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Monday night marketing - Session 5: Grain market outlook

Item Metadata

Collection: Streaming Media (10217/242349)
Creator(s): Brent Young, speaker; Stephen R. Koontz, speaker
Title: Monday night marketing - Session 5: Grain market outlook
Date: March 9, 2021
File Name: AEXT_et_agmarketsess_5_3921.mp4
Date Transcribed: 2026 March
Transcript Provided By: Adobe Premiere Pro 2026

BEGIN TRANSCRIPTION

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I see that we're at 7:00. And so I want to thank those of you that have joined us. I know we usually have a few that'll join a little later, but, tonight I'm, pleased to be joined by Doctor Steve Coontz, professor in the Department of Energy and Resource Economics at Colorado State University. As we get into the second half of the class, we're going to start the process of building a marketing plan with the end goal that have the last evening, session eight, we will actually give you the opportunity to put together a marketing plan for your own operation.

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And as we'll find as we move forward in that process, one step that's very essential to developing a marketing plan is having a pretty good idea. Where markets are heading. And so, that's what we're going to ask Steve to help us with this evening. He'll go through, grain outlook tonight. We actually will ask him to do, cattle outlook on, March 30th.

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Now, that's not, the same night that we meet, but, you're invited to attend that session if you'd like to. That's actually, a group I'm working with and, of cattle producers in Routt County, but I certainly you're going to be invited to. You'll get, some cattle outlook, during that time. And then Steve is also developed a couple of spreadsheets that I'm, very excited to have him, demonstrate tonight that deal with, looking at, hedging and with futures and options and, and how those prices interact.

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So, so, Steve, at this point, I'm going to turn it over for you. This group is, pretty good about asking questions. It's a relatively small group, so they may interrupt you from time to time and, and ask questions. Directly through, through their microphone. I'll also be monitoring the chat. So if I see any questions in the chat box, I will, stop here and we'll get those taken care of.

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Unknown

So, I think that's the one thing I can't see. So, like, like Brant said, folks, just unmute and ask a question. There's, there's no point to me going on and on if you're stumped about something or if I said something silly and, and Brant, it's really, really boring to sit here and talk to yourself.

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Unknown

So if you'll stay unmuted and ask me the periodic question, I would I would really much appreciate that. So, let me, share.

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Unknown

How's that? Is that have green market outlook on it? Excellent. Zoom is helpful about opening and closing windows when you don't ask it to open and close windows. And then, sometimes you can get lost with where you are. So what I want to do is, take a look at, grain marketing outlook, kind of plow through this, nice and slow.

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Unknown

If you want to talk about where the information comes from. So my grain marketing outlook. Brent, I don't think I've ever had one that is going to be so dated so fast. The the waste, it comes out tomorrow, and that is simply a, if, if you'll go to the USDA, office chief economist website and, take some time kind of sorting through there as well as mouse, you can get signed up for emails that will tell you when reports are released and some of the reports send you a link, and things like that.

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So, so, what I'm going to be talking about will be updated tomorrow. And my numbers actually don't match up perfectly with USDA days. I think, at this stage of the game, some of the folks that do outlook for the USDA, I have probably 15 years on. So I think the number that I pull out of my hat, I'll certainly like better than the number that they pull out of the hat, unless they're doing it, based on a survey.

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Unknown

So. So to really get a good perspective on things from, from a marketing, aspect, I think one of the more important things is, is to have a good resource for weather and, not necessarily a resource that somebody you have to pay for. I follow a lot of markets, but I, I rely on other folks to forecast weather.

00:04:38:02 - 00:05:04:01

Unknown

I know, for example, cattle fax has, has a set up that they like in particular that's, that's mainly focused on pasture and things like that. There's some other folks that have weather, information that's that's

unique. I'm not attempting to market any one of those, pick one that you like that communicates to you the best. And I'm going to stick with the drought monitor and some of the things you can get too, from the, University of Nebraska Drought Monitor.

00:05:04:03 - 00:05:21:13

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We're going to take a look at corn and soybeans first. I know you don't have any interest in soybeans or are reasonably certain you don't have any interest in soybeans, but soybeans are going to be your market driver for this year. So I think we need to follow soybeans. We're going to do soybeans and corn at the same time.

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Unknown

The story you tell for one, you tell for the other wheat is, kind of the, the tail on the dog here. The corn, the soybean dog is going to way the wheat tail and, corn is somewhere in the middle. We'll do a little bit of short term, longer term outlook, talk about some of those things.

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And I always have folks that want to talk about what's going on with the economy. So I have a little bit of that. If if you get tired of that, I'm happy to skip over it. So, looking at where the, the market finished up last Friday, I've actually got a job that requires me to work most of the day.

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Unknown

So I don't have today's prices on here. And, you know, the day to day prices aren't that as important as making time to be informed about what's going on on a, on at least a weekly basis. So, you know, updating your charts, for example, over the weekend is certainly fine. That's that's often what I do. But if we look at, these corn, we're trading a little short of five bucks.

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Unknown

And if we go out to December corn of 2022, it's a little long of \$4. And this market really thinks long term corn is is for plus a little, teeny bit. And it's really been soybeans that has been the driver. Soybeans is up around this coming harvest around 12.5. And the market things long term soybeans is worth you know of corn worth four bucks.

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That's long term soybeans or something like 1050, unless there's a real change going on in China. Wheat has had a nice rally out of the basement. You know, finally. And it's up in the 60s. I don't see much of a reason for it to go a whole heck of a lot higher, but, it's worth following as well.

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The set of tools we develop here, will will work for all of these markets. So what's going on here? Lately, we've had some, trade and production surprises. In addition, we've had some Western drought. And again, the market to keep your eye on us soybeans. They're, they're driving things and will drive things until we get into the summer.

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And then corn and soybeans can go their separate direction, but they can't go their separate direction until the, corn stocks are tighter. We've got surprisingly strong exports. Wheat. You would have thought the drought would have a bigger impact. But when you look at worldwide supplies, they're really very, very abundant. So going forward, it's going to be kind of, economic conditions, other places in particular China.

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And it's going to be what we actually plant versus the weather we actually get, that's going to drive things going forward. You could tell a story to take corn to six bucks. You can tell the story, take corn to four bucks. Both of those are are possible at this stage of the game. And if you have a crystal ball and know which one of those is going to happen, you you know, you don't tell anybody.

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Just trade like crazy. And and by the way, you could probably skip growing the corn crop. I, I'm pretty sure that that takes a lot of money and effort to do a good job growing growing a good corn crop. Brant, I have yet to meet. Well, I take that back. I have met the occasional recreational corn grower.

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All right, so let's go into the drought monitor. Okay. That doesn't look so good for Colorado and and southern Utah. Nevada, that desert southwest is just, in pretty bad shape. And I don't much care for the drought monitor. I want to know where things are wet, where things raining. And, this map with the the weather regions in these western states tend to be really big.

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Unknown

I mean, that all West slope, region is, is pretty substantial, and you get a little bit of a finer picture when you go to the drought monitor. But I, I like to know, where it's raining and in particular that what the markets, the region that's going to drive some of our markets importantly is you've got the wheat belt.

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Unknown

What what kind of shape is is the week crop in and then that upper Midwest, what kind of moisture does the corn crop and the soybean crop have to work with next year? That's going to fundamentally drive where that crop goes, and we have the potential to benefit or not, from that. So this long term drought indicator is accommodation and indices that are six months out to 60 months.

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It's a weighted average combination of those. And basically it's your it's your southeastern US that's in pretty good shape. Rise likewise Wisconsin. You've got a little bit of dry areas up in, South Dakota. And this is your long term, drought monitor. Let's drill down and go shorter term. These are indices that are 1 to 3 months out.

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Unknown

So you see a lot of that drought, go away with the polar vortex, as we've had some of the moisture that has pushed down through the mountains. Quite a bit of relief in California, quite a bit of relief in Nevada, places west of here. So it really doesn't look that bad. From, from a recent, recent rainfall effort.

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Unknown

The exception would be the, the upper Midwest. There's some folks that are concerned about dry weather up there, and that's part of what's going to play out through the rest of the spring is, is we're going to see, corn and beans. Prices reflect the risk that it might dry up and, create some supply shocks for this coming year.

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Unknown

So that's one of the things that's holding corn and beans up. Now let's look at the the seasonal outlook, that seasonal outlook. Boy, drought develops in the southern Plains mitigates a little bit in the Pacific Northwest. But this is a very typical, one being a pattern that's being forecasted. They really haven't got off of that yet.

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Unknown

So this particular map has, temperature on the left, precipitation on the right. Grains are wet, Browns are dry. This is a one month window. And this is, a three month window.

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Okay. And then let's carry this on out into next year. I want to know what the forecasts are for precipitation on in that corn belt. And we belt as we go. April, May, June, May, June, July, June, July and August in particular. That top row, and again, greens are wetter than normal browns and drier than normal.

00:11:47:11 - 00:12:10:09

Unknown

And this is a very classic La Nina weather pattern that the NOAA folks are sticking with. Dry in the in the southwest and warm as well. And, and decent moisture in the eastern Corn Belt. And, the main part of the corn Belt is really on that bubble where dry weather could push east or wet weather could push west.

00:12:10:13 - 00:12:23:24

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And I think we, we we're going to have these markets reflect some of that perceived risk. Until we really know how the weather plays out.

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Unknown

And here's your weekly, soybean futures contract. And back in April, that was, a little short of \$8.50. And between here and last April, we've gone to \$14. That's a pretty healthy increase in, in the soybean price. And, soybeans will not do something independent of corn this time of year. Doesn't matter how many acres you plant, they're going to move in tandem until, there's a reason to part ways.

00:12:58:11 - 00:13:24:20

Unknown

Okay, so let's take a look at, soybean exports. This is, data from USDA Marketing Service. You can track down the graphics of, exports. And so this is accumulated soybean exports the current year, the prior year, and a five year average. And that is a real healthy improvement over last year and over the five year average.

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Unknown

And that's exports to the world. And it's almost entirely going to China. This is exports to China. So if you look at the axes of these two graphs they're pretty similar because this is the Chinese impacting this market. So the the rally in the soybean market is driven by China returning to the soybean market and buying beans.

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Unknown

It looks to me like they're repopulating their hog herd. They're buying beans to make meal to feed to those hogs because that's their number one protein source. So and Chinese are not going to buy beans they don't need I don't think this is all fire much that, due to the trade deal or anything like this. This is they need beans and we're one of the two places to go get it.

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Unknown

So we had, exports of beans that were in the dog house, back when we were fighting over, trade barriers and things like that. And we're we're back on track, really, with where things were the prior, two years. So we're we're back on track there. We've seen this real growth. And in the trend of being exports, and that's been entirely due to, exporting, beans to China to, for them to feed their hogs.

