

# ***Cash Corn Marketing Strategies***

*February 2010*

**2009 Corn Quality Issues**



**Cost of Storage &  
Basis Trends**

**5 Cash Marketing Tools**

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[www.extension.iastate.edu/polk/farmmanagement.htm](http://www.extension.iastate.edu/polk/farmmanagement.htm)

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## **Presentation Objectives**

- **Highlight 2009 Crop Storage Costs, Basis Trends & Quality Issues**
- **Discuss Historical Cash Crop Sales**
- **Review the Marketing Decision Chart & Provide 5 Cash Marketing Tools**
- **Highlight 2010 Crop Cost of Production Estimates**
- **Summarize 5 Crop Marketing Strategies & 5 Related Websites**

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## Corn Futures Carry

February 9<sup>th</sup>, 2010

Dec. 2010  
\$3.94

Sept. \$3.87

July \$3.81

May \$3.70

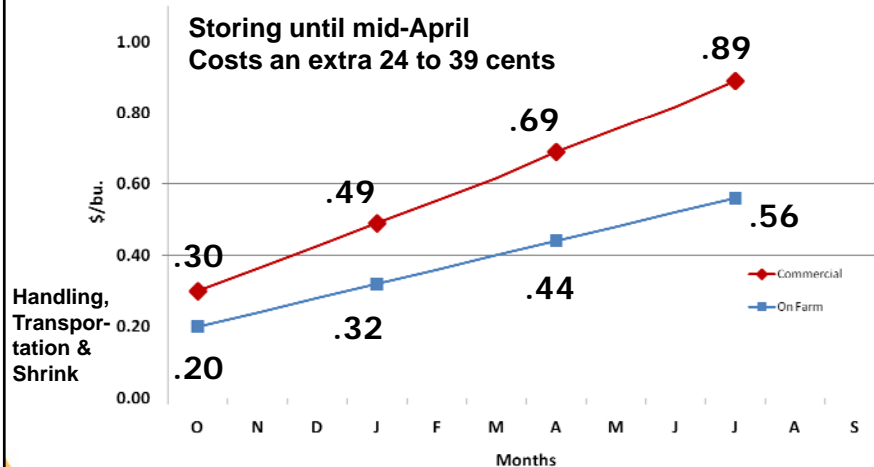
Mar. \$3.59

Good Carry: Rewards On-farm Storage if you have little to no interest accruing – must maintain corn quality

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Source: [www.cmegroup.com](http://www.cmegroup.com)

## Corn Storage Costs

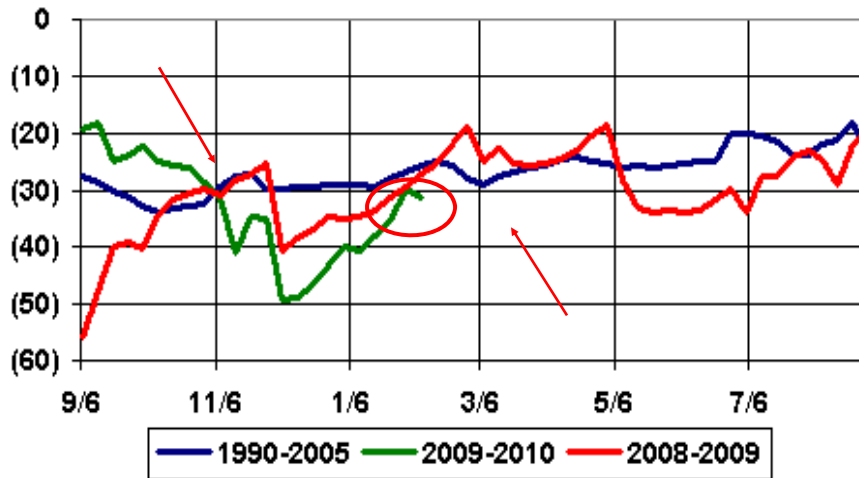


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Source: Johnson, ISU Extension, February 2010

## Corn Basis Trends

Iowa State Average Corn Basis



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Source: [www.farmfutures.com](http://www.farmfutures.com) February 2010

