

Farmers --- *Corner*

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Selling the Discount

This summer looks to be another interesting one for grain marketers. There are a lot of analysts and economists filling the Internet with plenty of “news” and numbers. As always, the most efficient and direct translation of this tsunami of information can be easily discovered at the Chicago Board of Trade. At any given instant, every bit of news is digested into the futures market and reflected in the prices there.

Right now, all the information available seems to agree on one thing: old crop corn is in relatively tight supply and new crop is expected to be relatively big. So, we are left with a situation where in most spots in the country, there is a significant price drop between old and new crop. This is the result of a combination of strong basis now vs. lower new crop basis as well as old crop futures being a big premium to new crop futures.

Processing this environment into some sort of marketing plan can be challenging to say the least.

Old Crop

When looking at old crop, it may be easy to say that the market thinks we are going to run out of corn this summer so higher prices are coming. Actually, that is the reason prices are ALREADY high. The market is aware of the projected supply and demand situation for the summer and has priced it in accordingly. Could prices go up? Sure. Could they go down? Absolutely. That’s why taking the very profitable price available today is a good idea. Getting out while you are in the money is always a good thing. We also know that right now the market says that waiting until the fall will deteriorate the value of your old crop grain significantly.

New Crop

Marketing new crop grain in this environment is the toughest job of all. It is difficult to sell your new crop grain for less than you can sell old crop for today. However, it may be the right thing to do.

The first thing you must do is to separate old crop and new crop like they are different commodities completely. You don't have your new crop to sell across the scales today, which is why it isn't worth \$1.50 more.

Once you have that old crop price that you CAN'T sell out of your head, it's time to analyze that new crop price that you CAN sell. Is it as profitable as it has been the last couple of years? Probably not. However, in most areas it IS profitable. All time profitability levels on the farms can't stay around forever, but with good marketing, profitability CAN stay around. To do that, you have to take profitable prices when they are available regardless of what distractions are out there... distractions like the discount to old crop.

Finally, history tells us that inversions from old crop to new crop are a great time to sell new crop grain. Looking back over the past 20 years, there have been 6 years before this year with summer inversions to new crop. They were 1994, 1996, 1997, 2003, 2004, and 2011. In 3 of those years ('11, '04', and '96) the DEC price fell more than \$1.00 from July to the fall. In another ('94), the price fell over 50 cents during that time period. The other two years, ('97 and '03), prices in July and prices in the fall were about the same.

So, in 4 of the 6 years of summertime inversions, selling the discount was the thing to do. And in the other 2 years, it didn't hurt you if you did sell the discount.

In conclusion, there is profit to be had in both old and new crops. While the environment of tight supplies in old crop may hinder you from selling both in old crop and new, it is actually trying to tell you just the opposite. The market is willing to pay profitable prices in both old and new crop. As someone who is in the business of farming grain and making money from that and not price speculation, the time to sell is probably now. Determine your profitability levels now and start putting the money in your pocket instead of letting it sit at risk of the whims of the market.