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Unknown

So, you had low bean prices the last two years. So we took a hit on acres, the, the \$54,000 question is what kind of buying acres are going to have this coming year in the forecast at this stage of the gain or something close to 90? We'll get a prospective plantings report, the end of this month.

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Unknown

And that will tell you what the survey of producers says they will actually plant. But, the best guesses from the USDA at the stage of the game tend to not be too wrong. And, and USDA and myself are both guessing, 90 million acres for soybeans. So when we fought the trade war, we had this huge increase in buying stocks.

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Unknown

We didn't export, so we had the huge drop in, use, and we knocked off acres, two years ago. We have really caught up, in terms of tightening stocks with respect to soybeans, with recent events. And again, this is stuff that's happened really since August.

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Unknown

So if you, if you go to DTM, I like DTM. I can get stuff there for free. And DTN has a nice basis map. One of the problems with their basis map is it doesn't tell you the actual date when this was done, but this is the soybean basis for the US. And what you can see back in 2020 before things really improved is up in, up in the upper Midwest and the Dakotas here.

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Unknown

You really had terrible, horrible, awful, soybean basis. It was a it was a \$1 dollar a quarter under the market, which total it tells you. And again, these these soybeans up here are getting in containers. They're getting on rails, they're going to Western ports and they're going to China. And what we see last fall was a, excuse me, this fall was a dramatic improvement over the prior year.

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Unknown

So it just just horrible read basis back in 19 and no demand from China. And if we go take a look at what has happened, last fall is it's it's much improved. So this rally in beans is real. There are people out in the country buying beans to put in containers, to put on rails, to go into boats, to go to China.

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Unknown

Bottom line, this is not an artifact. This is not, a surprise. This is this is a real fundamental change in the demand side. So worldwide, soybeans are on a pretty strong growth. You have a lot of variability in

the crop. We've pulled down worldwide stocks over the last two years. And this information is out of the Wall Street report, which will get a new one tomorrow.

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Unknown

And soybean exports. So who's the big soybean exporter? It's Brazil. Brazil is the number one in the world by a long shot. You see our, the years we decided to fight the trade war with the Chinese. They're back, but if they. So how come the purple bar is lower of that was production problems. Last year in the in the Brazilian crop, Brazilian bean crop is going to go into harvest and finish up harvest, sometime in May.

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Unknown

So we'll have much better information over the next two months about what the bean crop actually looks like in Brazil. But where does soybeans go? Okay. So well, some of them go to the EU and some of them go to Southeast Asia and some of them go to now they all go to China. China. China's the big player.

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Unknown

Here's the big hit to their soybean imports due to the African swine fever. They look like they recovered from that, recovered a couple of years ago. And they've been very aggressively buying beans. Other places. And the other places two years ago would have been Brazil. So if Brazil has any sort of production problems, we benefit. So let's take a look at, Brazil's potential production problems.

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Unknown

Again, some weather maps from NOAA. This is back last fall. We have our fall South America spring. And if you look in that soybean growing region, which is down here in the South, it's, it's a little on the dry side. It's not a little on the dry side. It was very dry. And as we roll through the year, the different sources in the different kind of graphics that, you can find, folks, that's dry weather in Brazil on top of their being crop.

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Unknown

They get a little bit of moisture right there and that's it. And that's over, the month of November. So October's dried, November is dry. How about the last 30 days here? February to March again. Dry. And let's take a look at a 180 day window of rainfall in South America. Not as dry as the individual months.

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Unknown

There were some time periods where they had some recovery, but, you know, quiz for later. Is it dry in South America where they grow soybeans? Yes. Okay, so, we need to do our balance sheet. We'll get one of these in the

was the. This is the current crop year that we're in. We've had some surprise pops and exports of, soybeans again primarily to China.

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Unknown

And the action going forward is how many acres do we actually plant? And then how much do the Chinese show up to buy beans to feed their hogs? And the bottom line is we went from, ending stocks 23% back in 18 and 19. Tighten them up to 13, tighten them up to a 2.5%, 2.6%. And right now, using the USDA's acreage number and some reasonable estimates for our demand and export demand, you can have very, very tight stocks for the whole year for beans.

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Unknown

So we could very easily have beans. You know, 11, 12, \$13 all year long. And and that creates opportunities for corn growers, any sort of production hits on the soybean crop are going to create the potential for some astronomical soybean prices. So that's what's going on. And that's going to be the dog that wags corn.

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Unknown

So I'm following the November soybean contract to draw my trend lines down the road. Brant, if you'd like me to maybe come back some time and do some charting with some of these folks, we can look at the corn crop. I'll do that here shortly. But, you know what, folks? That soybean price is headed up. It's headed up, up, up.

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Unknown

It's not showing any weakness. And, you know, at some point in time, it's not going to go to \$20. I don't think, unless we don't get the crop planted in less, dry weather in the upper Midwest is a real issue. Okay, so that's your bean outlook. The bottom line here is mainly upside potential. And that's good news for corn growers.

00:21:56:01 - 00:22:18:07

Unknown

So we got to worry about Chinese demand, South American weather and then what kind of acreage and weather do we actually have. So that's the important thing that drives our our corn market. Question Steve, before you go on to corn, and I think the question would pertain both to corn and soybeans as it relates to how China deals with commodities.

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Unknown

So it's my understanding that they have a national reserve and then they sell, commodities out of that national reserve to domestic users of the commodity. And then they also have, kind of government, private, businesses that will will import commodities as well. So is that basically how the system works within China as relates to the flow of, of commodities domestically?

00:22:48:20 - 00:23:16:15

Unknown

Yeah. You know, the the Chinese is a bit of a mystery. They people will talk about state run agencies. And there are plenty of those. There are trading companies that are trading for the state and I call them companies loosely. They're they're doing their own thing. Yeah. It's interesting. I heard a statistic about China. China has as many millionaires as we have population.

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Unknown

So they, you know, you can think of them as a single party communist system. And that would be inaccurate. The single party part is right. But they're they're very astute in terms of, following the market, doing things that, promote growth in the country. And one of the things they're going to do is that they have individual buyers that are going to buy grain.

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Unknown

They have state based companies. They have combinations of the two that are going to buy. Yes, they stockpile. They have a lot of, supply chain issues. You want you want to have your stockpiles close to meet demands for new product. You don't want to have to source it out of western North Dakota, for example. So so good question.

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Unknown

Brant, is I hope that it's it's not as simple as any story anybody might tell you about how China works. It's it's much more complicated. Thanks, Steve. So soybeans take off. Corn bottoms out, close to three bucks and takes off like a rocket. And it's now better than five and a half. 562. This is the nearby.

00:24:30:13 - 00:24:54:06

Unknown

And, So. So does corn have a similar story as soybeans? Well, yes or no? Let's take a look at, exports again. And this is exports of corn to the world. And again, I've got the current year and the previous year and the five year average. And this pops right out of the USDA programs. Very nice.

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Unknown

It's a little tough to find, but it's pretty pretty informative. And now let's take a look at, China. Oh goodness. Well that's the entire growth and the demand. Be careful. Take a look at your axis over here. Your axis over here. The top end of the Chinese demand is way down here on the bottom. But it's it's all the growth over the prior year in the prior five years is been going to China.

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Unknown

And the discussion that I've heard about that is, you know, this is an artifact of the Chinese really cleaning up their backyard pork production system and creating more of a system like we have here in the US, where you don't feed table scraps to three hogs. You're feeding, beef meal and corn to to a building full of hogs.

00:25:46:02 - 00:26:08:14

Unknown

So, of course they're going to need to buy corn in that situation. So they're, they're very aggressively buying corn and beans. And they're also continuing to import pork. So, the Chinese are back. It looks to me like they're through their, coronavirus issues there. We're still going to hear some stories about new variants and things like that.

00:26:08:16 - 00:26:34:16

Unknown

But the rest of the world, especially, some of these more controlled economies have done a much better job of, of, getting ahead of these things and getting ahead of these things. Last summer. So they're back to working. So in terms of working market outlook, I'd like to take a look at where corn prices versus bean prices and the red dot is the most recent year.

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Unknown

The orange and the yellow dots are the last two years. So the last two years the the corn corn soybean ratio has leaned towards corn. And this year it's definitely leaning back towards beans. So I think we may have more than 90 million acres, but 90 million acres is an awful good number to work with. In the meantime.

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Unknown

So the markets are leaning towards beans. The other way to look at this is look at the revenue. You get off of an acre of being ground versus corn ground. Subtract the bean revenue from the corn revenue. What kind of additional revenue do you get from corn? It's nowhere near, there's three points over the record high corn prices, but it's way on the top end of, this.

00:27:19:17 - 00:27:44:14

Unknown

We're going to pull some some acres into corn. You know, corn and beans are going to fight for acres until we know how much is really planted. And then those two markets have the potential to go the wrong way. But I think from a standpoint of a corn producer, I'd watch both those crops. And I, I don't know about you, but I'd sure like to sell some \$5 corn.

00:27:44:16 - 00:28:09:23

Unknown

So, the second \$64,000 question is what kind of, corn acres come in? And we used to plant a little short of 80 million acres after the ethanol boom. It was a little long of 90 million acres. My forecast has been something like 92, but I wouldn't be surprised to see in 93, I wouldn't

be surprised to see 91 million acres of beans and 93 million acres of corn.

00:28:09:23 - 00:28:29:23

Unknown

If we do that, that would take some of the starch out of the prices we've seen. Corn yields. You've got to forecast what you think the yields are going to be. And 175 doesn't look too bad. For next year, we, of course, will be higher than that if the moisture is good and will be lower than that if the moisture is not so good.

00:28:30:00 - 00:28:49:10

Unknown

And at this stage of the game, the market isn't committed to which one of those is going to happen. There's enough people talking about dry weather and you saw the maps. There's enough rainfall in the eastern Corn Belt, and certainly forecast it into the spring. So I think there'll be some volatility on the corn side due to the risk in this market.

00:28:49:12 - 00:29:13:10

Unknown

All right. So we're pulling down corn stocks. We've pulled down the stocks the last two years. And it's nowhere near tighten up as much as beans did. So I think beans can move higher. But corn I'd be surprised if it you know, I don't think \$7 is is, possible and six is is going to be short lived.

00:29:13:12 - 00:29:32:21

Unknown

What about, corn worldwide? We're focused so far just on the US. What about worldwide? You see, the, of course, grain use. You've got to do course grains when you, when you look at corn. Because it matters with most of the world doesn't grow corn. They grow oats, they grow sorghum, they grow something else that that will work.

00:29:32:21 - 00:29:52:15

Unknown

And that type of ration. And what you see is worldwide stocks continuing to tighten up. We've we've had worldwide stocks tighten up over the last five years. Whereas US stocks have only tightened up over the last three. Let's take the US out of the mix. And it's basically the same story. If you take the US out of the mix.