## Corn & Soybean Quality Issues

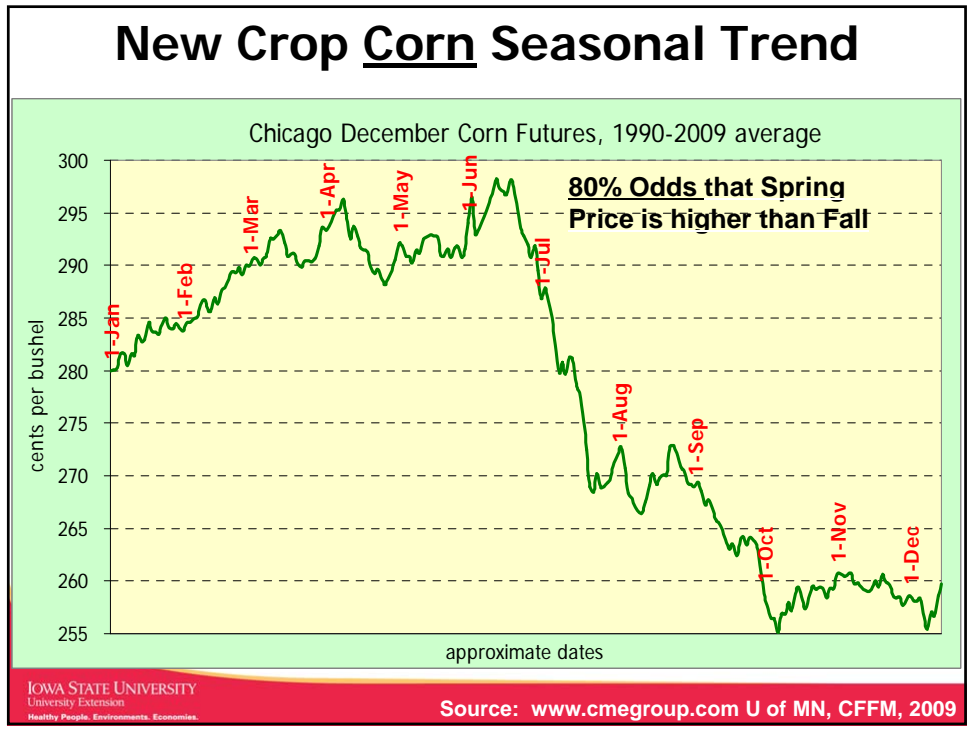
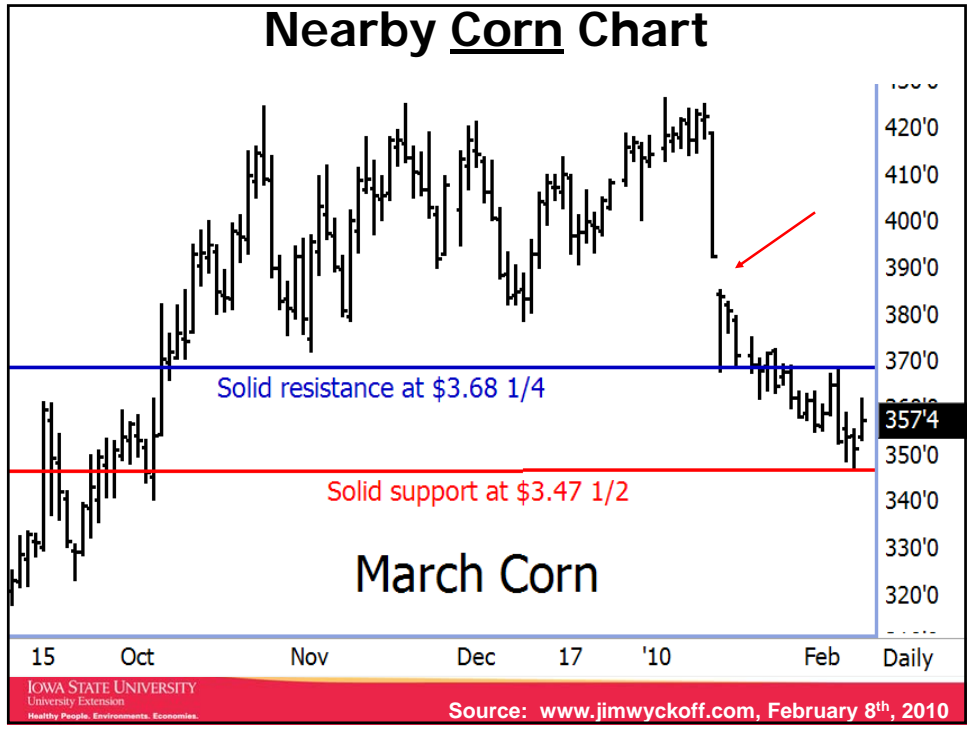
**Maximum storage time (months) for corn and soybean\***

