis. Since you still have basis risk until you set it. You really have to know how basis moves within that local, market. And you know, what's the widest basis can be what scenarios it can be.

01:26:49:17 - 01:27:30:20

Unknown

So it really requires a great understanding of what happens with your local basis. Typically, if you were going to look at the relative risk between a basis contract and a hedge to arrive contract, the hedge to arrive typically has less risk in general because typically, basis risk is smaller than futures risk. And it's somewhat predictable. And so of the two options hedge to arrive contracts locking in futures tend to be less risky than a basis contract.

01:27:30:20 - 01:27:36:07

Unknown

When we lock in basis.

01:27:36:09 - 01:28:13:16

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So finally then we get to this, matrix here. And, this is where we really start trying to put this some of this together. And if we scroll back a few slides and look at one of Ed's, marketing plans. Where we see pricing tool to be determined. Well, if we look at this final slide, this is how we start to decide what tool we're going to use.

01:28:13:18 - 01:28:44:20

Unknown

We look in that tool box, we look at the tools that we have an understanding of, and maybe many of them we've used before. And then now we're trying to decide which one would be the most appropriate, given what we expect to happen with both futures and basis. So as you look at this matrix, when we look at the upper half of the matrix, we're looking at situations where we expect the futures price to increase.

01:28:44:22 - 01:29:13:21

Unknown

If we look at the lower half of this matrix, that's a situation where we expect futures prices to decline. If we look at the left half of this, matrix, that's what we expect based to basis to strengthen our case basis

is going to become narrower. If we look at the right half of the matrix, that's when we expect basis to weaken our basis basis to become wider.

01:29:13:23 - 01:29:49:13

Unknown

And so if we look at the upper, left hand quadrant in the situation where we expect futures prices to increase and basis to strengthen, we would look at, the possibility of three different opportunities here. If we're talking about a crops that we've already harvested, a strategy would be just simply to store the crop and wait, wait for those futures prices to increase, wait for basis to strengthen.

01:29:49:15 - 01:30:19:18

Unknown

If it is, crops that we're considering, our pre harvest price, program, we could look at a delayed price contract or a minimum price contract. Delayed price contract, probably again on grain that we have in storage. Minimum price contract, probably more appropriate in a situation where we are, we've got, crop to to pre harvest price.

01:30:19:20 - 01:30:47:08

Unknown

If we look at the lower left, quadrant, in this case where we think futures prices will decline, but we expect basis to strengthen. And so this would be a situation where, we want to lock in a better futures price. So hedging might work. This non hedge to arrive again. We've locked in futures but not basis.

01:30:47:10 - 01:31:15:18

Unknown

And also buying a put option would be an opportunity for us because we're, we're looking at trying to establish a price early or undoing, a seasonal high in the market, because we think as we move toward harvest, futures prices are going to decline. Let's now look at the upper right hand, quadrant. In this case, we expect futures prices to increase.

01:31:15:18 - 01:31:44:11

Unknown

But we're concerned that basis is going to weaken. And so in this case obviously basis contract contract would work because we're going to lock in that basis before it weakens. And then we'll take our chances with the futures market. We could also sell cash bushels and buy futures or call options. And so if we had grain in storage, that may be a way to handle that, minimum price contract.

01:31:44:13 - 01:32:10:18

Unknown

Again, it would be an opportunity for us to, take a look at, take advantage of improving futures prices, and, and then be able to pick a time when, when before basis a completely, drops out and then finally the lower right hand quadrant. In this case we think futures prices are going to go down and basis is going to weaken.

01:32:10:20 - 01:32:35:00

Unknown

So if it's cash grain, we've got grain in storage. We could sell that now before things get worse. Forward contracting, which would allow us to hopefully set a better futures price and a better basis level. In a pre harvest situation, rather than waiting and taking what the market is going to offer, at harvest time.

01:32:35:02 - 01:32:59:21

Unknown

And so, hopefully then this kind of pulls everything together and we look at something like this matrix to help us decide which tool in the toolbox is appropriate based on, what we think will happen in regards to, futures prices and local basis.

01:32:59:23 - 01:33:37:08

Unknown

Okay. Stop there again. An opportunity for questions. If we, I guess, scroll way back, early on and again get back to those, five mistakes that we make in marketing our commodities. What our goal was again tonight, was to, be able to. Let's find that I've got to go back a little bit more.

01:33:37:10 - 01:34:16:08

Unknown

Again, trying to develop a pricing strategy, which is, again, the key to that marketing plan, having that pricing strategy, having a trigger, determining that when we're actually going to take some sort of action, realizing if we don't have that pricing strategy, chances are, you know, the factors of, of, greed and fear will probably come into effect, greed, hoping, that, when we, hope the markets are greed, hope and fear, greed, the markets are going to go, hope that they do.

01:34:16:08 - 01:34:34:03

Unknown

And and fear when they start turning downward that they're never going to come back. A pricing strategy helps you to avoid, those emotions and, and actually, take some sort of an action.

