

This is the third 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

Decision Tree Simplifies Grain Marketing

“Postharvest marketing is all about understanding carrying charges - what they tell me about the market and grain storage and how I should react,” Ed Usset stated in last month’s October issue

In this issue, Usset focuses on the value of his decision tree (see chart). “I developed this simple decision tree to help growers size up the market in order to begin writing their postharvest marketing plan,” he says.

“For example, right now (early October), CBOT has a large corn carry of 41¢ (December corn is \$4.64 and July is \$5.05). Dividing 41¢ by seven months of carry equals 6¢/month of carry. Then we compare that to the finance cost of grain storage. If my cash grain is worth \$4.25 and my operating loan is at 6% interest, that equals about 25¢/year or 2¢/month to finance grain in storage.

If we have 6¢ carry vs. 2¢ cost of carry, then that is almost 300% higher, so that is easily considered a large carry,” Usset says. “My new rule of thumb, now that we’re in a world of \$5 corn and \$12 soybeans, is that a small carrying charge would cover less than 120% of interest costs, and a large would be greater than 120%.”

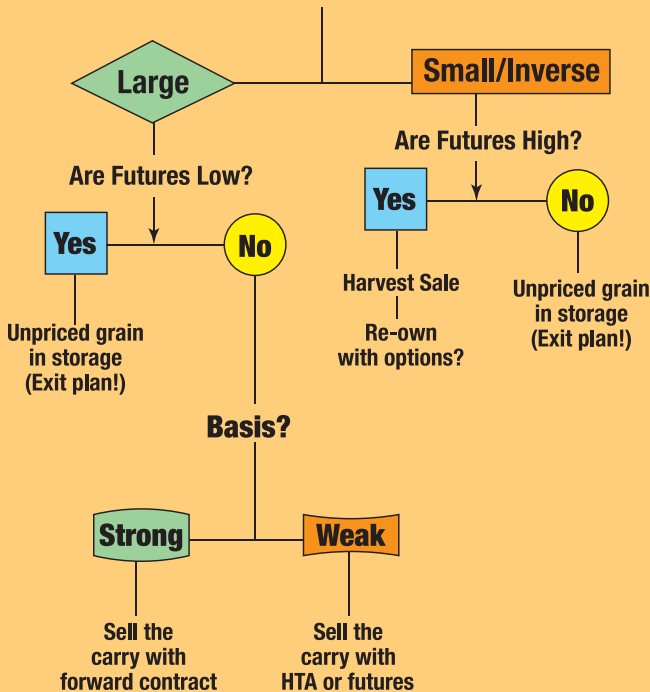
Not black and white

Usset admits that his rule of thumb may sound very black and white, but life is not that simple because there are gray areas. Take the current soybean carry as one example. “There is currently a 47¢ carry (November beans \$10.11 and July \$10.58) which equals roughly 6¢/month for eight months carry. With \$9.50 cash beans and 6% interest, you get a 5¢ cost of carry (\$0.57/year).

“This 6¢ carry vs. 5¢ cost of carry is very close to the 120% cutoff, so I’m a little conflicted in soybeans because it’s not clearly a large or small carrying charge,” Usset says. “And that means it’s best to diversify my approach - not stepping boldly into selling the carry or not stepping boldly into filling the bins with unpriced grain.”

Once past the carrying charge question on the decision tree, then it’s all about basis. “And you cannot get away from your personal appetite for risk. For example, do you really want all your soybeans unpriced in the bins because of a small carrying charge?” Usset asks. “Because \$10 beans today could be \$8 beans in four months, you’ve got to bring in your personal appetite for risk.” ♦

Carrying Charge?



Determine the carry

First step: determine if the carrying charge is large or small. “For corn, look at the spread in price between the December and July futures price; for soybeans, it’s the price difference between November and July.



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