00:29:52:15 - 00:30:13:04

Unknown

What it looks like to me is, everybody who grows, of course grain has something to do with it. And, they don't just ship it somewhere else. They're not just shipping into China. We've really through, through having a very good crop this last crop year have gone back with gangbusters and taken over some of that export market.

00:30:13:04 - 00:30:36:14

Unknown

So if you're worried about who competes with us and exporting coarse grains, it's of course Argentina and Brazil and the Ukraine, but it's a much more limited, supply. If you want corn, you've got to come to the US. And if you actually look at corn prices around the world, all these other major sellers of corn have corn prices that are higher than ours are at this moment.

00:30:36:16 - 00:31:07:04

Unknown

And that's really good news. As long as the exports persist. We're the low priced, provider of corn at this stage of gain. So I think we could have some strength through the summer in that realm. You see exports bouncing back tremendously. And, what you see with the pandemic is the real fall, and ethanol demand, you know, does the economy get back to driving as much as it used to prior to the pandemic?

00:31:07:06 - 00:31:30:05

Unknown

I don't know about you. I'm a little tired of zoom meetings, but I'm not tired of flying to Amarillo. I'm not tired of flying to Chicago. The ability to do some remote stuff, is is really appealing. And I think there'll be more and more of that done. And that will come out of the ethanol consumption at this stage of the game.

00:31:30:07 - 00:31:53:13

Unknown

The, folks that are importing corn are picking up some of the slack. How about hog and cattle production? That's the other big user of corn. It doesn't look to me like those. Those are falling off. Yet. I would expect that \$5 corn, creates some heartburn there, but we're not seeing it yet. I showed you the soybean bases, maps.

00:31:53:15 - 00:32:19:02

Unknown

These are, basis maps for corn. A little closer to home. What matters is not what basis actually is at the moment. But how does it compare to what it's been over the last three years? And we have very, very strong basis. If you go down into the, Texas Triangle, where those guys have to buy and ship corn and to feed cattle, they have they have some amazingly strong basis.

00:32:19:02 - 00:32:43:01

Unknown

They have basis that's \$0.40. \$0.50. What it was, over prior years. So very, very high corn prices down there. The bottom line is with these really high prices, really high futures prices for corn, the cash market has come right up with it. Everybody keeps buying corn. It's not a temporary phenomenon that the futures has rallied. Cash has moved right along with it.

00:32:43:02 - 00:33:05:01

Unknown

In fact, it's moved more. That's a very good sign. Even at these high prices, you've got very, very good demand for corn. All right. So this is

making some of the sausage. If you, when I do my forecast for the corn market, I'm looking at the stocks to use ratio. And the stocks to use ratio is a little long on 10% right now.

00:33:05:01 - 00:33:22:16

Unknown

And this is the forecast that the USDA is using for the coming crop year. And you know, I'm pretty sure I know what regression line they're using to make that forecast. It looks to me like it's the same one I'm using now. This point out here is, 1995. This is one of the oldest points in the sample.

00:33:22:18 - 00:33:46:06

Unknown

And this is the, the mid 2000 where corn went to its record high prices. So if you drop that particular point right there, really pulls this line up and we have the potential to be up, in the fives pretty easily with any sort of drought. It's okay. So we got to do a balance sheet for corn.

00:33:46:08 - 00:34:12:00

Unknown

It really matters with the uses. The rest of the current crop year, and it remains strong. We're feeding, corn to animals, primarily pigs. We're exporting corn. And then the weak, the weak link in the chain is ethanol demand. And coming out of the pandemic will improve that as well. So I really don't see anything to bring corn demand down some.

00:34:12:02 - 00:34:34:02

Unknown

And if you if you use the USDA numbers and believe it, it's it's 10.3%. But in talking to some folks that forecast, you know, if you ramp up ethanol, use a little bit, you ramp up exports a little bit, you can get down to around 7% stocks to use ratio of about 7% really easily. Well, the 7% stocks to use.

00:34:34:02 - 00:34:38:17

Unknown

And a corn price is a little north of five bucks.

00:34:38:19 - 00:34:48:03

Unknown

And if you believe these points up here, it might even be higher than that.

00:34:48:05 - 00:35:09:23

Unknown

All right. Now I want to I want somebody tell me what better news you've heard today. Come on now corn. My corn is going to go into the fives and stay there. Come on, I want to I want to! Yeehaw! I don't want to. I don't want to. Yeah, I want a yeehaw on that one. That's that's good news.

00:35:09:24 - 00:35:41:15

Unknown

All right. Pickup trucks for everybody. All right, so, 92 million acres for next year. Trend yields ramp it up. Ethanol a little bit, ramp it up exports or keeping exports constant. Things don't get a lot better. We don't all of a sudden have abundant supplies of corn. So we stay strongly in the \$4 is what it looks like to me.

00:35:41:17 - 00:36:01:22

Unknown

And if we have any sort of whoopsies on the production side, not necessarily here in Colorado, but in terms of the upper Midwest, you have any shortage of acres or yields. You get down to really tight stocks, and we start leaving on \$6 a bushel very easily.

00:36:01:24 - 00:36:26:00

Unknown

Okay. So, here's my December 2021 corn chart. And it looks to me like it's headed up. I'm going to draw those trendlines, away from a break, and then I'm going to, I'm going to sell some corn since I've got three trendlines. I'm going to wait for two of them to break before I sell a big chunk of corn first, and then the rest of my corn next.

00:36:26:02 - 00:36:53:22

Unknown

And what's the green box? The green box is where corn normally trades until it knows how many acres it has, and we are well above that. Something new is happening, and it's the resurgence of demand after last year's corn crop that that corn crop got fixed. And then this all this demand showed up and was happy to gobble up, that, that \$3 corn, that \$4 corn is still gobbling up the \$5 corn.

00:36:53:22 - 00:37:17:11

Unknown

This is very good news for corn producers. Okay, so here's the green box on what most, December contracts look like. Normally you get out here to August, you realize what a big crop you have. And the thing goes in the tank. And I don't think we're looking at that yet. We need to be following these two trend lines and be pretty aggressive in terms of pricing when that happens.

00:37:17:13 - 00:37:42:09

Unknown

But I'm not going to do that in a vacuum. I'm not going to price aggressively if the weather news is continued or it shows up as dry in the upper Midwest. So I'm going to update my forecast. So currently we have, excuse me, we have, corn, being acres negotiating how many acres you plant. What. And then we have all this demand that's up in the air.

00:37:42:09 - 00:38:13:14

Unknown

But we're very firmly, I think, in the cash market, up in the force, any support of any sort of supply shocks. And we're easily into the sixes. And by supply shocks, I mean, lighter yields. But I think, you know, I've been I've been concerned about there's downside volatility here because

the we need a couple of a continued couple of three months of continued good export news and then some demand from the ethanol producers.

00:38:13:14 - 00:38:23:18

Unknown

If that happens, we will really tighten up corn stocks. But they are not tight yet. That has to happen or will have some downside risk.

00:38:23:20 - 00:38:54:16

Unknown

Okay. There's the old, effect that ethanol use. No. Absolutely not, absolutely not. Ethanol use is is we're going to blend the ethanol to, to put 10% in the gasoline. We burn. So ethanol and gasoline, ethanol goes into gasoline to oxygenate it. Now we're headed up to \$60 oil. Right? I, I'm watching that as well as you are.

00:38:54:18 - 00:39:16:20

Unknown

Is that going to slow people down from driving? No. What that's going to do is it's going to put those frackers back to work. Those guys that are punching oil wells and and pulling the oil out of the ground, there's plenty of them around that are not working real hard that that will go back to work. So that'll bring oil down and then we'll burn more gasoline over the summer and will consume some of that ethanol.

00:39:16:22 - 00:39:52:19

Unknown

Likewise, some of that ethanol is exported. There's plenty of places in the world that actually need some ethanol to to meet their pollution mandates. So we have the potential to export some of very good question, but I don't think it's going to be the thing that bites. Any other corn questions?

00:39:52:21 - 00:40:15:19

Unknown

So let's go take a look at wheat we believe had good news on the wheat side. We've rallied off the basement back here in 2016. \$4 wheat or back up. Six and a half. This is your Chicago wheat. I tend to follow this a little more than than KC, because the KC contract will take off and do something and then come right back.

00:40:15:21 - 00:40:35:09

Unknown

But even the KC contract number one, and it's not following a nice trend line. This market was capped out at about 550 and has broken through that into higher prices. Part of that is the drought news. But I think this wheat market just doesn't have any legs to continue to move higher. This is a this is a temporary thing.

00:40:35:09 - 00:40:43:15

Unknown

This is a short term thing. I would be acting on this pretty aggressively if I have wheat in the ground.

00:40:43:17 - 00:41:05:04

Unknown

So let's take a look at the ceded acres. This was a report we got back in January. Colorado was up 3%. If you take a look across the US, Texas was a little bit tighter, but almost everybody's growing more wheat now. The issue is the some of this week, it, get plowed up to, to grow corn, to get to grow dryland corn.

00:41:05:06 - 00:41:30:06

Unknown

I'm not sure at this stage of the game. I know some folks are that are, tearing up wheat, but that's wheat that was in real bad shape. Didn't get any moisture. Last fall. And I'm not sure you can grow much of a corn crop in that. Anyway. And if we go take a look at harvested or planted in harvested acres where that trend line just doesn't look good.

00:41:30:08 - 00:41:50:06

Unknown

We're where the US is, is sort of getting out of the wheat business. You know, my forecast. I'll show you what that is in a second. But if you look at the wheat acres, we're up, roughly 5% across the country. And I'm not sure I want to continue that out to all wheat. That was just the hard wheat that was up 5%.

00:41:50:08 - 00:42:11:09

Unknown

How about Colorado? We've been off pretty sharply. We've got a little bit of a bounce back this year. We saw that 3% higher. But the, you know, the money, it looks to me like on the eastern Plains, it's not in a weak crop. It's in trying to get some dryland corn out. And then we yields, National Urals is the blue line.

00:42:11:09 - 00:42:35:12

Unknown

And then, the Colorado yields or the Green Line. We had terrible, horrible, awful year last year. And, you know, for trend yields forecasting moving forward, what I'm going to use is a little short of 50 bushels an acre. What's the wheat crop look like? This is your crop progress report. The last one we've received that has wheat in it.

00:42:35:14 - 00:42:57:18

Unknown

We get these every week. They don't, they don't survey the wheat crop until it comes out of dormancy. We'll get one of those. The first week of April. And if you look at the the wheat crop in Colorado, there was nothing in the excellent category. The biggest category was fair. So you've got excellent, good, fair, poor and very poor.

