

CROP MARKETING STRATEGIES

Avoid Panic Selling of 2008 and 2009 Crops

The meltdown on Wall Street in October dropped the price of the U.S. stock markets, eliminating over \$10 trillion dollars of wealth. This large decline in the equity markets carried over into the commodities. Nearby corn and soybean futures prices have lost nearly 50% of their value since the all time record highs recorded in the summer of 2008. The drop in the equity and commodity markets has been larger and more dramatic than most anyone anticipated, resulting in lower 2008 and likely 2009 farm income and profit.

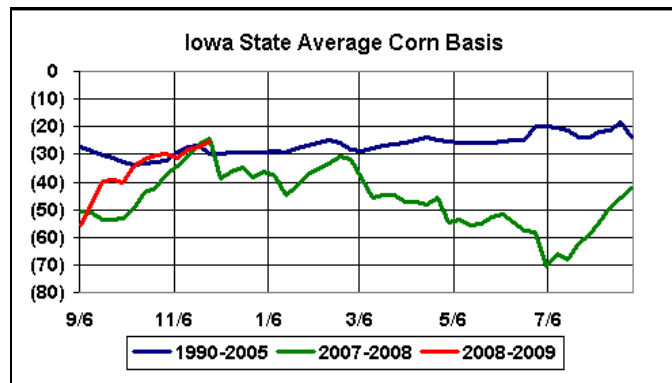
Producers need to take a longer-term view of crop price outlook, allowing time for the current financial crisis conditions to be partially resolved. The focus on the outside markets have taken away the focus on crop supply/demand fundamentals that tend to lead to higher futures prices, especially during the spring months.

Meeting Short Term Cash Flow Needs

If a producer needs to generate cash in the next 30 to 90 days, they should be willing to use the government loan program for bushels stored on-farm. You might also see if your elevator or processor will allow you to move some old crop bushels using a basis contract. This keeps futures prices open, but the producer can benefit should futures prices then move higher.

Note the corn and soybean basis tends to narrow immediately following harvest. It is not unusual that the best basis of the winter could be in November and December. This is likely in 2008 with the lower futures prices and producers' attempts to avoid additional 2008 income tax from the sale of corn or soybeans.

Corn Basis Trends

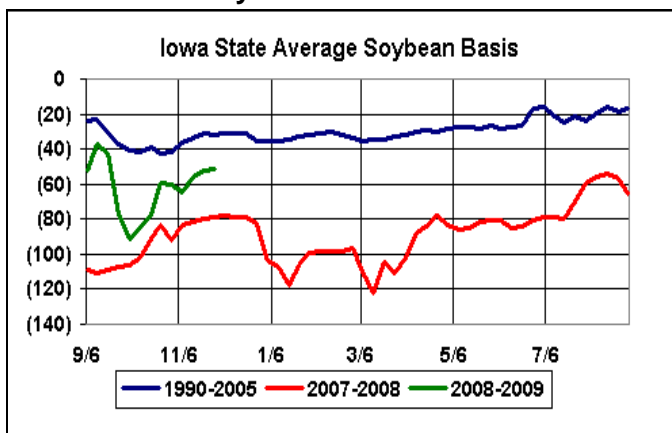


Source: www.farmfutures.com

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Soybean Basis Trends



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Use Minimum Price Contracts

Also, consider the use of minimum price contracts to replace bushels that you sell this winter. If you are forced to make winter sales, make sure you lock in the best basis possible and attempt to retain ownership with the purchase of May or July call options. Many merchandisers will simply subtract the premium for these call options out of the net proceeds from the crop sales. Note the strike price and the need to notify the merchandiser before these call options expire.

Seven Crop Marketing Strategies

Some crop marketing strategies to consider were adapted from Alan Kluis, Crop Market Analyst:

- 1. Be realistic in your price expectations**
Historic chart studies suggest that we are likely to retrace 40% to 60% the July-to-October price collapse. Use the futures charts.
- 2. Keep your farm in a good cash position**
Have cash reserves or access to cash to finance your farm operation.
- 3. Be willing to make incremental sales**
Incremental sales of 5% to 10% of your total bushels should be considered when grain markets start to make their seasonal rally next spring.
- 4. Look at all your merchandising alternatives**
The market has good carry in corn futures and a very limited return to store soybeans long-term in 2009.
- 5. Maintain a working capitol ratio**
With higher input costs, try to maintain a working capitol ratio of 20% to 30%. Limit large capital purchases so you have more capitol available.
- 6. Maintain multiple financial relationships**
Keep your financial options in order. Expect to share more financial information with those you do business with, and ask tough financial questions for your input suppliers and merchandisers.
- 7. Be a seasonal seller**
Both corn and soybean futures charts tend to rally to their highest prices in

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the March-June time period. Use this time frame to market old crop bushels and price 2009 crops using crop revenue insurance.

Conclusion

Despite all of the recent negative financial news, 2009 can be a profitable year. Few producers sold corn when futures went over \$7/bu and soybeans went over \$14/bu last summer. These are not longer realistic price targets for 2009, but you may get an opportunity to sell \$5/bu and \$10/bu cash soybeans on any weather scare next spring and summer.

Stay disciplined and be willing to make scale-up sales when prices and profits improve next year. For producers that sold too early in 2008, you still likely have a good overall average price for the marketing year.

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