Corn temperature ° F	Moisture Content Corn (top %), Soybean (bottom%)						24% N/A
	13%, 11%	14%, 12%	15%, 13%	16%, 14%	17%, 15%	18%, 16%	
40	150	61	29.0	15.0	9.4	6.1	1.3
50	84	34	16.0	8.9	5.3	3.4	0.5
60	47	19	9.2	5.0	3.0	1.9	0.3
70	26	11	5.2	2.8	1.7	1.1	0.2
80	15	6	2.9	1.6	0.9	0.9	0.06

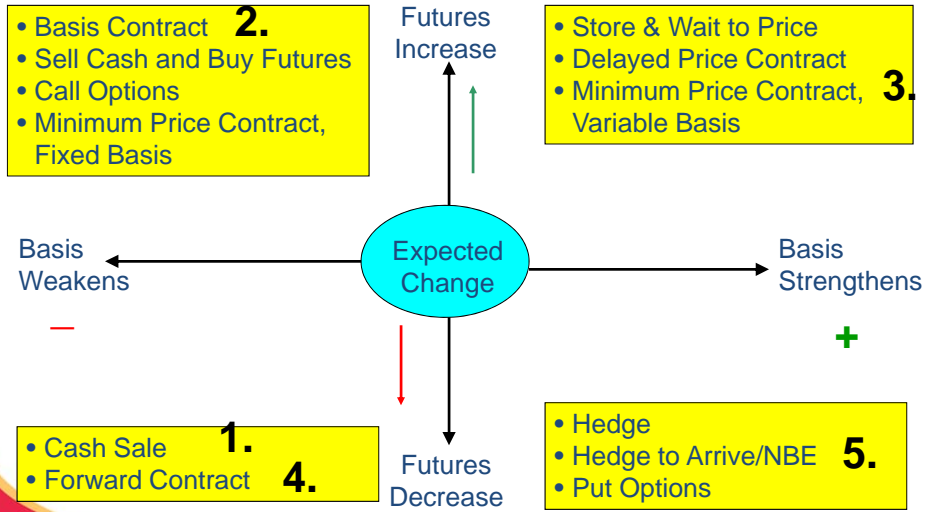
\*Based on 0.5% maximum dry matter loss—calculated on the basis of USDA research at Iowa State University. Corresponds to one grade number loss; 2-3% points in damaged seeds. Soybean approximated at 2% lower moisture than corn.

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Source: [www.iowagrains.org](http://www.iowagrains.org), November 2009



# Marketing Decision Chart



## #1: Corn Cash Sale

- Deliver Cash Corn and Cut Storage Costs. Fixes both the Basis and the Futures Price.
- Corn example for Elevator/Processor bid: March '10 futures closed at \$3.59 the day of the transaction. Basis was minus \$ .30 under.

What is your cash price received?

Cash selling price

\$3.29/bu

## #2: Corn Basis Contract (Replace Cash Sale with May Futures)

- Deliver Cash Corn, Cut Storage Costs. Fixes the Basis only, not the Underlying Futures Price. Elevator/Processor replaces these bushels with a long May Futures position. Merchandiser holds 25% of cash sale for potential margin calls.
  - Corn example: March '10 futures closed at \$3.59 the day of the transaction.

What is your Potential Price received? \$3.47/bu

Cash selling price - transaction fee - 25% cash withheld = Initial Cash

\$3.29 + -.02 - \$.82 = \$2.45/bu

b) What is the Potential Value of being long May Corn?

