

## Selling Cash Soybeans: Use of a Minimum Price Contract

By late November, the nearby January futures price rallied to close at \$13.29 per bushel, which was more than 80 cents per bushel since early November and was the contract's highest price since early-September when it was over \$14 per bushel. Basis strengthened in November as exporters and processors raised their cash price bids to entice farmers to move stored soybeans.

Many farmers are reluctant to sell cash soybeans for \$13 per bushel cash, despite prices above most everyone's breakeven costs. Most bushels were stored commercially and on-farm with monthly costs of storage and interest between 5 and 8 cents per bushel per month accruing. In addition, 2013 taxable income remains high with the record corn and soybean prices. If you're making cash soybean sales before year-end, notify your merchandiser that you want to defer this income until early January 2014.

In the late summer of 2013, most farmers missed the futures price peak for January soybeans above \$14 per bushel. It was easy to underestimate the average U.S. soybean yield now forecast at 43 bushel per acre. Total U.S. production for the 2013 soybean crop is estimated to be 3.258 billion bushel or the third largest crop in history.

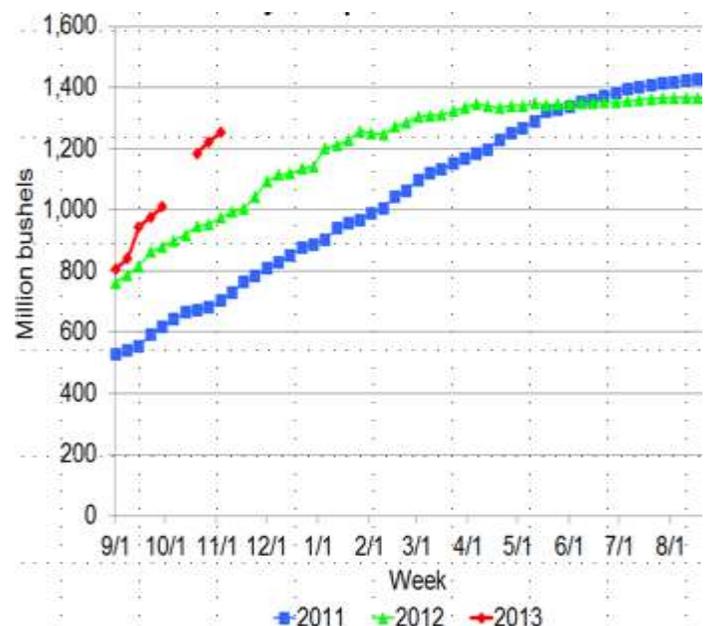
Record soybean planted acreage forecast in South America resulted from the late summer futures price rally. Early forecasts are for a potential soybean crop of more than 6 billion bushels. Should ideal growing conditions result, production could be even larger and overwhelm the global demand for soybeans in the late spring and summer months.

### Demand Driven Market

U.S. soybean exports are running at a record pace as noted in the line graph that follows. The three lines on this chart note the export bookings in millions of bushels for the past three years. The top

line are bookings for the 2013 crop versus 2012 (middle line) and 2011 (bottom line). The graph starts on Sept. 1 each year or the start of the marketing year. The missing three weeks of data for 2013 resulted from the federal government shut down in October.

U.S. Soybean Export Bookings



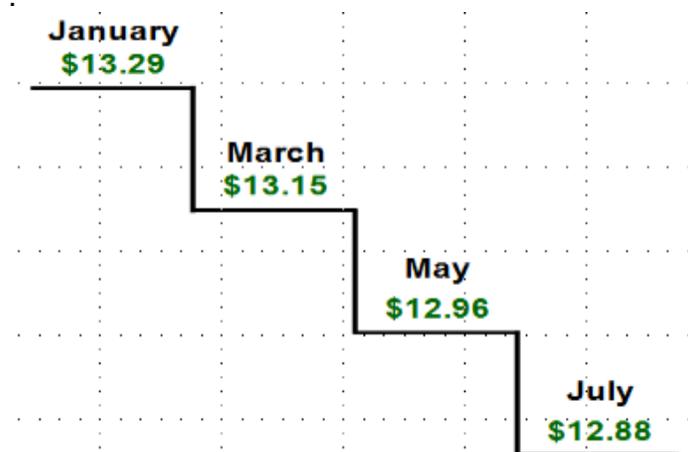
Source: USDA Foreign Ag Service, November 21, 2013

Led by Chinese purchases, U.S. soybean exports are projected at 1.4 billion bushels for the 2013-14 marketing year. This level could be reached by February. Note U.S. exports occur primarily in first six months of the marketing year or from September until March. Usually by April, the export forecast for the U.S. crop is realized.

By March, the northern Brazilian soybeans have been harvested and the global demand begins to shift to South America where over 50% of the world's soybeans are expected to be produced.

## Futures Inverse Carry

Take a look at recent soybean futures price closes and their place on the steps. Comparing January contract to the deferred months of March, May and July appears as steps moving lower. This is known as a “futures inverse carry” and should serve as a warning for storing the 2013 soybean crop long-term. Should the record South American soybean production now forecast become reality, there is very little incentive to store soybeans except for strengthened basis opportunities.



Source: [www.cmegroup.com](http://www.cmegroup.com) November 25, 2013

## Consider a Minimum Price Contract

Still reluctant to move cash soybeans in the fall and winter months? A marketing strategy some farmers might consider is selling cash soybeans and replacing these bushels with a call option. The concept is selling high (January futures) and replacing all or a portion of those bushels with something low (March futures). The logic might be in case South American weather conditions deteriorate and speculators continue to hold their record long futures contracts in that March contract.

An at-the-money \$13.20 per bushel March soybean call option will cost 38 cents per bushel as of Nov. 25. This gives the holder of that call option the right but not the obligation to “buy March futures” at \$13.20. Should the March futures rally to say \$13.80 per bushel, the value of that option would be worth at least 60 cents per bushel and is set to expire approximately Feb. 21, 2014.

Communicate with your merchandiser on price and time objectives when initiating this minimum price strategy. Should the March contract not rally above this \$13.20 per bushel strike price, the option would expire worthless. The farmer who sold his cash soybeans for \$13 per bushel in the late fall, would have the 38 cent premium plus approximately 2 cent brokerage fee subtracted from their cash sale. So the lowest net proceeds amount received would be at least \$12.60 per bushel. This still leaves the upside for March futures price open until that third week of February when the option expires.

## Conclusion

Farmers stored a large portion of their soybean crop and may be reluctant to move soybeans because of large 2013 income tax liabilities. However, income from cash sales can be deferred until January if merchandisers are notified in advance of the transaction. Make sure you're working with a reputable buyer as you're an unsecured creditor of those cash bushels sold until payment is received.

Soybean storage costs, whether commercially or on-farm are an important consideration. Adding the time value of money could mean an additional 5 cents per bushel per month plus the 1 cent on-farm and 4 cent commercial storage costs per month.

The rally in the nearby January soybean futures contract along with the attractive basis are incentives for farmers to sell cash soybeans. The first step for a farmer might be to recognize the cost of storing soybeans and when cash will be needed to pay debts and generate funds for 2014.

A farmer may want to reown the cash soybeans sold via a call option strategy, which can be provided by most grain merchandisers and called a minimum price contract. Use of the March contract for the call option provides at least three months for futures prices to rally before the March soybean option expires approximately Feb. 21, 2014.

However, a major change in supply/demand fundamentals will be necessary to reduce the risk of lower futures prices during the late winter months when the size and availability of the South America soybean crop will be realized.