Farmer's Corner

"Helping The Producer Sell Better"

September / October 2011 Number 5

Grain Prices Are Going To Go Up!*

** Also important to note: Grain prices will also go down. This downward turn could be a short term and shallow drop or it could be a lasting and deep drop. This drop may happen before the aforementioned rise in prices or after.*

Another important factor not figured into the above prediction that can and probably will have some effect is global economic/political conditions. This includes, but is not limited to, US debt concerns, any foreign country's debt concerns, interest rates, strength of the US dollar, weakness of the US dollar, changes in any of the several wars currently being fought across the globe, government intervention on markets, changes in government programs, government issued and private crop reports, and erroneous government issued and private crop reports.

What Does it All Mean?

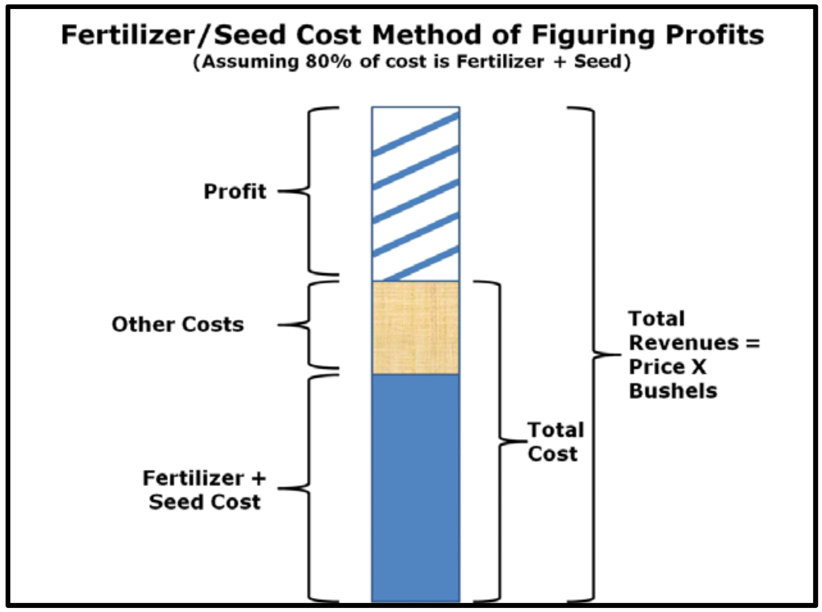
The short answer, of course, is not much. Yes, the above is less specific and more oversimplified than typical price discussion newsletters, but is it any less valuable? You know (and so do the so-called "experts") that no one knows which way the prices are going to move. With information flowing so freely and easily these days, just about anyone can write up an opinion and publish it to billions online with a few mouse clicks. Something else that we all know is that anyone who truly knew which way prices were going would have no reason to try and make their money by publishing a daily/weekly/monthly newsletter. They wouldn't have to farm or be in the grain business for that matter.

So What Information is Valuable Information?

Someone who has land with which they plant, grow, and harvest grain would best be described as someone in the cash grain farming business. Like any business, this business must be managed in a way to maximize profits. In other words, it must strive to make revenues outgain costs by as much as possible each year. So, the information most useful in this business is information regarding those revenues and costs.

This is the part where things can get blurry if you aren't careful; revenues in cash farming rely heavily on what the price is. Some folks allow this to justify them taking part in the price speculation business. However, we know that price prediction is impossible and incredibly risky. There are already plenty of risks in cash grain farming without self-inflicting new ones. So, the best way to handle prices on the revenue side is to gather information that is not guess work and fictional. You can gather information that is concrete and factual. That information, of course, is what is right in front of you and available today. What is your grain worth (for any delivery slot) that you can sell for today?

