

WINNING THE GAME™



Have a plan!



Pre-harvest marketing is a broad view of the market, trying to take advantage of early seasonal price tendencies. Crop insurance is a critical part of marketing.

A pre-harvest marketing plan can be written months (years?) in advance.



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Quiz Time!

When did the Dec'08 corn futures contract begin trading?

- A. July 2006
- B. March 2006
- C. January 2006
- D. December 2005

Open interest in the Dec'08 contract already exceeds 60,000 contracts - 300 million bushels!



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Let's Talk Ethanol



Jim Kalrath Photo

- a) USDA is underestimating the rapid growth of ethanol production (and corn demand).
- b) Higher demand = higher prices
- c) Futures and basis will be affected
- d) Timing, timing, timing



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Let's Talk Ethanol



Jim Kalrath Photo

The Dec'09 corn futures contract began trading on July 21 - 41 months prior to expiration. There are over 2,500 contracts open.



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Three reasons to like pre-harvest sales

1. Strong seasonal tendency
2. LDP's give me upside potential in a down market
3. The sale is made at a price that works for me!



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Ethanol and Marketing

How can I adapt my pre-harvest marketing plan to prepare for changes in the corn market driven by increasing ethanol production?



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Ethanol and Marketing

How can I adapt my plan?

1. Crop insurance!
2. Change your mix of pricing tools – less fixed price tools and more minimum price tools, or a greater willingness to follow the trend
3. Look for cheap “courage calls” early in the calendar year



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Corn

2007 Pre-Harvest Marketing Plan

Objective: Buy crop insurance to protect my production risk, and have 75% of my anticipated corn crop (based on APH yield) priced by late May.

Price 10,000 bushels at \$2.10 cash price (\$2.60 Dec. futures) using forward contract/futures hedge/futures fixed contract.

Price 10,000 bushels at \$2.22c/2.72f, or by Mar 15, using a fixed-price contract.

Price 15,000 bushels at \$2.34c/2.84f, or by Apr 2, using a fixed-price contract.

Price 10,000 bushels at \$2.46c/2.96f, or by Apr 17, consider options/trend system.

Price 10,000 bushels at \$2.58c/3.08f, or by May 2, consider options/trend system.

Price 10,000 bushels at \$2.70c/3.20f, or by June 1, consider options/trend system.

Plan starts on January 1, 2007. Earlier sales will be made at a 20 cent premium to price targets noted above.

Ignore decision dates and make no sale if prices are lower than \$2.10 local cash price/\$2.60 December futures.

Exit all options positions by mid-September.



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Ethanol and Marketing

Look for cheap "courage calls" early in the calendar year.

(Buy an at-the-money call on Feb 15, sell on Sep 15)

Short Crop Year	Dec futures Feb 15	Call	Premium*	Dec futures Sep 15	Premium*	Profit (loss)
1980	312.75	320	<i>19.00</i>	348.50	<i>30.00</i>	<i>10.0</i>
1983	292.00	300	<i>18.00</i>	348.25	<i>50.00</i>	<i>31.0</i>
1988	215.25	220	<i>13.00</i>	295.50	<i>77.00</i>	<i>63.0</i>
1990	248.75	250	17.00	224.00	1.875	(16.125)
1991	259.00	260	17.00	255.50	6.50	(11.5)
1993	240.25	250	12.125	238.75	3.875	(9.25)
1995	258.00	260	15.50	303.75	43.75	27.25
1996	308.50	310	22.75	314.50	14.00	(9.75)
2002	232.75	240	14.00	278.00	38.25	23.25
2005	231.00	240	14.50	206.50	0.50	(15.0)
Avg.			16.3		25.6	9.3

* Actual in bold, estimated in italics



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Ethanol and Marketing

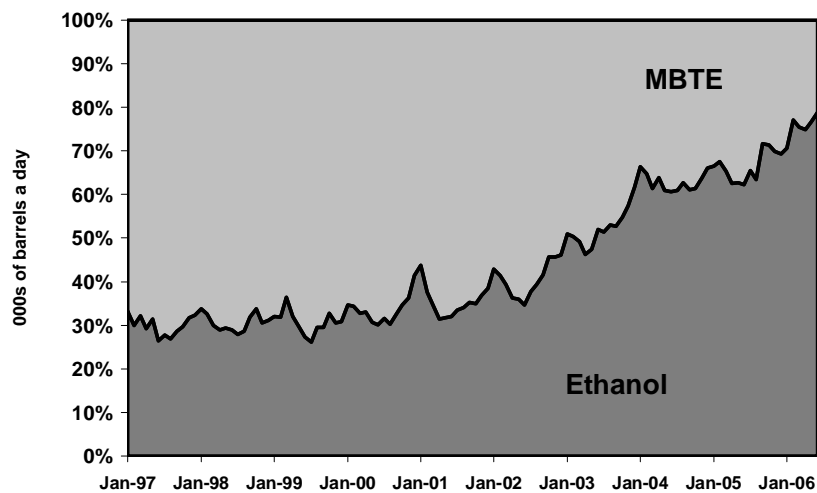
How can I adapt my plan?