00:42:57:18 - 00:43:22:16

Unknown

We had a lot of poor and very poor wheat, and there wasn't many folks that were in as better shape as we were. The exception would be Texas. Texas is awful close, but almost nobody else looks as bad as we look in

terms of wheat. So. So I would expect pretty good wheat price, pretty good basis. But, it's going to be far worse here than it is other places.

00:43:22:18 - 00:43:44:03

Unknown

And then again, look for that crop progress report. Here's splitting up winter wheat. This is, we get information on planted and emerged and then the condition. Excellent. Good. Fair, poor and very poor. The split of the crop. They quit making this report. The end of November, and we'll get the first one back in April. So look for this.

00:43:44:03 - 00:44:05:14

Unknown

If you've got wheat to grow, it's worth following it to tell you what the wheat crop looks like. And it'll tell you that that wheat market trend will continue. There's really nothing on the demand side. That's all that good news or all that surprising. We don't have that great of exports. We don't have that great food use. And I've been real surprised that we've had actually very, very little feed use as well.

00:44:05:16 - 00:44:28:11

Unknown

So we've just had no break on the feed use either. That may change with \$6. With five and \$6 corn. We may put some wheat back in there in those rations, but we're not seeing it yet. Okay. So, the US sending stocks, we've we've come off a record high five years ago. We've tighten them up and tighten up.

00:44:28:11 - 00:44:51:18

Unknown

Tighten them up pretty good. Last year. And that looks like we ought to have better prices. But the problem is the red line is the world stocks and wheat. And the world is awash in wheat. Everybody's got it. Everybody's got it. Especially the Chinese. The Chinese appear to be stockpiling wheat. So is that bullish or bearish news for the wheat market?

00:44:51:18 - 00:45:15:12

Unknown

I think the Chinese will stockpile it, for food security purposes, and they'll sell it if it gets really high priced, which which I don't think it will and I don't think it will because we have abundant supplies of, for what we. Okay. So who exports wheat? Short answers everybody. And we're not all that damn important in it.

00:45:15:14 - 00:45:33:09

Unknown

And one of the biggest problems with exporting wheat is the first thing you have to do is buy dollars, whereas I can go buy a Russian currency or Ukrainian currency and buy wheat there. And then it's probably much closer to the market. So, we're going to see more and more of that. Russia's not going away. Ukraine. It's not going away.

00:45:33:09 - 00:45:50:23

Unknown

There's a lot of competitors in the wheat market. The good news is that those big worldwide stocks appear to be in China. Okay. So the green the excuse me, the blue dashed line is world stocks. And the red solid line is world stocks. When you take China out.

00:45:51:00 - 00:46:16:17

Unknown

And then stocks to use or stocks to consumption ratio. The the purple line is when you take China out. So it doesn't look nearly as bad as when you just mix China up with everybody else. Now, will will China, you know, it looks to me like China is the one that's doing some serious stockpiling. And I don't think they'll put this back on the market, this, this brand to get back to your, your, your, stockpile question.

00:46:16:17 - 00:46:47:04

Unknown

This is where this is where the the Chinese government is pretty aggressive in terms of, protecting food supplies. Right. So let's go take a look at the weather over in, Ukraine and southern Russia. And how about that? Looks dry and that's back through November. And then I've got the western former Soviet Union, September through November.

00:46:47:04 - 00:47:11:20

Unknown

So a much bigger window. And again, there's the Ukraine for you. It's the very eastern or, excuse me, the very western edge of the Ukraine that gets into some having some decent moisture. So, I think that big supplier, that Russian wheat supplier, the bets could be a little bit off this year, but they've had some recovery in moisture in terms of snow through the winter.

00:47:11:20 - 00:47:36:13

Unknown

So the here's your precipitation into January and then precipitation February into March. A little bit of late recovery. So they have a bit of snowpack. But it doesn't look to me like they're they've got plentiful moisture. And we'll be in the wheat market with a bad year. So I can't see the Russians coming back and tanking the wheat market.

00:47:36:15 - 00:48:10:18

Unknown

All right. So, my guess is 46.5 million acres, and you could tighten that up to 46 pretty easily, maybe 45. That tightens up, stocks to you somewhere between 30% and 16%. And that's just awful good news for wheat prices. We're not talking \$8 wheat. We're talking six and seven. With with some of this dry weather and the and the potential for maintaining exports, not having the Russians tanking the market.

00:48:10:20 - 00:48:33:20

Unknown

And it's the same story in wheat with respect to basis. Let's go grab some basis information off of AG Manager. Here's where basis is typically through the year. If you look in eastern Colorado we're we've got \$0.30

under or something like that. But couple a couple of strong demand regions that are filling trains that have much stronger basis.

00:48:33:22 - 00:48:51:22

Unknown

And if you look at basis, how does it compare over the last three years? It's much, much better than it used to be. But this has actually fallen off some from from early in the year, late, late December, early January, basis was very, very strong. And it seems to have moderated.

00:48:51:24 - 00:49:11:00

Unknown

Okay. So lo and behold, look at that. We've got, beans headed up, corn headed up, wheat headed up. And Wheat's the only one that looks a little bit weak. We start to break that steeper of the two trend lines. And if I go look at the Chicago, we were starting to pressure that trend line. But this market is definitely drifting higher.

00:49:11:00 - 00:49:44:01

Unknown

And I'm going to follow those trends until it breaks them. And then I will get things sold. So we'll use those as is. As sell signals. So I think yeah, even the wheat market looks good from here. And it's not just the dry weather. We're going to have problems with dry weather here in Colorado, and not as dry other places, but, we will get some price improvement for the wheat that we have.

00:49:44:03 - 00:49:57:19

Unknown

So that's it for wheat. I want to ease on over and to do some inputs a little bit Brandt or, do you need to freshen up your drink?

00:49:57:21 - 00:50:26:22

Unknown

Keep going. Okay. Yeah. So let's do a little bit on the input side. Everybody complains that nothing ever goes in the tank like, agricultural commodities. And that is not true. Let's go take a look at the world, oil market back in the pandemic. It went from \$60 a barrel down to, That's not a typo, folks.

00:50:26:22 - 00:50:51:04

Unknown

-\$40 a barrel. Now, that's damn funny. Somebody was paying 40 bucks a barrel to haul it away. My charts just going to be messed up for years. That's all. That's gone to. And then we've recovered. We bounce back to the 40s. We really slowed down the oil production. And now we're back into the 60s, which is where we've been.

00:50:51:06 - 00:51:17:11

Unknown

I'm interested in seeing do we pressure 75 and pull away from there or how fast to the to the fracking systems come back online. So that that'll be interesting. On the bottom line is we're going to pay more for oil for

farming. This year natural gas. Not a similar picture, really in the tank. During 2020 and has recovered from that.

00:51:17:13 - 00:51:43:05

Unknown

But it's back a little short of the normal trading range it has. And that's that can be pretty important for fertilizer. I'll tell you what. Everybody's watching these commodity prices take off. And what we've seen is, fertilizer prices rally through 2020. Everybody was expecting to pay more for fertilizer or or passing on higher fertilizer costs. This is, this is a mixed bag of fertilizer producer price indices.

00:51:43:05 - 00:52:12:13

Unknown

So these are wholesale, market measures, strong improvements in fertilizer price, not so much chemicals. Chemicals quit declining. Chemicals declined a lot last year, and they're back to an even keel. Diesel. I would expect diesel to rally pretty hard, through this spring. I think if you don't have it bought, getting as much as you can or as early as you can will be a good thing.

00:52:12:15 - 00:52:37:18

Unknown

And land values we're not seeing we're not seeing irrigated ground give up much value. The crop ground mix, which is a combination of irrigated and non irrigated, you know, pasture pasture has been weak non irrigated has been weak. It's been the crop ground that's that's grown. And let's take a look at some other states in the proper colors.

00:52:37:20 - 00:52:55:24

Unknown

You know things have come back off of those really high prices. But if you look at interest rates what would you rather have? Would you rather have, a debt instrument that plays you close to zero, or would you rather own some crop ground and get some cash rent? I think that's really easy math for investment companies.

00:52:56:01 - 00:53:06:07

Unknown

So they're they're not regretting their choice of plowing money into into crop ground. And, in the early 20 tens.

00:53:06:09 - 00:53:29:05

Unknown

How about, what's your macro market look like? War GDP took a huge hit that first quarter of 2020 and has bounced back quite a bit. I don't I if I had to bet on this recession, I would bet it being over pretty quick. I would expect us to be in very good shape once we get into the summer.

00:53:29:07 - 00:53:58:00

Unknown

Huge spike in unemployment that has recovered very, very dramatically. So, you know, we went out and bought all that toilet paper and filled up the crawl space with it. But, we're back to kind of doing business, not

as normal, but, you can't not buy food. You can't not buy things for the kids and clothes and things like that.

00:53:58:02 - 00:54:24:21

Unknown

I don't have to wear fancy clothes anymore. In fact, I'm sitting here in sweatpants and no socks talking to you, and I wouldn't dare do that in person. So that's going to take some steam out of, what I have to spend for, looking professional. I think there's a fair bit of that going on. So people talking about inflation.

00:54:24:23 - 00:54:57:08

Unknown

Do you? Is the garden variety one in the red one has no food and energy in it and I'm just not seeing it. You don't see much inflation. T-bills. Your government used to be able to borrow money for ten years, for three quarters of a percent. And that's off here now. But it's not off by a lot. And folks, when I draw a trend line, I know which way that's headed.

00:54:57:10 - 00:55:21:04

Unknown

I can't see us back to anything that looks like 4%. There's just too much capital out there looking for a place to land. How about the dollar? Okay, people run to the dollar when things get dicey in Europe, and then they run back, and we started to see a weakening dollar. And that's actually a good thing for eg.

00:55:21:04 - 00:55:46:24

Unknown

And what that communicates to me is some of these rest of the world economies are probably doing a little better than ours. They have done a better job with public health issues and have bounced back out of their recession. So possibly a little quicker than us. That or we're more risk averse. That's also a possibility. But the reality is not getting any cheaper.

00:55:46:24 - 00:56:11:15

Unknown

So all those soybeans in Brazil will be very, very cheap. And and the Chinese will buy them first. And after they get done buying them, they will come here and buy the rest. And you have your S&P, which really likes those, fiscal stimulus things and everybody talking about either that's way too high or it's not high enough.

00:56:11:16 - 00:56:35:02

Unknown

Yeah. Once we get it into this recovery. Seriously. And, I'm not sure what I'm willing to bet on there. I'm going to let that market reveal any weakness to me. I don't see any reason for it to be off for that stock market to really be off. We've got to see substantially higher interest rates, and that is just not happening.

00:56:35:04 - 00:57:08:18

Unknown

Okay. So for all your trendlines when they break or when they're pressured, let's get some corn sold. If you've got any oilseeds I would want to forward contract that is as high as possible. I don't know if anybody's talking to sunflower barley producers or things like that, or any of you are considering soybeans. I know that periodically crops up in northeast Colorado, but, you know, corn's the moneymaker, and and beans will dry corn with it.