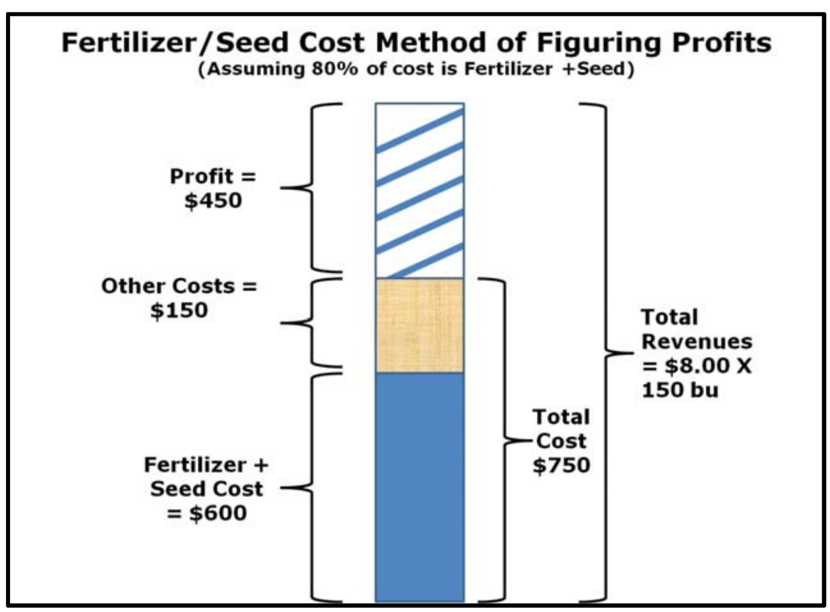
Then, you can start to calculate all the many costs associated with cash grain farming and compare them with the revenues available today. If you've never gone through this full exercise on the cost side, a good place to start is county averages that are available at the local extension office. Another way some people figure costs quickly is with fertilizer + seed cost. This cost is somewhere in the ballpark of 80% of production cost in many places, but every area is different. The key is knowing what percent of your cost these make up. Since these are the most variable costs from year to year, it can give you a good idea of where your costs are stacking up on a yearly basis.



Face the Facts

The cash grain farming business is very good right now and has been for a few years. An independent study showed that the current spread between 2012 corn prices and 2012 fertilizer + seed cost have only been greater about 6% of the time in the last 8 years (some of the most profitable years in their own right). The 2011 crop's spread is even more profitable than that by a pretty substantial margin. In just about every part of the country, average yields and current prices will be making anywhere from $300-$500 profits per acre.

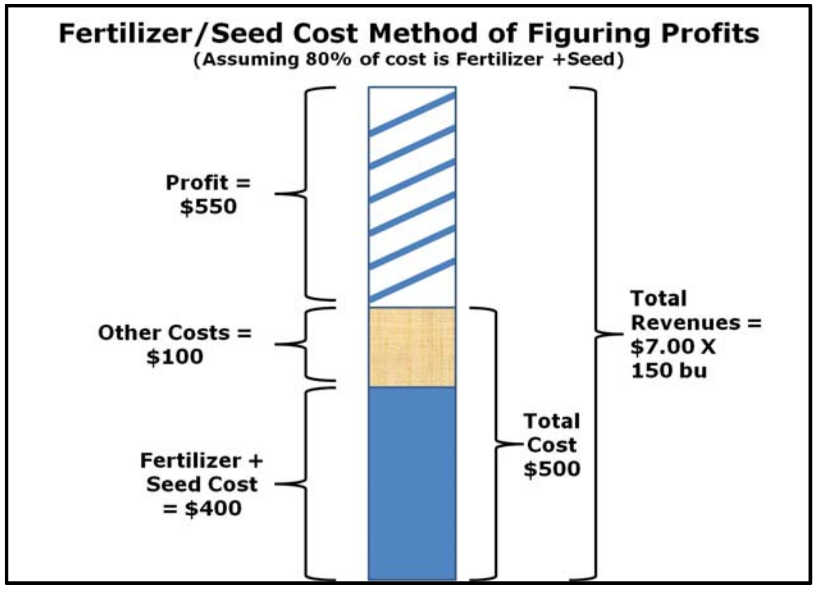
At the writing of this newsletter December Corn futures are making new highs. The fact is, nothing says prices have to stay this high or that profits have to stay this good. You can look just a few years back to the summer and fall of 2008. December Corn was trading $7.99 in mid-summer and it seemed like all it could do was go up. By mid-fall, December Corn had fallen to $3.60 and folks were hurting.



