

CROP MARKETING STRATEGIES

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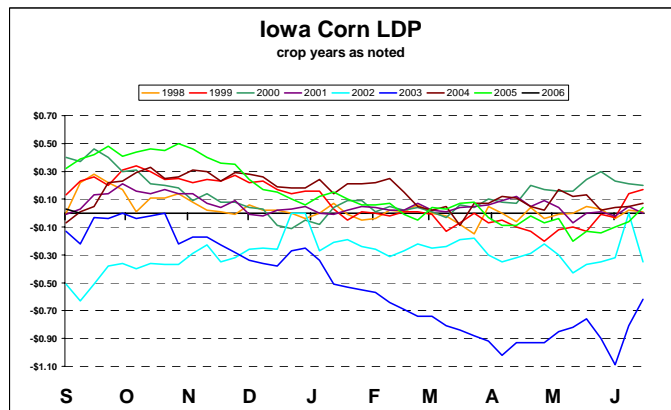
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Corn: LDP and Marketing Loan Strategies

The decline in cash corn prices since mid-August means potential Loan Deficiency Payments (LDPs) for the 2006 harvest. However, any LDP will be much smaller as compared to the past 2 years harvest periods.

History tells us that the largest corn LDP typically occurs during early harvest, sometimes before the corn has been harvested across much of the Corn Belt. Note in the chart below is featured the 8-year history of Iowa Corn LDPs with a trend for the largest LDPs to occur in September and October. With improving basis once the majority of the U.S. corn crop is harvested, LDPs typically decline rapidly.



Source: CARD Center for Agricultural & Rural Development

However, each of the past 2 falls has seen storage issues and in 2005 the occurrence of Hurricane Katrina that impacted the Gulf basis used to calculate the LDP. As a result, the largest corn LDPs were available from mid-October to early November in both 2004 and 2005.

2006 Corn LDP Outlook

With U.S. corn ending stocks on September 1st expected to be over 2 billion bushels and an 11

billion bushel crop production estimated for 2006, storage could be tight at many elevators and co-ops. The largest corn LDP would likely come when a wide harvest basis in addition to pressure on December 2006 corn futures occurs. The life-of-contract low for that contract was \$2.33 ½ per bushel in mid-August.

With increasing demand for both ethanol production and corn exports during the 2006-07 marketing year, basis should improve rapidly as harvest is completed. Expect corn LDPs to range from 0 to 20 cents per bushel and occur sometime during harvest.

However, rushing to LDP all your corn bushels and timing the largest LDP might not be in your best interest this fall. The reason centers on farm cash flow strategies and spring pricing opportunities that may be available.

The potential to store for higher corn prices into spring and summer months has been noted by many market analysts. That's because seasonal future prices highs tend to be the highest during the spring months. In addition, much better basis opportunities should be available as processors will likely improve cash bids to obtain corn from producers. The amount of basis improvement will vary geographically across Iowa. The greatest improvement in basis will likely occur in areas near processing plants, river terminals, concentrated livestock feeding and where poorer yields occurred in 2006.

If you have on-farm storage space available, the corn market is signaling that this is a year to strongly consider storing corn. The "carry" between December 2006 and July 2007 corn futures is over 30 cents per bushel. It is rare for "carry" to be this large and reflects the financial reward to storage and the demand base building year-round for corn.

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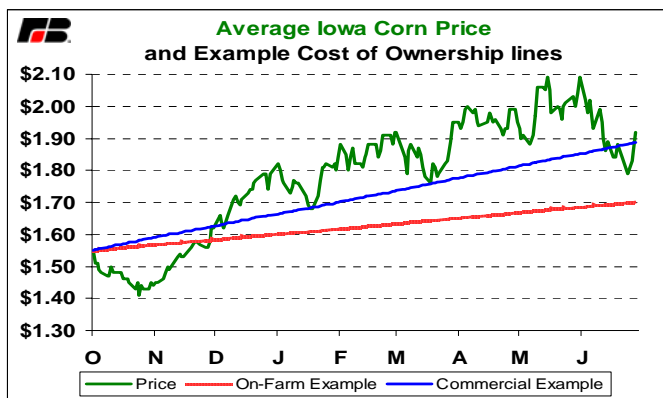
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Marketing Considerations

There are market incentives for producers to better manage their own cash flow as well as corn price risk. Consider managing this risk by splitting up 2006 bushels that allow for: 1) pre-harvest sold bushels and commercially stored bushels could be sold this winter to meet short-term cash flow needs, 2) sell some bushels on futures only (hedge-to-arrive contracts) where futures price is determined but the basis is not established until the month prior to delivery of those bushels, or 3) hold bushels unpriced into spring anticipating higher futures prices and better basis opportunities. Should a large number of producers elect just one of these strategies, the net cash price received for those bushels may be limited. Therefore, spread your risk using marketing strategies that can best meet your cash flow needs and your own risk-bearing ability.

Cost of Grain Ownership

Before storing unpriced corn, consider the cost of storing corn commercially at 3 to 4 cents per bushel per month. With a high fixed cost per bushel, one can see that basis improvement during the post-harvest period may not fully justify storing a large volume of bushels "in town" verses "on- farm." Thus, the strategies described above for spring sales and better basis opportunities best fits those bushels stored on-farm with lower costs of grain ownership and the ability to seek out the best cash bid once transportation costs are considered.



Source: Iowa Farm Bureau Federation

Note in the chart above 2005 corn storage costs for on-farm (the red line) and commercial storage (the

blue line) both provided a positive return to storage from early December to early June. The cost of storing bushels commercially beyond the spring months does have risk of both lower futures price and wider basis that could result in a net loss to storage. Storing bushels on-farm beyond the spring months has a lower cost of ownership, but also carries the risk of corn going out of condition and resulting in severe docks of the cash price at the time of delivery.

Conclusions

Producers should develop LDP and Marketing Loan strategies before harvest that reflect their own cash flow needs and consider:

- 1. Determine cash flow needs for two time frames**
Short-term: Mid-September to Mid-March
Long-term: Beyond Mid-March 2007
- 2. Match bushels in storage to cash flow needs**
Commercial/On-Farm Temporary – Short-term
On-Farm Storage – Long-term
- 3. Take the LDP at Harvest on Bushels:**
To Feed
Sold Pre-Harvest
Sales Planned for Fall/Early Winter
- 4. Use the Marketing Loan on Bushels**
To expand your marketing window and avoid forced fall/winter sales and to meet long-term cash flow.

The use of the Marketing Loan requires completion of FSA form CCC-666. The FSA office will typically take a few days to complete a lien search before advancing loan funds. Repayment at a loan rate set at 5.125% for September 2006 will accrue on the non-recourse loan for up to 9-months.

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