00:57:08:20 - 00:57:34:05

Unknown

Even the wheat looks improved to me, but I think the least the wheat has the least amount to improve. And from a long term perspective, it's really what's going on in China. China. This is the China market that we were really promised in the in the early 90s. And it's finally here. And they are buying, feed and protein very, very aggressively.

00:57:34:07 - 00:57:56:21

Unknown

And they've got to go somewhere to get it. They're going to go to the biggest producers to do that. The things that will mess that up is, well, do those international economies look what kind of, inflation or interest rates do we have? I'm just not seeing higher interest rates or much inflation to really fundamentally drive that market to be real different.

00:57:56:23 - 00:58:20:19

Unknown

And then your currency strength, it looks to me like we actually have weakening currency that everybody came to the dollar when there was lots of uncertainty. And now that some of the uncertainty is mitigating, they're going back to their home currencies. And that's that's really good news for agriculture. So, so sell some, sell some rally, sell some rallies, watch a trend line, sell some rallies.

00:58:20:19 - 00:58:34:09

Unknown

This is real. These price improvements are real. They're based on fundamentals and they have a good strong basis behind them. That's all I've got for.

00:58:34:11 - 00:58:58:10

Unknown

And that was just damn good news. I don't know about you, Steve. Maybe speak a little bit, to your thoughts with inflation. I know you said graphically it didn't look like we're seeing any real issues there. And in your summary, you know, seem to think there's, much of a, you know, an issue, but, there are a lot of people that don't believe that.

00:58:58:10 - 00:59:23:20

Unknown

So what's, you know, I'm I'm one of those folks that, you know, we've done all the right things to have inflation since Reagan was president. At some point in time, you have to stop saying something's going to happen when it hasn't happened your whole life. So I'm a I'm a big data guy, but we are doing the right thing to have inflation.

00:59:23:20 - 00:59:47:14

Unknown

The trick is we have enough excess labor around the world. We have enough economies that have opened up and are making things, and some of the things they make, they're they're also consuming. So we have enough excess labor that you just can't push through higher prices. Now, the place you can push through higher prices is in rural communities.

00:59:47:16 - 01:00:15:20

Unknown

So what I know is farmers see inflation, farmers and ranchers see inflation. But we're not seeing these broad basket inflation across the things that, you know, the consumers are not seeing inflation across the things they buy. They can still go buy relatively cheap clothes, relatively cheap food. There's not this there's not this 30% increase in price that just won't go away.

01:00:15:22 - 01:00:42:00

Unknown

Now the the margins, some of these middlemen are, you know, it's expensive to do business out in the country. And they're going to get paid their margin. Warren Buffett doesn't buy railroads because, you know, he's in the because he also does a lot of public, service. He buys railroads because they make money. And those railroads are what serve the rural communities.

01:00:42:00 - 01:01:02:04

Unknown

It's not just railroads, but it's that whole that whole transportation system that's going to make its margin, to do services out in the country. So I, I understand it when when producers tell me they don't believe me about inflation, they're thinking about what they see. But you've got to back up and look at what the what is the country, see what is the world.

01:01:02:04 - 01:01:33:08

Unknown

See. And it's pretty low interest rates and inflation. Great. Hey we have a question in the chat. And as I indicated earlier, we are going to have Steve back toward the end of the month. Talk specifically about cattle markets. But the question is what does this say about cattle market? So maybe, give us kind of, your brief, thinking there and maybe kind of an infomercial for, when you come back and speak with this, the end of the month specifically about livestock and cattle markets.

01:01:33:10 - 01:02:07:18

Unknown

You know, I, I don't think the optimism translates immediately into the, into the cattle markets. We had really optimistic protein markets this time last year or actually 13 months ago. That did not pan out for us. And I think we have to be careful looking for that going forward. I think it will be the the opportunities will be in, soybeans, corn, forage wheat

and to a lesser extent, feeding cattle or feeding hogs or the dairy side of things.

01:02:07:20 - 01:02:31:21

Unknown

It will it will take, I think it will take some moderation of supplies and those industries to have to have substantially better prices. You know, I, I, and I say that very cautiously because April is usually a very good month for beef and most proteins. And, you know, if we get if we go into April and not much happens, I don't expect much to happen the rest of the year.

01:02:31:23 - 01:02:53:20

Unknown

But if we get a nice rally, that may be it. Yeah. Whatever shows up in April I think has a good chance to be in it for the rest of the year. What about this issue of, pent up demand for beef? And hopefully I see, you know, as we open up the economy and restaurants open up, that, people have just got to go downtown and buy that steak.

01:02:53:22 - 01:03:21:09

Unknown

Well, they're going to go downtown on by the steak, but right now they're eating 2 or 3 hamburgers at home, and they're going to go out and eat one steak. What we really saw in the protein segment, and this was across all proteins, it was not only beef, but it was pork and also dairy. Consumers eat dramatically different, at home and, and in restaurants and but but the issue is they don't eat more in either one of those places.

01:03:21:11 - 01:03:52:12

Unknown

So what happened was we had really good chuck and round prices when everybody had to stay home. That turned out to translate into also good hamburger prices. And, you know, the loins and the tenderloins and those types of, strips, they, they have been at a relatively decent discount. But we've also had, you know, if you look at what's going on with restaurants, they've really done a very good job of capturing some of that business back.

01:03:52:14 - 01:04:25:15

Unknown

By by not not delivering. But you could come to the restaurant and pick it up. Okay. A lot of consumers went back to eating out, but they ate. They were eating, eating out the eating out food, but they were doing it. Watching their television. So I don't see the real pent up demand for it. It'll be some for some really high quality cuts and things like that, and I think it will be surprisingly modest.

01:04:25:17 - 01:04:44:22

Unknown

Other questions for Steve before we move on again. We've got a small group, so if you want to just unmute that mic and ask away, please feel free to. If you'd prefer the chat. I I'm monitoring that. But, before we

move on, questions regarding primarily grain markets, but if you have some, cattle marketing, we can we can move those in.

01:04:44:22 - 01:05:05:14

Unknown

But again, we'll, we'll talk about cattle marketing in in depth, toward the end of the month. Yeah. There we're talking about a shortage of natural gas and shutting down fertilizer plants. Will that affect prices of soybeans and corn and plant acres? You know, I'm not seeing the the thing on the natural gas, I would you where'd you get that from?

01:05:05:14 - 01:05:23:06

Unknown

I'd like to chase that down a little bit. I'm not challenging on you know, on it. That's just a new one for me. You know, and, natural gas is one of those things. We figured out that it's almost under every rock. The High Plains Journal had that to two natural or two fertilizer plants were shut down.

01:05:23:06 - 01:05:42:09

Unknown

And then we've had, co-ops saying that they can't get fertilizer here at all. But if you wanted some, you should have had it. That's that's okay. But I will have to do some checking into that. But that will what that will do is drive up the price for the rest of the fertilizer and short that that's not surprising.

01:05:42:09 - 01:06:01:13

Unknown

Let me go chase that down and see what the, logistics of that is, is, is it from the individual plants? Closing for safety reasons or something like that, or or any idea where that came from? They I didn't really mention too much. They just kind of act like they were short on natural gas. Kind of how the article read.

01:06:01:13 - 01:06:25:00

Unknown

I may not understood it completely. You know, when when they're short of natural gas, natural gas really spikes up pretty quick and and we're not seeing that yet. So I'm not saying it can't happen. It's just I'm not seeing it in, in sort of the broad watch of natural gas markets, and fertilizer markets, we're definitely seeing higher fertilizer prices.

01:06:25:02 - 01:06:48:11

Unknown

And, you know, I wouldn't be surprised if there's a pipeline issue or something like that or, you know, it may be that they had to divert some natural gas, due to these polar vortex things. And then it's a matter of how quick can you get those supplies back on line? So I, I could see that happening, but I don't think it's a long lasting thing that gets into that gets into April or May.

01:06:48:13 - 01:07:08:11

Unknown

And would it be possible to be more of a regional thing with my region than anything? Okay, yeah, I can I would not be surprised if that was the case in Texas with all the issues they had with their recent, with their recent storms and not only Texas, everything epicenters out of out of, Oklahoma and natural gas any more runs way up north.

01:07:08:11 - 01:07:29:18

Unknown

So, you know, years and years ago I had to buy some propane for my place in Minnesota, and I got to pay five times what natural gas normally is. So when they run out of it, they run out. But they they get supply chains worked out and they do get caught up. It's just not as easy to do as it is with things like, like diesel.

01:07:29:22 - 01:08:00:16

Unknown

It's it's a little trickier to handle. Okay. Thank you. I just took a look at that High Plains Journal article. Thanks for bringing that up. And it it points to, very how you string that there polar vortex. And it seems like they're talking about, issues with, natural gas and nitrogen based fertilizers and, the Texas Panhandle and Oklahoma.

01:08:00:18 - 01:08:24:08

Unknown

Okay. So I'm wondering, I would maybe an issue with maybe southern Colorado. Yeah. I would not panic. I'd let them get caught up. Don't, you know, every good salesman will tell you you should have bought it yesterday. Right. So I would I would use caution and, and shop around.

01:08:24:10 - 01:08:36:08

Unknown

Good question. Very good question. Thanks for bringing that up. So I guess, Steve, we're probably ready to look at a couple of spreadsheets, then.

01:08:36:10 - 01:08:57:15

Unknown

We can do that. Let me get. Closed out here.

01:08:57:17 - 01:09:35:01

Unknown

So I have, I've taught this futures and options stuff for quite a few years, and over the years I've gotten tired of being, The entertainment. That folks say, oh, that was a good talk. But then they went home and they didn't do anything different. So what I've tried to develop is a spreadsheet that, a producer can use and work their way through, working.

01:09:35:01 - 01:10:08:06

Unknown

So, Hedges, because anybody talks to you about trading futures or options, you've all heard the horror stories about how the money just disappears, potentially really fast. And what I would much rather do is, is, is work through some real world numbers and show you it's not nearly

as frightening as is it. You know, you buyer beware. You need to be careful what you're doing, but, it's not, a whirlwind.

01:10:08:08 - 01:10:27:07

Unknown

So I've got several tabs here on the bottom, and I've got a livestock hedge that will do at the end of the month. And in fact, I've got two livestock hedges will do at the end of the month. And then we've got this rain hedge will do right now. So, Brant, just to get ready, I had a wheat hedge and a corn hedge.

01:10:27:07 - 01:10:51:13

Unknown

Do you want me to do wheat, or do you want me to jump the corn? I think with this group, let's, maybe start with the corn. Okay. So this is, this is a tool that I use with groups. And if you don't talk, I sit and wait because you got to pick the numbers or help me pick some numbers.