1. Crop insurance and flexibility with pricing tools are already a part of the plan
2. Calls will help but, on average, less than one would expect



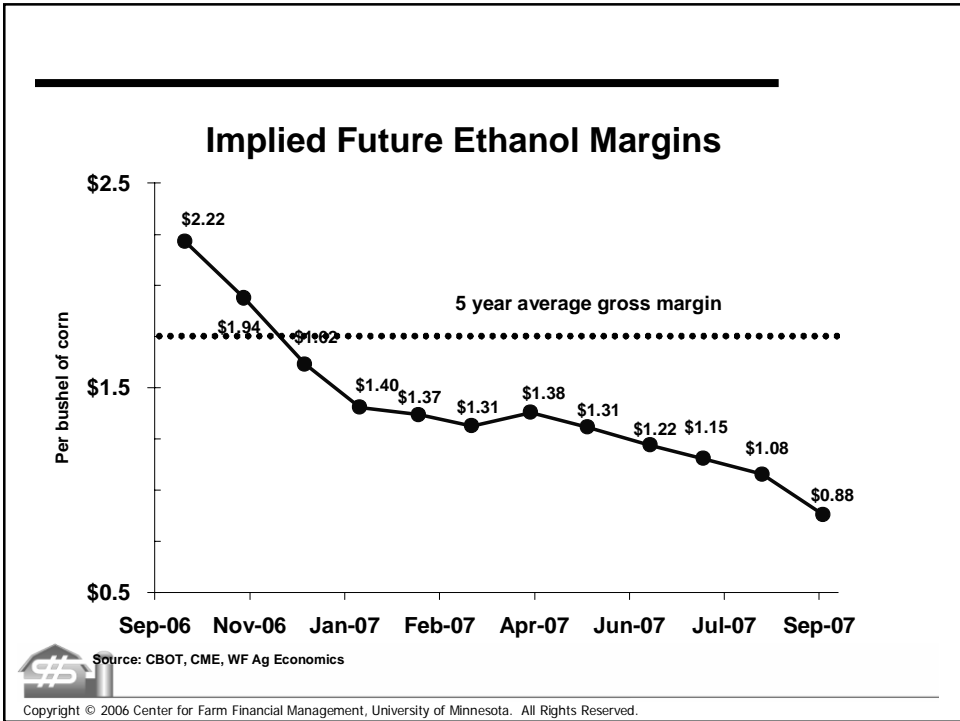
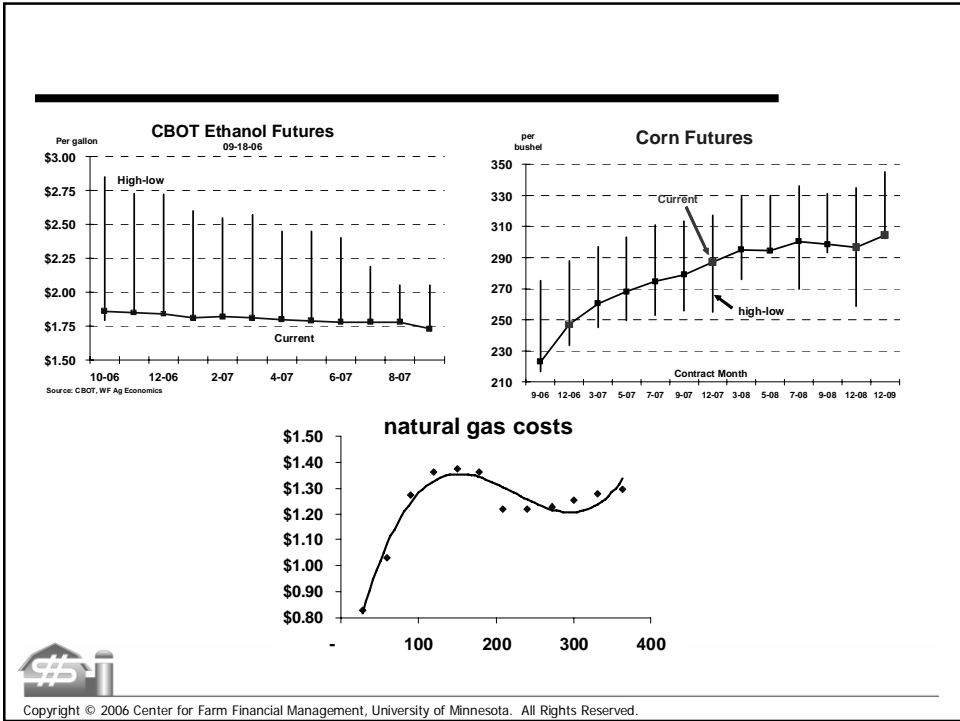
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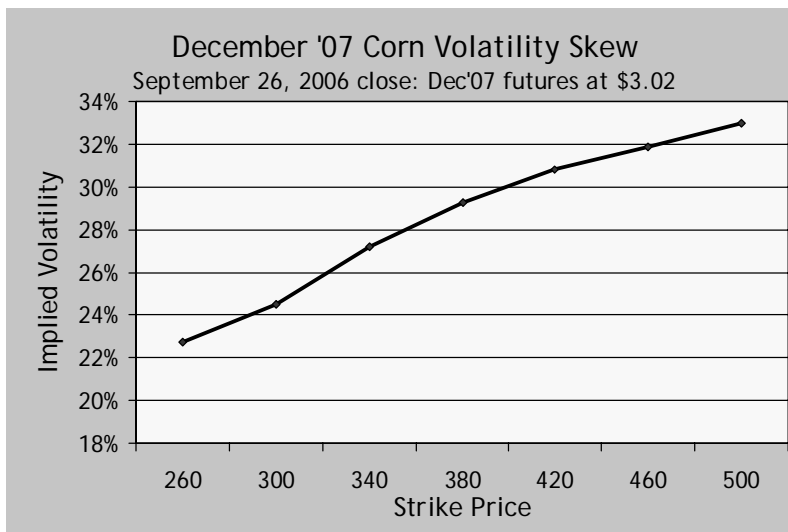
Primary Oxygenates for Gasoline



Source: EIA, Wells Fargo Ag Economics

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A rightward skewed volatility curve (like this) is indicative of a market that is concerned about a sharp move higher in prices!



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