Farmer's Corner

"Helping The Producer Sell Better"

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Keeping Low Prices from Getting Lower

Harvest 2013 is upon us or right around the corner in most parts of the country and the price of grain is not where most growers would like it to be. To exacerbate the issue, the amount forward contracted by farmers this year is much less all over the country even though we have what looks to be a pretty good crop nationally.

There are two big factors that have led to this situation: recent history of forward contracting not yielding as good of a price as harvest time prices, and a misuse or misunderstanding of crop insurance.

Marketing is cyclical, but is easy to have a memory that only goes back to last year. Over the long haul, forward contracting works and ensures profitability and wealth building for a farm business. The challenge is not to stray from this sound business practice just because you see what could have happened if you'd done it differently some years.

Regarding crop insurance, many are under the misconception that the spring price guarantees them a price for their crop and if prices drop they shouldn't sell a cheaper price. Crop insurance will pay out the same regardless of what you sell your grain for. In the end, you have to sell your grain at a price to someone. Crop insurance is designed to allow you to forward contract with confidence.

While it's important to understand how we got to where we are so that we can avoid repeating it next time, we can't change it, so let's discuss how to handle the current situation.

One option is to sell now. While prices aren't as good as they have been, they are still profitable in most parts of the country due to good yields. Regardless of your yields, your crop insurance is designed to protect you from price/revenue losses between the spring price and the fall price. If prices continue to fall, your crop insurance no longer protects you and you are incurring more cost on your crop in fees, shrink, etc.

The Real Cost of Storage & DP

The premise of price-delaying alternatives like storage and DP is simple. You pay a fee to the elevator to store your grain, and in return you get to wait and see if the market goes higher.

The fee you pay for storage or DP is just *part of* the real cost. There are actually three costs:

* storage or DP fee

* interest cost

*downside price risk

Interest cost is the money you lose by not receiving a check as soon as you want it. When you sell at harvest, you can put that money to work for you earning interest in the bank or paying down loans. When you wait to price grain, the money cannot work for you.

** It's important to note that you can still defer payment as you see fit using this strategy. **

<u>Downside price risk</u> can be the biggest cost of all. When you are waiting to price grain, you are at the mercy of price movement.

Should the price stay low or go down after harvest, you will essentially have paid someone a bunch of fees for the right to a lower price. Ouch.

What's the answer?

If you need a better price than you can get now, what can you do instead of putting grain in storage or DP? Consider Minimum Price. It truly does offer greater benefits at a lower cost.

<u>The Cost</u>: Minimum Price has an upfront, specific cost that is paid when you sign the contract. There are no hidden costs, as there are with storage and DP.

<u>The Benefits</u>:

1. You get your money at harvest* and can put it to work for you right away, eliminating any extra interest costs that might result from waiting.
2. There is no downside price risk.
3. Your chance to receive a higher price is tied to the futures price *(which tends to go higher in a rally faster than the cash price)*.

<u>How It Works</u>: You sell your grain at the current board price at harvest. You receive payment upon delivery*. Next, you decide how long after harvest you want to stay in the market. The length of time will determine the cost of the contract. The cost is deducted from the check you will receive upon delivery.

** We can defer payment until after the first of the year, if you wish.*

The price you sell for becomes your Minimum Price. You already have the money, and no matter what the market does, you will never receive less than that price.

Your contract will be tied to the futures month corresponding to how long you want to stay in the market. You are eligible to receive any increase in that futures price between when you sign the contract and when it expires.

For example, suppose you wanted to stay in the market until February 15. You would be "tied" to the March futures. If they were trading at $4.50 when you signed the contract, and by January 1 were trading at $5.00, you would be eligible to receive an extra 50¢ on top of the price you already sold for.

Pricing the contract to receive an increase is your responsibility; if you wish, you can specify an increase level at which you want the contract to be automatically priced. (Using the above example, you could say "I would like the contract to be automatically priced if March futures reach $5.25 - an increase of 75¢).

Minimum Price has all the earmarks of a good marketing alternative. It protects you from lower prices, gives you an opportunity to participate in higher prices, and helps you avoid hidden costs and risks. More importantly, it involves positive action on your part, putting you in control of your marketing.

We would be happy to answer any questions you have about Minimum Price contracts or any other contract. If you have questions about any of the marketing alternatives we offer, please take the time to come and talk to us about them. We look forward to hearing from you.

The chart below compares the costs and benefits of the contracts we have been discussing in this issue. We hope you will use it to draw your own conclusions about which alternative is best for you. Please feel free to call us with any questions and make changes or additions as you see fit.

+ + + POSITIVE BENEFITS + + +			
	Minimum Price	**Storage**	**Delayed Price**
Guaranteed Price	YES	NO	NO
Possibility of a Higher Price	YES	YES	YES
Receive Money at Harvest	YES	NO	NO
Increase Tied to Futures	YES	NO	NO
Relieves You of Anxiety	YES	NO	NO
- - - NEGATIVE COSTS - - -			
Up-Front or Monthly Cost	YES	YES	YES
Interest Cost	NO	YES	YES
Downside Price Risk	NO	YES	YES