

Farmer's Corner



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Nothing New Under the Sun

The New Normal that we've heard so much about over the course of the few preceding years turns out not to be so much "New" as it is "Normal". Under *normal* market conditions, when supply falls in relation to demand, invariably prices will rise, as has been the case in recent history; when supply outstrips demand, prices tend to fall, as they have during this most recent crop year. The only *new* aspect of the current point in this marketing season is the fact that selling at profitable levels is more of a challenge than in recent years. Getting caught up in the emotion of *could've, should've, would've* pulls your attention away from focusing on your overall goal of keeping your farming business profitable.

Fortunately, we have at our disposal a powerful tool that, despite being overlooked during times of high prices in recent memory, is just as viable today as it has ever been. This tool is the Minimum Price Contract.

The Minimum Price Contract, or MPC for short, simply allows you to take a known amount of revenue off the table *NOW*, while opening yourself up for the opportunity to participate in any futures market rally *LATER*. By selling your grain now, you have essentially locked in a price floor; you can't receive any less for your grain than what you've been paid for it! Yet, with the MPC, you remain involved in the market on a chosen amount of bushels for a chosen length of time, maintaining the ability to capture additional value for your crop should the chance present itself, which is the whole reason folks choose to store grain in the first place. Lets face it, the odds of prices being at desired levels and your periods of greatest demand on cash flow rarely, if ever, coincide during the post harvest period. MPC solves this dilemma in an easy, understandable and cost competitive way.

As of this writing, the typical cost for commercial storage out to next July is roughly \$0.40/bushel, or \$0.05/month. This \$0.40 gives you the chance to capture any gains from storing the crop *SHOULD* the market rally, yet at the same time offers *NO* downside risk protection whatsoever. Now at the same time you can currently execute a MPC for the same time frame for around \$0.26/bushel or \$0.0325/month. So, for \$0.14/bushel *LESS* than storage, you not only secure your crop revenue in the form of selling your grain (locking in that price floor), but you are also guaranteed the opportunity to take advantage of any market rally between now and next July.

| | STORAGE | MINIMUM PRICE CONTRACT |
|-----------------------|----------------|-------------------------|
| TIME SPAN | 8 MONTHS | 8 MONTHS |
| FUTURE POSSIBLE GAINS | YES | YES |
| COST | \$0.40/BU | \$0.26/BU |
| DOWNSIDE PROTECTION | NONE | PRICE FLOOR ESTABLISHED |
| REVENUE FROM GRAIN | UNCERTAIN | BANKABLE |
| USE OF MONEY | NOT UNTIL SOLD | ANYTIME NEEDED |
| PEACE OF MIND | NOT A CHANCE | SLEEPING LIKE A BABY |

If we are honest with ourselves, we will concede how easy it is to get bogged down in the muck of indecision and inaction when things aren't as we wish them to be. This approach to marketing your grain lets you take back control of the situation: you take the *ACTION* to take money off the table, you take the *ACTION* of positioning yourself to take part in any potential future gains, and you have taken *ACTION* in wrapping up a bountiful harvest this year by putting to bed the uncertainties and unknowns of leaving your crop exposed to and unprotected from the whims of the market.

Most importantly, using the MPC now allows you to focus your energies on the upcoming 2015 crop; its planning, raising and marketing. Opportunities for pricing are out there in front of us to find if we aren't busy looking back in the rearview mirror to where prices were in years past.

Remember: That next bushel will be here before we know it. Be prepared.