May Corn before 5/1 - Initial May Corn close + 25% withheld = Add'l Cash

\$3.90 - \$3.70 + \$.82 = \$1.02/bu

## 2. Basis Contract Transaction

Date	Futures	Cash
Feb. 9 <sup>th</sup>	<b>\$3.59/bu March</b>	<b>\$3.29/bu</b>
	<b>\$3.70/bu Long May Futures</b>	Replace Bushels w/Long May Corn - .02/bu Service Fee <b>-.82/bu</b>
		25% withheld for margin calls
April 30 <sup>th</sup>	<b>\$3.90/bu May</b>	
	\$3.90 - 3.70 .20 - .02 = \$.18	\$3.29 (\$2.47 + .82) + .18 <b>Net = \$3.47</b>

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Source: Johnson, ISU Extension, Feb. 9<sup>th</sup>, 2010

## #3 Corn Minimum Price Contract Sell Cash Corn & Replace with a May Call Option

- Corn example: Deliver Cash Corn and Cut Storage Costs. Fixes the Basis, but not the Futures Price. Cash selling price is **\$3.29**, May '10 futures closes at **\$3.70**, a Call Option with an **\$3.80** Strike Price has a **.15** cent premium.

a) What is the Minimum Price received? **\$3.12**

Cash selling price – call premium – brokerage fee = Minimum Price

**\$3.29** - .15 - .02 = **\$3.12**

b) What is the Potential Value of this Call?

May Futures in mid-April – Strike Price = Cash Value of Call Option

**\$3.90** - **\$3.80** = **\$.10**

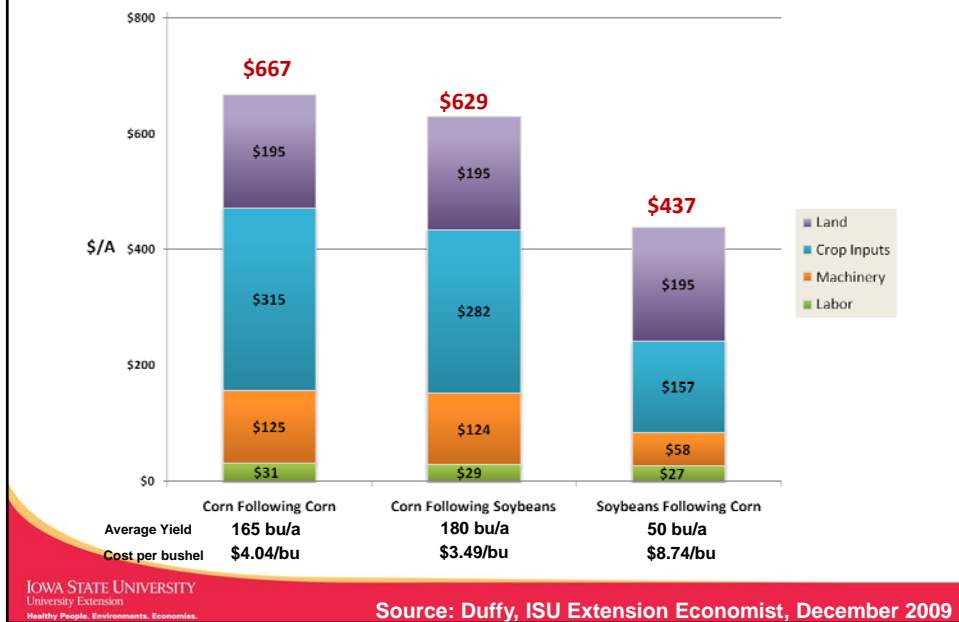
### 3. Minimum Price Contract

Date	Futures	Cash
Feb. 9 <sup>th</sup>	<p><b>\$3.59/bu March</b></p> <p><b>\$3.80/bu May Call Option Strike Price</b></p>	<p><b>\$3.29/bu</b></p> <p><b>-.02/bu</b></p> <p>Service Fee</p> <p><b>-.15/bu</b></p> <p>Premium for \$3.80/bu May Call Option</p>
April 23 <sup>rd</sup>	<p>May Futures \$ <b>3.90</b></p> <p>May Call Option Strike Price <b>\$3.80</b></p> <p>+ <b>.10</b></p>	<p><b>\$3.29</b></p> <p><b>- .02</b></p> <p><b>- .15</b></p> <p><b>+ .10</b></p> <p><b>Net = \$3.22</b></p>

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Source: Johnson, ISU Extension, Feb. 9<sup>th</sup>, 2010

### 2010 Crop Cost Estimates



## #4 Forward Contract New Crop Corn

- Cash Forward Contract (fixes both futures price and basis)
  - Example: Dec. '10 Corn futures closed at **\$3.94**. Fall Harvest Basis next October is offered at \$ - **.40** under December soybean futures.