01:10:51:15 - 01:11:20:14

Unknown

And I have found that that helps, people, very easily. Or much more so than just talking to them. If they can work through their own numbers, they're they're way more comfortable. So we're going to back up to last Friday and we're going to take that, these corn at 482 and say that you locked in some corn at that price.

01:11:20:16 - 01:11:51:20

Unknown

And Brant, what what's your good guess for, for basis for a representative producer in this group? Let's go 30 under 3000 a little higher in some cases, but that's probably a good mid range okay. So 30 under. So if we take the futures and subtract \$0.30 that's a more accurate indicator of what your cash market is. So that price last Friday was letting you lock in for 52.

01:11:51:22 - 01:12:07:24

Unknown

And now the next step. So I've got a tab down here. It gives you instructions. Type numbers in the green cells. Look at the orange cells. And these are the things you have to do that are in the red letters.

01:12:08:01 - 01:12:28:20

Unknown

Okay. So we're typing in these corn and 42 and 30 under. And we're typing in when we do that. And the next step we need to do is we need to pick a futures game. So if the market falls between March and December and I'm a little uncomfortable doing this right now because March is a little early for this.

01:12:28:22 - 01:12:53:01

Unknown

But you'll have the spreadsheet and you can do this come April, come May, come June. And at some point in time, I hope pull the trigger. So we're going to pick the market drop in a book. And given the outlook story that

I just told, I don't think that's very damn likely. So how about we just, drop it?

01:12:53:07 - 01:13:17:00

Unknown

\$0.50 isn't enough about 65. So do you see what I'm doing? I'm plugging in the numbers that I want to plug in and seeing what happens. Okay, now we could also plug in a futures loss. I've got two end products to evaluate. And number one and then number two. So we start out in March, start in March.

01:13:17:00 - 01:13:46:10

Unknown

And then we have a the market goes down scenario. And then we have a market goes up scenario. So we can plug in to potentially worst case numbers and get you comfortable with what might happen to your bottom lines. Okay I'm going to do 500 acres, 200 bushels an acre, a hundred thousand bushels, 5000 bushels in a contract.

01:13:46:10 - 01:13:56:20

Unknown

So that's hedging. And if I trade 14 contracts, I'm only trading 70,000 bushels. Is that too many, Brant? You know, to lighten up a little bit.

01:13:56:22 - 01:14:17:10

Unknown

I want hedge, you just have. Yeah, let's let's do that. That's probably more realistic, based on what you might cover with crop insurance. Okay. So again, my point here is you can type in some numbers that you want to look at. And there's not a right answer here. There's no magic I don't know which one of these two is going to pan out.

01:14:17:10 - 01:14:50:23

Unknown

Nobody does at this stage of the game. We got to get through the year before we figure out what happened. If I had a crystal ball, I would be tremendously expensive. So we're hedging ten contracts in both cases. So if the market drops \$0.60 and my hedge makes \$0.60, then I've got hedge revenue, a \$32,000, and I've got cash revenue of \$387,000.

01:14:51:00 - 01:14:59:19

Unknown

And I've got a net revenue. When I combine the two of \$490,000.

01:14:59:21 - 01:15:24:22

Unknown

Okay. And in the end, what I sold was for 20 corn. And way back here with this hedge, I thought I was going to get four for 50 corn. Well, how come I didn't get for 50 corn? I only hedged half of it. Let's hedge all of it. If I hedge all of it, I get the 452 corn.

01:15:24:24 - 01:15:43:10

Unknown

Okay, so I'm working through some different scenarios to see how things might happen. Now, this is that where the hedge works in my favor. Let's run that market higher. Let's run 452 corn up and buck up to 552.

01:15:43:12 - 01:16:05:07

Unknown

Then I'm going to have a \$50,000 loss. Then I'm going to have to pay out of the half million I make of my corn crop. And I'm only going to get paid \$5.02 for my corn. All in favor of getting paid \$5.02 for corn.

01:16:05:09 - 01:16:19:09

Unknown

Yes, please. Even one corn goes to six bucks.

01:16:19:11 - 01:16:45:02

Unknown

That's a little harder in it. You won't ever go broke by selling corn above cross to production. Now, that's what I would. Okay, so this is working a hedge. You fill in the green cells and you look at the orange cells, and it tells you how bad things might get. So, one of the things we didn't do was mess with basis.

01:16:45:05 - 01:17:18:23

Unknown

So Brant said 30 under. But we could also have basis maybe 50% worse than that. So basis was actually \$0.45 under. So I can work with that or I can have basis actually maybe be in my favor instead of being 30 under B, 15 under. So it lets me work with some different basis. Here's. Okay. Now one of the things that sometimes you can do, in fact I follow, CFS out in I believe it's in Yuma.

01:17:18:23 - 01:17:41:20

Unknown

They post what their basis bids are so you can go basis contract with quite a few elevators. Not everybody basis contracts all the time. But you can lock in this number right here by having a basis contract. And if you have a contract for basis you have no basis here.

01:17:41:22 - 01:17:58:07

Unknown

Okay, Brant, the next thing I need to do is head over to options. You got do we have any questions here or so this is where this type of exercise is much better to sit in the room with you. I can look at the faces. I can see who's stumped. And if I can't tell who's stumped, I don't know whether to keep talking.

01:17:58:07 - 01:18:20:06

Unknown

I'll move on to something different, but I'm certainly happy to come back to this. If you want to take some time and look at and then figure out questions for later. Thanks. Thanks for this workshop. Well, I mean, we went through a number of examples, but they were pretty static. So having an opportunity to make changes with the spreadsheet, it's really, really helpful.

01:18:20:08 - 01:18:45:13

Unknown

You mentioned a basis contract. As we move forward, we'll start talking about, some more advanced types of contracts and, and, other, strategies. So we'll talk about a basis contract. So that's great. You've done a nice job of kind of introducing that concept, with the spreadsheet. Okay. And then I have an options example out here on the last tab.

01:18:45:15 - 01:19:06:16

Unknown

But I need to go take a look at the options worksheet before we go do this I want to do that next. Okay. All right. So boy that's a busy spreadsheet. And yes it is. And

01:19:06:18 - 01:19:47:18

Unknown

My my Boy Scout just came home, so the, rambunctious is about to start here, so I may have to go mute. If I mute, it's not because, you need to be. It's because you need to not be hearing what's going on here. All right, so what I've done for last, Friday is went and took a look at, so we've got the September futures contract price for 99, and we had that December, futures contract price we used for 82, but it was actually for 81.5.

01:19:47:20 - 01:20:15:04

Unknown

And then we have some different put strike prices. And I wind up typing in this, if I was as smart as somebody like John Daring, I could automate this where it would go out to the website and update for me. But, with some things, I'm not that smart. I'd have to type in, stuff. So what I do is pick a particular day and then take a look at a variety of different options.

01:20:15:06 - 01:20:48:07

Unknown

Okay. So a put option is the right to sell. I could buy a put option with the 510 strike price. I would pay 52.75 cents for that 52.75 sense of what, one 5000 bushel contract? When I multiply that price by the bushels, that's what I get. That's going to cost me \$2,638 to buy that option.

01:20:48:09 - 01:21:18:22

Unknown

That option has \$0.11 of intrinsic value. Basically, I could buy that option and turn around and then have a short position at 499. So that's \$0.11 of intrinsic value. Well what's the balance. That's the time value. And what we see is all these options have time value. What that is is the risk of the option going into the money we're converting it to a futures position would pay.

01:21:18:24 - 01:21:45:13

Unknown

So you're going to have to pay that option rider for the risk of that happening to them. What's the chance of September falling all the way to 410. It's less than falling to 470. So you've got to pay more for the 470 option than you do the 410 option. The 410 option cost me \$0.07. Cost me 300 bucks, 300 change.

01:21:45:13 - 01:22:12:09

Unknown

Not quite four, whereas the 470 option cost me \$0.30. That's \$1,500. Okay, so these options there's a variety of choices here. And this is one of the problems with options is one of the main problems is it has all this jargon puts and calls and strike prices and premiums, intrinsic values and time values. It's all this stuff. You got to keep track of that.

01:22:12:09 - 01:22:44:07

Unknown

It's for, you know, a specialist. It helps them communicate. But the the garden variety person like myself, it's a pain in the neck. The second thing is there's a lot of and there's not a right choice. There is just a variety of choices. There's a right way of assessing the opportunities. Okay. So these are the the premiums for put options for the September contract in the December contract.

01:22:44:09 - 01:23:06:22

Unknown

And these are the premiums for the call options again for September and December. Call option is the opposite of a put. It's the right to buy. So I can buy the right to buy. Or I can sell the right to buy. I can buy the right to sell, or I can sell the right to sell. So there's lots of buying and selling that's all mixed up.

01:23:06:24 - 01:23:30:18

Unknown

There's no way to put it all in your head. You have to plow through the examples. That's the only way around this. So the next tab in the worksheet, what it does is it takes these options values and it walks you through some details. When I work with people or students, what I find is there's people that like numbers and people that like pictures.

01:23:30:20 - 01:24:00:21

Unknown

Okay, so I've got a tab with numbers and I've got a tab with pictures. Okay. So let's do both. See which one you are. So we're going to buy that put option with the 480 strike price. And we're going to pay 49.25 for 49.25 cents per bushel. For that option. So let's go back and take a look where that came from for 80.

01:24:00:23 - 01:24:28:03

Unknown

And there's the premium had its all time value. And it would cost me a little over 17 17.5 to buy. All right. So I pay that premium. Where's that money go. It goes to the person who sold it to me. Goes to the

person who sold the put option. Okay. Now let's work through some alternatives. Market goes up, market goes down.

01:24:28:08 - 01:24:52:06

Unknown

Market stays the same. Three choices the blue sells or things you take numbers into. So I'm going to type in the the put strike price in the premium. And then I'm going to type in how much the market goes up. I think it's possible that December goes up a buck and likewise goes down the book. So let's look at how this option pays out.

01:24:52:08 - 01:25:32:03

Unknown

So I'm buying the right to sell it for 80. If the market goes up to 580 my right is worth nothing. I bought something, I bought some insurance. I don't need, so I paid out the, 49.25 cents for 40. And that's what I lose. Now if the market goes down a dollar, I've paid out the 49 in the quarter since, but I have the right to sell it for 80 when the market's at 380, that is worth a dollar.

01:25:32:05 - 01:25:47:11

Unknown

So I can sell it for a dollar, pay off what I spent to buy it. And I'm in the money. I'm net 50.75 cents or \$2,500. So okay.

01:25:47:13 - 01:26:13:09

Unknown

So again, if the market goes up doing this, I lose money. But I don't lose any more than I lose right off the bat. And if the market goes down, it depends on how far down it goes. As to how much I make. Now, if the market stays the same, then if the market's at 4080 and I have the right to sell it for 80, eventually that's not going to be worth anything.

