

This is the fourth in a series sponsored by Asgrow that will discuss consistency and simplicity in grain marketing. Ed Usset, grain marketing specialist with the University of Minnesota, discusses his approach to grain marketing.



Ed Usset

Sell The Carry

Not the gambler type, Ed Usset continues to preach consistency in grain marketing in his meetings with growers, because it works in the long run. “My objective is to get farmers to take a disciplined postharvest approach – which can be aided by my simple fill-in-the-blank marketing plan template (see below) – then work the plan.”

In the current corn market, for example, Usset sees a big carry, which tells him to sell. “Right now (in mid-October) there’s a 39¢ spread (carry) between

I sell July and can get basis of 30-35¢ under next March, April or May, then I achieve a cash price around \$3.88. I could get another 40¢ just by selling the carry,” he says.

Too dull for some

The above pricing example, minus on-farm storage costs (interest on your money), offers a good return. “That positive return may be too dull for some people,” Usset says. “But when I do that, I’m assured of three things:

- 1.) a premium over harvest price
- 2.) delayed sales until next year for tax purposes
- 3.) I take away the downside risk.”

Usset knows that this strategy takes away an upside potential if the market rallies. “I don’t care for the alternative of selling grain and re-owning it with call options. It sticks in my craw, the idea of selling low and buying high. In the last 20 years, that strategy has worked only twice, with last year being one of those years. Growers can always point to exceptions, and last year it was exactly the right thing to do.

“If you’re among those who don’t want to lose upside potential, then take a diversified approach and sell some of your grain in this manner and also put some bushels in the bin unpriced,” he says.

Better alternative

Instead of selling grain and buying a call, Usset recommends simply buying a put if you feel you must use options, but it is costly. “Consider the cost of a current July put with July corn around \$4.20/bu.; it will cost you 52¢/bu. for the right to sell July futures.

“Here is where I usually ask farmers to take a deep breath and think about that cost relative to the value of corn today. If corn is at \$3.50, that 52¢ is 15% of the value of corn – just to gain wiggle room on the upside,” he says.

“Whatever strategy you take, my goal is to get farmers to bring discipline to grain marketing – define what price and/or basis you’re waiting for, write it down, then act on that plan,” he says. ♦

Postharvest Corn Marketing Plan

Objective: Seek strategies that balance risk and reward in the current market environment.

Hold no unpriced grain beyond July 1.

Harvest: Price and deliver _____ bushels (no storage), and _____ more bushels (good price)

Re-own _____ bushels with an options strategy tbd

Store _____ bushels of unpriced grain for later sale

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Sell _____ bushels when the cash price reaches \$ _____ or by _____

Sell unpriced bushels by _____

Sell if the price falls below \$ _____

Store and sell the carry on _____ bushels with a pricing tool tbd

Lock the basis on _____ bushels at _____ cents under the _____ contract, or by _____ at the current basis

December corn (\$3.84) and July corn (\$4.23). Based on my decision tree, I put the grain in on-farm storage and sell July futures. Given my local basis (difference between cash and futures price in southern Minnesota) currently at 40¢ under (about \$3.45), if



Listen to Usset expand on this topic at http://cornandsoybeandigest.com/consistency_counts_asgrow.