01:34:34:05 - 01:34:55:17

Unknown

One of the things I will talk about next week, when we hone in on developing an actual marketing plan is, this should be a plan you share with others. In our situation, our gated farm north of Sterling, we're, an LLC. We have four members of the LLC myself, my wife, my son, and my daughter in law.

01:34:55:19 - 01:35:19:11

Unknown

And so, we I developed a marketing plan. We all review it, and then as a group, we make any changes, and we typically try to put our marketing plan together, by the first of the year and a story I like to tell is, in 2017, we offered the first Annie's project, programs here in Colorado.

01:35:19:11 - 01:35:42:03

Unknown

And those of you that aren't familiar with Annie's project, that's a risk management education program for women in agriculture. It's, typically, a six week program. We meet one evening per week for three hours and go through various topics that will fit within the five areas of risk management and agriculture. One of those topics is agri marketing.

01:35:42:05 - 01:36:08:00

Unknown

And, as I mentioned, January 2017, we offered the first Annie's Project program here in Colorado, and my wife and daughter in law were students in that that class and that particular class of about 20 women, really, enjoyed the marketing session. And they actually asked me to put together a women only marketing program for them the next year, which I did.

01:36:08:02 - 01:36:33:10

Unknown

And after that, then, we expanded on our operation. A number of people that were involved in developing the marketing plan. Prior to that, I was the only one involved. But since my, wife and daughter in law, had gone through the marketing program, they understood the marketing. And, I, you know, basically shared the marketing plan with my son before it became a group effort.

01:36:33:10 - 01:36:57:13

Unknown

And we've developed and executed very, very much improved marketing plans since my wife and daughter in law have been involved. But the story I tell is, one day, kind of out of the blue, I get a text message from my wife, and, and, within just a few seconds, the same message, basically for my daughter in law.

01:36:57:15 - 01:37:27:17

Unknown

And the the message was, have we sold corn yet? And, what had happened was we had hit one of our triggers, a price trigger. And, I texted back and said, no, my son and I, they, we think the market's going to go up. We want to wait a day or two. And, within just a few seconds, both responded back and, and, it's, you know, I guess they could have collaborated, but the messages were pretty close.

01:37:27:19 - 01:37:48:01

Unknown

I don't think they did. And it was basically, why not? You know, we agreed back in December when the market hits this price, we were going to sell 5000 bushels of corn. And, so, you know, I said, well, we think the market's going to go up. And the response was, no, we agreed to do that. We expected to do it.

01:37:48:03 - 01:38:08:17

Unknown

So by the end of the day, we had sold the 5000 bushels as our marketing plan dictated. We would and of course, as the story goes, the very next day, did the market go up or down? Well, it went down. And so they were

pretty vindicated about the fact that, yeah, we should have, followed that marketing plan.

01:38:08:19 - 01:38:33:15

Unknown

And so that's the advantage in sharing. That is, people tend to make you accountable, keep you accountable. And, we have never, in the long run, ever, not felt good about, having our pricing strategies and following those. Does that mean we topped the market every year? No. It doesn't. Does that mean we typically market at a profit?

01:38:33:15 - 01:38:46:09

Unknown

In most cases, yes. And so, develop a good marketing plan, include pricing strategies, and share it with others and be accountable.

01:38:46:11 - 01:39:06:15

Unknown

Question. So I had a similar story last week of my wife. If I didn't tell my wife I was going to market some grain at a loss, a whole dollar off of it, you know, let's, I'm glad you shared that. Thank you very much. This Annie's project program has been going on since, 2003 and originated in the Midwest.

01:39:06:17 - 01:39:34:21

Unknown

And, many of the programs have offered standalone marketing programs for women. You know, the next year and, a lot of those women have maintained an interest in marketing and actually have established local marketing clubs that meet on a regular basis to the point that some of the really large, family owned, grain farms, the women do a lot of the marketing.

01:39:34:23 - 01:39:56:17

Unknown

And what we found, which seems to be counterintuitive, but women tend to be less, are less emotionally attached to the commodities than men are. And so if the marketing is, plan says we're going to sell so much at this price, they do it without question. They don't buy into this emotion of, let's see if the market goes up.

01:39:56:17 - 01:40:14:07

Unknown

We agreed to do it. We're going to do it. And so, they become, very disciplined marketers and, and really to make a, a good marketing plan, work discipline is a big part of it.

01:40:14:09 - 01:40:21:10

Unknown

Final questions or comments?

01:40:21:12 - 01:40:41:19

Unknown

Okay. We're going to wrap this thing up next week. We're going to actually go through some examples, provide you with some additional

resources that, hopefully will help you develop a marketing plan of your own. If you've not developed a marketing plan for this year, it's not too late. I would encourage you to think about that.

01:40:41:21 - 01:41:05:07

Unknown

And, hopefully, put something together that at least, provide some pricing strategy and trigger points or where you, you'll consider doing some pre harvest pricing, yet this year. So with that, we'll call it good for this evening. And I look forward to, seeing you next week. Have a great week.

END TRANSCRIPTION