01:26:13:11 - 01:26:35:22

Unknown

Okay. Now let's do the other side. Let's figure out where that \$2,500 came from. If the market goes down. It comes from the person that sold me that option. And it doesn't necessarily have to come from that one person, but it comes from the basket of people who's who might have held that option at different points in time.

01:26:35:24 - 01:26:58:22

Unknown

Now, if the market goes up. They take the price of the put and they don't have to pay you back anything. So they've made money. And if the market goes down, they have to pay up the amount difference between the strike price and where the market is currently.

01:26:58:24 - 01:27:32:03

Unknown

And so this is working through the numbers of buying a particular option, and then looking at what happens when the market goes up or goes down. And then of course it could always not change much. So that third choices in and we're doing the same thing with buying a call option. So I'm

buying the right to buy at 480 if the market goes up to 580 and I have the right to buy a 480, that right is worth a dollar.

01:27:32:05 - 01:27:57:00

Unknown

Okay. So in the end I net a dollar. But I had to pay for that, right? I paid \$0.47. So I've net 53. And that's 2650 bucks okay. And it's a similar type story. If the market heads down, if the market heads down I have, I can buy at the lower price or I can buy at the price that I have the right to buy up.

01:27:57:00 - 01:28:24:19

Unknown

And that doesn't make any sense because it's a higher price. Why buy something and spend more for okay, there's plenty of folks that cost more much. We must be better. And this is not in the case of options. Okay. Now where this money comes from, if you buy the call is from the person who's selling it to or the basket of people that are selling it to you.

01:28:24:21 - 01:28:50:11

Unknown

So this is working the numbers. Now I'm going to take those option premiums and the strike price and put it on this tab. And what this tab does is it draws this graph. So I'm going to buy the right to sell it for 80. I spend that premium 49.25 cents. And if the market goes up that's all I lose.

01:28:50:13 - 01:29:12:02

Unknown

If the market goes down, it has to go down by 49.25 cents and it breaks even. And if it goes down further, the example we used in that prior tab was 380. It's going to make me the more more the market falls, the more this production makes me money. Okay. And then where does the money from the red line come from?

01:29:12:02 - 01:29:36:09

Unknown

It comes from the blue line. Okay. The person who sells the option collects that premium. And if the market goes up, that's all the money they make. And if the market falls, eventually they'll have to settle up. They'll have to pay. So the blue line is paying the red line. Now let's look at the action in the market.

01:29:36:11 - 01:29:57:17

Unknown

The solid black line is buying futures. If I buy futures at 480 and the market goes up I make money. If I buy futures at 480 and the market falls, I lose money. Where does that money come from? It comes from the person on the other side is selling the contract. If I sell futures and the market goes up, I lose in.

01:29:57:17 - 01:30:22:06

Unknown

If I sell futures and the market falls, okay, where's the where's the money in the dotted line come from. It comes from the solid black line. Now let's look in the action of buying a put. So it's not doing anything when it's flat. But which line is it following. And I'm going to insist that somebody tell me the answer.

01:30:22:08 - 01:30:35:19

Unknown

Is it following the dash the black line or the solid black line? Here's where I know if you're still awake.

01:30:35:21 - 01:31:09:06

Unknown

Red line following the dashed line. Perfect. Outstanding. So buying a put is like taking a short position on futures. Not exactly, but it's close. When the market's moving the the put gains money at the same time. Similar to when when the market's moving. If you've taken a short position. Okay. And likewise the the blue line the action and the blue line.

01:31:09:06 - 01:31:45:05

Unknown

It's following the solid black line. It's like taking a long position on futures okay. So that's put options. What about calls. Got purple and green here. So if I buy a call I pay that money. And if the market drops nothing happens. If the market rallies my call is now more valuable. Where does that money come from? It comes from the person who sold it to me.

01:31:45:07 - 01:32:15:18

Unknown

The premium from the purple line goes to the Green Line. And when the Purple line is making money, it's coming from the person who sold that option. Okay, so the purple line buying a call is like having a long position in futures buying futures. The Green Line is like having a short position in futures. So a short position in futures is actually like two things.

01:32:15:18 - 01:32:23:12

Unknown

You could do that with two options positions. You would.

01:32:23:14 - 01:32:37:00

Unknown

Buy a put the red line. And sell a call the green line. And that's a lot like the dashed black line.

01:32:37:02 - 01:33:12:24

Unknown

Okay. So options positions can always be combined to make a futures position. Always. And because there's two things involved you potentially have more flexibility there okay. But at this stage of the game I'm probably betting flexibility is not what you're after. I know it's not

what I'm on it. All right. So I've got pictures. And numbers. Now let's work a price floor.

01:33:13:01 - 01:33:25:06

Unknown

Back to more numbers. So let's protect the value of our corn.

01:33:25:08 - 01:33:34:07

Unknown

And Brant, what's a 30 under basis. So we got a 30 under basis. Again blue cells. You can put lines our numbers. Then.

01:33:34:09 - 01:33:38:11

Unknown

So we're going to buy three different options.

01:33:38:13 - 01:34:22:11

Unknown

We're going to buy an option with a 470 strike price a 450 strike price and a 430 strike price. Now the higher the strike price, the higher the premium \$0.44, \$0.32, \$0.22. And that comes off of the options value page. So for 74, 54, 30 okay. So they're the three premiums that I'm using on this page right here.

01:34:22:13 - 01:34:30:16

Unknown

So the 470 put gives me a price floor of 396.

01:34:30:18 - 01:34:37:22

Unknown

The 450 put gives me a price floor of 388.

01:34:37:24 - 01:34:46:03

Unknown

And the 430 put gives me a price floor of 378.

01:34:46:05 - 01:34:58:03

Unknown

Okay. Which one of those would you like to buy? Bread. You got to buy one.

01:34:58:05 - 01:35:20:17

Unknown

Too late. Ginger, I get answers from you. How about. How about you, ginger? Which one of those would you like to buy for Ginger's iPad? I don't know if it's actually Ginger. It is actually Ginger. Okay, awesome. I'm going to say the, the for the cheap one by the G. Excellent. I gave such a sterling outlook.

01:35:20:17 - 01:35:30:15

Unknown

You want to buy the cheap insurance because you're going to drive the corn car and not wreck it.

01:35:30:17 - 01:35:46:18

Unknown

Okay, now let's go take a look and see what happens when the market goes up a buck and goes down a buck. So let's look at that cheap price floor. If the market goes up to 550.

01:35:46:20 - 01:36:13:13

Unknown

From 450 okay. So see I have I have three different strike prices. I got to take an average so that I'm comparing all three of these options to the same price levels. So the market goes up a buck from 450 goes up to 550. I've got a 30 under basis. My cash price is 320 and I pay \$0.22 for that option.

01:36:13:15 - 01:36:27:22

Unknown

And my option expired worthless. So instead of getting, four excuse me, 520 for the corn I got for 98.

01:36:27:24 - 01:36:51:17

Unknown

Now, what happens if this market goes in the tank? Okay, the pandemic rears its rears its ugly head again. We have to go into shut down less ethanol. Chinese quit buying corn. They have problems with their hog herd. They don't need that much corn to feed anymore. Corn goes to 350.

01:36:51:19 - 01:37:24:20

Unknown

\$0.30 under for basis. I'm going to get paid 320. I'm going to subtract off \$0.22 for my option. But I bought a price floor of 430, so that option is now worth \$0.80. I'm going to tack that \$0.80 onto my cash price less than what the option costs. I'm going to get paid 378 and I get paid my price for.

01:37:24:22 - 01:37:33:17

Unknown

Now if I buy the more expensive insurance and I crash the corn car.

01:37:33:19 - 01:37:55:12

Unknown

My option cost more, but it's worth more. So I get 396. I get a better price for. So here's working through three options. Working through the numbers. Any questions?

01:37:55:14 - 01:38:07:15

Unknown

So Steve, if we change your, your amounts up down to \$1.50, we still we still maintain that floor.

01:38:07:17 - 01:38:10:00

Unknown

Yes.

01:38:10:02 - 01:38:21:13

Unknown

Excellent idea. Dollar 50. So we go up to six. But then we're also considering going down to three.

01:38:21:15 - 01:38:42:02

Unknown

So it's easier to type in changes on the blue cells. And then I'm not smart enough to lock all these other things. If you write over them you're going to have to go download the file filing. All right. That's funny. Brant needs to laugh. There we go. Over. It's not laughing. It's not funny. Okay? It's not like it's too late to be funny.

01:38:42:02 - 01:39:24:07

Unknown

Sorry. Let's go back to the dollar. I like nice round numbers. Better, but you can try different worst case scenarios. Okay, now this is working through the numbers. So I've got a tab that you type those premiums and strike prices in. And it draws the graph for you. Okay. So the red line is the cash market. If the futures goes up to 560 and my basis is \$0.30 under, I'm going to get paid.

01:39:24:09 - 01:39:34:20

Unknown

I got to go to my graphs data and change that to \$0.30 under.

01:39:34:22 - 01:39:44:18

Unknown

So a futures goes to 550. Then my cash is going to be 520 because I've got a -30 basis.

01:39:44:20 - 01:40:15:10

Unknown

So what the graph shows you is when cash goes up and down you are excuse me. When futures goes up and down cash goes up and down. And that's the red line. Okay. Now my high priced option. My high protection option has a big cost to it. The big premium. But the floor kicks in higher.

01:40:15:12 - 01:40:25:21

Unknown

And then my cheap option for 30 strike price has a less expensive premium.

01:40:25:23 - 01:40:54:19

Unknown

But the floor doesn't kick in as what is quick. So it's like deductibles. Pick a big deductible and your insurance is cheap, but you have a big deductible like a small deductible, and your insurance is expensive, but you have very little out of pocket if you need the insurance. So there's not a wrong answer here. There's simply a not evaluating your opportunities correctly.

01:40:54:21 - 01:41:14:16

Unknown

Okay, so I want to take a vote. And I have one, two, three, 4 or 5 people. Everybody got a vote. If you don't vote you get Social Security. So you got to vote because you don't want just Social Security.

01:41:14:18 - 01:41:20:17

Unknown

All right. Who wants the Orange Line?

01:41:20:19 - 01:41:46:19

Unknown

Give me a thumbs up in your choices. All right. Who wants the blue line? Who wants the green line? If you don't vote, you get the red line. Who wants the black line? I want the black line.

01:41:46:21 - 01:42:10:18

Unknown

That's the hedge. Okay, so options give you some flexibility and choices. And they're kind of in between the hedge and the cash market. There's this price floor how bad things could get. And there's what you have to pay to protect that price for.