High Prices Don't Mean High Profits

As revenues in the grain business increase, the many inputs involved tend to go up as well. These don't always go up in the same amount as grain prices. This is obvious right now as you can see 2012 corn prices are less than 2011 corn prices, yet current input prices for 2012 are greater than they were for the 2011 crop. The key is locking in a favorable spread between the two that make the most profits.

Farmers who sold $5 corn and locked in their input prices in 2008 made more money than farmers that sold $7 corn and didn't lock in costs. There is a tremendous profit available for both 2011 and 2012 and you can lock in most of your input costs as well as your selling price.



Troubleshooting the Problems in <u>Today's Grain Marketing Environment</u>

While selling at today's great prices can seem like a wonderful idea, the truth is that many farmers' situation is a little more complex than that. Many have already sold at least some percentage of their crop at lower prices, so selling today doesn't yield those profit per acre margins and only raises the overall average price. Another issue in many areas is a less than desirable growing environment that has caused below average yields or, in some cases, no yields at all.

For those frustrated because you sold a lot of grain at lower prices, you need to remember the reason you sold the grain in the first place. You sold it because you could make good money at that price and that fact hasn't changed. No one knows what prices will do; all you can manage is what's in front of you. Since you know that no one knows what prices will do, you also know that you can't sell the high of the market every year. Chasing the high is extremely dangerous and risks way more than it can ever reward over the long haul. Another danger of this line of thinking is that you assume if you hadn't sold anything to this point, you would sell it all now. Would you really? Or would you wait to sell some or most of your crop and end up taking a lesser price on it? Another beauty of your decision is your grain sold ahead becomes cash and never has any marketing fees (Storage, DP, etc) attached to it while you wait to sell. The best sale you can make is the sale you want to make because it makes you money rather than the sale you have to make because you need the money.

For those dealing with the difficult reality of poor yields, try not to lose sight of the bigger picture. That bigger picture is being a successful farmer over an entire lifetime. Bad years happen. In a business dependant on weather, it's practically unavoidable. Your job is to make sure it is confined to just the year of the bad crop. Don't allow the disappointment in this year's crop to keep you from doing what you know is right for next year's crop: locking in great profit levels by selling 2012 grain and buying what inputs you can. Next year could pick your business right back up or it could prolong the problems of this year if you don't forward contract and end up taking poor prices for your grain. Just like this year, crop insurance provides a bit of a safety net for you to forward contract with confidence that even if you don't make the crop, you will have the money to cancel and get out of the contract. You must keep in mind that a claim this year probably means a lower APH for next year, so don't overbook next year's crop.

Coffee Shop

Marketing in the Current Financial Landscape

The high prices in the grain business means a higher cost of doing business for everyone involved in handling grain. This includes end users, elevators, and terminals. No matter the vast difference in size of these operations, they all work within the parameters of what their bank is willing to loan them. The banks have tried to tighten up their ropes on the grain business due to the tripling of commodity prices in a very short period of time. One of the first items on the chopping block was carrying futures on extremely deferred positions (2-3 crop years into the future). So, many places that buy grain that used to offer 3 years worth of bids at any time 10 years ago, now only go out as far as they and their bank are comfortable. This usually means they will buy old crop grain and the first new crop.

This is where you can be savvy in your grain marketing. Once the 2011 harvest has started, banks and elevators will view 2012 as new crop and begin accepting new bookings. So while everyone is focused on this crop and getting it out of the field, selling it, etc., you can be locking down these large profits on next year's crop as well. Due to recent history, many of these facilities buying new crop grain also have a company limit in mind of how much new crop they want to buy. This is another reason to be first in line taking these historically large profits off the table.

Obviously, this is not true in all elevators. So, it is best to understand the policies of your local elevator well. This will help you understand your options on selling grain and allow you to develop the best possible strategy to take advantage of it.