What is the Forward Cash Contract Price?

$$\text{Dec. '10 Corn Futures} - \text{Basis} = \text{Forward Cash Contract Price}$$

<b>\$3.94</b>	-	<b>.40</b>		<b>\$3.54</b>
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## 4. Forward Cash Contract

<u>Date</u>	Futures	Cash
Feb. 9 <sup>th</sup>	<b>\$3.94/bu</b>	<b>-.40/bu</b> Basis Offered
Oct. 15 <sup>th</sup>		<b>\$3.54/bu</b>

## #5: HTA New Crop Corn Now

- Hedge-to-Arrive Contract (fixes futures price but not the basis)
  - Example: Dec. '10 Corn futures closed at **\$3.94**, Fall Harvest Basis next October is expected to be \$ - **.30** under December corn futures.

What is the Expected Cash Price? **\$3.64**

Dec. '10 Corn Futures – Expected Basis = Expected Cash Price

**\$3.94**

**- .30**

**\$3.64**

## 5. HTA Contract

<u>Date</u>	<u>Futures</u>	<u>Cash</u>
Feb. 9 <sup>th</sup>	<b>\$3.94/bu</b>	<b>-.40/bu</b> Basis Offered
		<b>\$3.54/bu</b> Cash Offered
Oct. 15 <sup>th</sup>		<b>-.30/bu</b> Actual Basis
		<b>\$3.64/bu</b> Cash Received

## #3 Buy a Put Option on New Crop Corn

- Also called a Minimum Price Contract
- Corn example: Buy a Put Option on Dec. '10 Corn. No commitment to delivery and protects drop in Futures price. Day of Transaction Dec. '10 Corn closes at **\$3.94**, a Put Option with an **\$3.60** Strike Price has a **.28** cent premium.

a) What is the Minimum Price expected? **\$2.80**

Harvest cash price – Put Option premium – brokerage fee = Minimum Price

**\$3.10** - **.28** - **.02** = **\$2.80**

b) What is the Potential Value of this Put Option?

Put Option Strike Price - Dec. Futures in mid-November = Cash Value of Put

**\$3.60** - **\$3.50** = **\$.10**

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## 3. Minimum Price Contract

Date	Futures	Cash
Feb. 9 <sup>th</sup>	<b>\$3.94/bu Dec. Futures</b>	<b>-.02/bu</b> Service Fee
	<b>\$3.60/bu Dec. Put Option Strike Price</b>	<b>-.28/bu</b> Premium for \$3.60/bu Strike Price Put Option
Oct. 15 <sup>th</sup>	<b>\$3.50/bu Dec. Futures</b>	<b>Minimum Price = \$2.80</b>
	<b>\$3.60</b> <b>- 3.50</b>	<b>Value of Put + .10</b>
	<b>Cash Value of Put Option = \$.10</b>	<b>Service Fee + Premium - .30</b>
		<b>Net Gain = \$.20</b>
		<b>Harvest Cash = \$3.10</b>
		<b>Cash Price Received = \$2.90</b>

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## 5 Crop Marketing Strategies



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## Crop Marketing Web Sites

- **Crop Risk Management - ISU Polk County**  
(Crop Marketing Newsletters, Crop Insurance Updates & Webcasts)  
[www.extension.iastate.edu/polk/farmmanagement](http://www.extension.iastate.edu/polk/farmmanagement)
- **Dr. Chad Hart - ISU Extension Grain Marketing**  
[www.econ.iastate.edu/faculty/hart](http://www.econ.iastate.edu/faculty/hart)
- **Iowa Grain Quality Initiative – ISU Extension**  
[www.iowagrains.org](http://www.iowagrains.org)
- **Chicago Mercantile Exchange (CME) Group**  
[www.cmegroup.com](http://www.cmegroup.com)
- **Ag Decision Maker – ISU Extension**  
(Decision Tools, Newsletters, Publications and Voiced Media)  
[www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm)



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