01:42:10:20 - 01:42:28:21

Unknown

Okay. Now let's go over to the other spreadsheet. And what did most people pick? Most people actually everybody picked one of everything. So let's see what I thought you might pick.

01:42:28:23 - 01:42:50:17

Unknown

I thought you might pick the one in the middle. So let's work the one in the middle. Anybody not want to work? The one in the middle? That's what I thought. You got to ask the question. Three. So I'm going to buy that strike price of 450. I'm going to pay \$0.32 for a I've got a \$0.30 under basis.

01:42:50:19 - 01:43:08:18

Unknown

I've got 100,000 bushels. And I'm going to hedge 50 of it by buying ten options. And I've got to pick how much does the market change. So I had the market drop into four bucks.

01:43:08:20 - 01:43:11:04

Unknown

Okay.

01:43:11:06 - 01:43:19:06

Unknown

And then I had the market rallying to 550.

01:43:19:08 - 01:43:35:15

Unknown

Okay. So Brant wanted a buck and a half. Let's check that thing up to six and let's crash the cash market a little further. Let's not get on off to 350.

01:43:35:17 - 01:44:15:20

Unknown

Okay. So if the cash or the futures actually goes down to 350, my option is worth a dollar. Okay. I'm going to I've got to pay that premium and then I've got a return from the the options position that I can use. And combined with my cash revenue. And then I also have the situation where if the market continues to scream higher, I bought some price protection and it has cost me.

01:44:15:22 - 01:44:39:09

Unknown

That's it. There's no further losses. And I'm able to take a look at the price floor that I placed and did I actually receive something close to the price floor or was I off the price floor? And I think I've got an error here that I need to fix. Yeah, I've got,

01:44:39:11 - 01:45:04:19

Unknown

So let me let me get you an updated spreadsheet here. I have messed with my spreadsheets between. So I've got corn producers that need to sell corn, but then I've got, feedlots that are buying corn, and sometimes I don't have my math. Exactly. Right. And all of the varieties of spreadsheets that. So I've got an error here where I need to subtract that \$0.30.

01:45:04:21 - 01:45:33:00

Unknown

So let's subtract \$0.30 okay? Okay. Okay. So I paid the premium and I got a dollar back and my net is \$0.68. Let me double check that math and get you an update on that. Right okay. But what this spreadsheet here does is it lets you wiggle the quantities. How much I want to hedge, and it lets you wiggle the basis.

01:45:33:04 - 01:45:58:12

Unknown

Okay. In the other spreadsheet I just picked a basis number and didn't have any basis here. Here we might actually have, you know, if this market goes screaming higher, we might actually have much stronger basis. So let's put another \$0.20 on basis. I might have that ethanol facility willing to pay minus ten instead of -30 to get corn.

01:45:58:14 - 01:46:28:22

Unknown

Okay. And Brant is also really careful with basis in lots of times he puts transportation in there. So that's that's a net basis of true cost. So I really like that idea too. But it matters where in the state you are. Okay. So let me double check that spreadsheet, Brant. But what I've got are two spreadsheets that let you work through a potential a number of different options, and then go in and pick some numbers that match up more closely with your operation.

01:46:28:24 - 01:46:55:13

Unknown

How many acres, what's your expected yield or what's your crop insurance yield? What are you insuring? How many contracts do you want to trade and then I think this number right here is is these two numbers right here are the most important. How does that how does buying that option impact my bottom line. And and what you'll notice is there aren't these runaway losses that, people talk about when trading futures.

01:46:55:15 - 01:47:21:17

Unknown

Oh, of course that's the case when trading options. But you also don't see the runaway losses. Okay. You might be shocked by that \$50,000 loss on that futures trade, but you're making it all up in your cash commodity okay. So you can't focus on just one part of two things that have to be added together to get your total revenue.

01:47:21:19 - 01:48:03:18

Unknown

Okay. Brant, you're running out of gas. Brant I'm running out of gas. Whose idea was to go to the closed? Steve. Just maybe briefly address. We've talked about it to to, a pretty small degree, but, as you've worked with lenders, what's your take on, in general, their understanding of futures and options? I know I mentioned we recommend that if you're if you're going to trade futures and options, you really need to have a trading account separate from your operating note.

01:48:03:20 - 01:48:25:20

Unknown

I guess kind of your feel for, for, how lenders respond to a producer that would come to them and say, you know what, I've gone through this program. I kind of have a pretty good understanding of, I'm ready to maybe hire a broker and establish an account, maybe some of your thoughts. From an act, you know, not being an Act lender, but what act lenders, have told you or.

01:48:25:20 - 01:48:49:11

Unknown

You understand. Yeah. You know, it's easy to find an egg lender. You can tell if your egg lender has had to deal with it before because if they push back and show you some reluctance, then they haven't really had to deal with it before. Or they've had a situation where somebody wasn't really forthcoming with them. I think the number one thing I really liked how you started the meeting, Brant, you said you needed a marketing plan.

01:48:49:13 - 01:49:22:16

Unknown

Write down your marketing plan, take that to your lender and say, this is what I'm going to do, and then show them the spreadsheet. So I've got the spreadsheet here for you. The, the sell hedge on corn and say, if I do this and futures falls or rallies a further dollar and I lose \$50,000, I need that not to come out of my operating note.

01:49:22:18 - 01:50:04:16

Unknown

That needs to be somewhere else. And then bankers are pretty good about understanding if you have this \$50,000 loss right here, the collateral is right there. So you're going to have to talk to them and be, you know, there's not a really good standard for how they collateralize that market in the line of credit. But I would argue starting very small, showing them possible maximum losses, being forthcoming with, and asking around and the bank that you're dealing with to get to the person who's done this before.

01:50:04:18 - 01:50:30:18

Unknown

And that that last step can be a bit ticklish. And this is one of the reasons why. That's a really good question, Brant. This is one of the reasons why I actually like producers starting with options. Because the maximum loss, you know, right off the bat, most lenders will absolutely understand buying a put because you're going to pay for that.

01:50:30:18 - 01:50:34:03

Unknown

And that's as bad as it gets.

01:50:34:05 - 01:50:53:14

Unknown

Okay. So negotiating with them that hey buying ten puts is going to cost me a certain amount of money. This is the money that I need. And and I only need it until harvest.

01:50:53:16 - 01:51:18:05

Unknown

So it is. And there's plenty of banks that really understand that short term loan. Oh, that marketing line of credit. You only need that till harvest. And, you know, as long as is you don't sell your crop without me knowing about it, then I know this is going to get paid. So dealing with a bank where the marketing line of credit and, you know, if you have two different banks that you're dealing with, that's going to be trouble.

01:51:18:05 - 01:51:42:13

Unknown

But if it's all in the same banks and then then they know, you know, they're listening to David Cole say, okay, let's go out and do that, that, I want to use the word inspection, but they've Cole likes talking about throwing rocks at grain bins. Right. And you throw the rock at the grain bin and it needs to go clunk.

01:51:42:15 - 01:51:49:12

Unknown

Right. Because if it goes down, you know, you got a problem.

01:51:49:14 - 01:52:13:02

Unknown

So that's the only real problem in this option strategy is it's got to be paid off when the crop is sold. And that's pretty straightforward. I think Collateralize again, there's and I've heard I've heard banks that are very cooperative with that and those that haven't done it. And if

you're getting pushback you're dealing with somebody who has done find somebody else.

01:52:13:04 - 01:52:43:14

Unknown

Maker's pretty easy to find, you know. Really good question Brian. Other questions. We've got a few minutes left and this is I think worked out really well. I mean, this is an opportunity where we've kind of gone through the the basics. I'm very hopeful you understood the terminology. We've gone through that. But a number of the things we've talked about, I think the really value of the discussion that I especially with the spreadsheets, it's an opportunity as as Steve had mentioned, if you're a numbers person, this is what the numbers look like.

01:52:43:14 - 01:53:12:16

Unknown

If you're more a visual learner, this is what it looks like graphically just displayed. So I think a a really good opportunity for you to apply what we've been talking about the previous four weeks in the, being able to get yourself comfortable with a worst case scenario, how bad can things might get? You know, you ought to be accustomed doing that with from a perspective of picking insurance products and things along those lines.

01:53:12:18 - 01:53:40:22

Unknown

You know, what do I really need to insure to have happen? And it's it's a very similar exercise with respect to making marketing choices. You know, if if things get really bad, how bad is it? Is it actually worth 50,000 bucks? Gosh, that's not that bad. Especially when the corn crop is \$550,000. I mean, that that's, you know, by itself, that number is scary, but you can't look at it just by itself.

01:53:40:22 - 01:53:47:15

Unknown

You gotta look at what the whole corn crop is worth.

01:53:47:17 - 01:54:14:06

Unknown

So down the road, if you get to where you're doing this and you need some help, send me an email. I'm happy to. I'm happy to talk to Brant. I'm happy to talk to, you know, if you want to work through something like this, I sort of don't want to get between you and your banker. If you've got a banker that needs needs some splaining to.

01:54:14:08 - 01:54:35:02

Unknown

You might have to promise something for for the, scholarship fund to do that, but, but if you want to work through something and you don't understand something, send me a note. I can send me a zoom link. We can. We can work through this, and we can loop Brant in as well. So.

01:54:35:04 - 01:54:42:14

Unknown

Great. Last minute questions, comments.

01:54:42:16 - 01:55:01:07

Unknown

Well, Steve, I want to tell you how much I appreciate your time this evening to go through this with us. And again, I know we have a number of of the people on, the call tonight that have, cattle as well as crops. So look forward to, having a discussion a little later on with Steve. And in regards to cattle markets.

01:55:01:09 - 01:55:21:01

Unknown

And then I think the plan also would be to spend just a little bit of time with the spreadsheet using the livestock examples as well. So yeah, the that, that that's, that's my plan. I have found these two things work. You've you there's no substitute for typing your own numbers in there and seeing what it really means. And so that's what I'd like to do.

01:55:21:03 - 01:55:41:13

Unknown

And if you can bring some of your own numbers, awesome. If not, the the cattle side is a little more trickier because basis is not so simple with with grains it's \$0.25 under or \$0.30 under, but with cans it depends on what time of the year, what they weigh, things like that. So it's a little more work there, but it's not it's not fundamentally different.

01:55:41:15 - 01:56:00:00

Unknown

Great. All right. Well again Steve, thanks. I appreciate all of you being here tonight. We will, have the recording available. So if there's something you want to go back over that will be, available for you to do. So we're getting some. Thank you for coming in, Steve. So, with that welcome. Thank you for your time.

01:56:00:00 - 01:56:10:02

Unknown

I enjoy doing stuff like this. This is, this is my job. So if I can help you, let me know. Thanks for inviting me, Brent. It's good to see you. Great. You bet. Okay. Good night, everyone.

END TRANSCRIPTION