

ProfitTalk

Simple perspective on disciplined grain marketing for producers

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IT'S ACTION SEASON FOR GRAIN MARKETING

It has been quite a wild ride since the fall 2020 harvest began. Here's a quick recap of what it has felt like to be a farmer making selling decisions in this environment:

Pre harvest: Prices are terrible with not much hope of getting better.

"Guess I'll store and ignore for a while once I get this stuff harvested."

Harvest: Prices start rallying.

"Didn't think I'd get this chance, I guess I can sell some."

A few weeks later: Prices keep rallying.

"These numbers look pretty good, I'm gonna sell a little more than usual for this time of year."

A few weeks later: Prices keep rallying.

"I haven't seen these prices in years, better reward them and keep selling!"

A few weeks later: Prices keep rallying.

"How can I say no to these prices? I better go ahead and sell the rest before it's too late. My banker will be happy. This will be my best year in a long time."

A few weeks later: Prices...Keep...Rallying...

"Oh no! What have I done? I will never make this mistake again!"

It's time to look forward! We all know you can't change the past and you shouldn't be beating yourself up over selling profitable prices just because there could have been more profit available. So you didn't hit the high – that's not the goal of any farm marketing plan because it is essentially impossible. The goal is consistently selling good prices, not the high!

Over time, you will end up being the one who sells too early or the one who sells too late. The one that sells early usually sells because the price was good and returned a reasonable or good margin at the time. The one who sells too late most years is giving up and taking whatever they can get to cover bills that are due or make room for a new harvest. Over time, the one who sells "too early" is far and away in a better position.

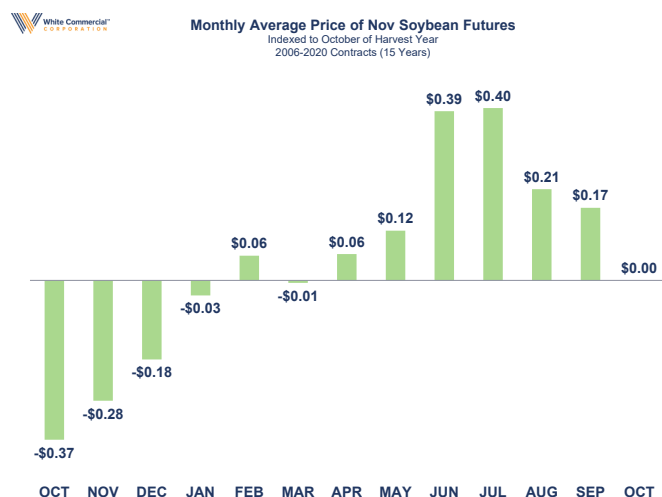
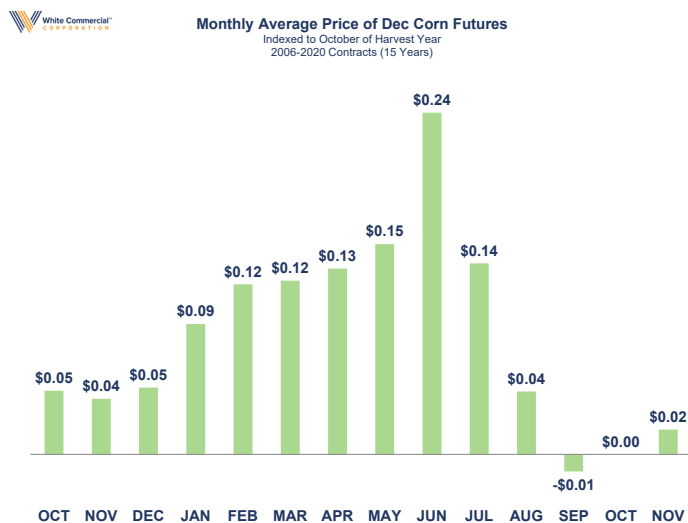
When you decided to be a better forward contractor and sell when profitable prices were available, years like this were part of that deal. You knew about 1 out of 10 years, these sorts of events take place where waiting around to sell could actually make you more money. The reason you sell ahead and take profits when available is because you know 9 out of 10 years, it's the best thing to do.

Here we are at that 1 out of 10 year. *Do you let it blow your perspective and ruin your marketing plan for years to come? Or do you remain calm and consistent in the face of a year you knew would happen eventually?*

Last time we had a big rally in corn was 2012/2013. While everyone was kicking themselves for selling the 2012 crop "too early", that winter of early 2013 set the highs for the 2013, 2014, and 2015 crop! Rallies tend to have long tails and if you are dwelling on the past and aren't looking forward, you could miss a big opportunity.

What Action Can Be Taken Now?

It's the time of year now when forward contracting should be at the forefront of everyone's minds. The late spring/ early summer season is usually a great opportunity to sell ahead for your fall harvest bushels as shown below:



Selling the high isn't the goal, but selling profitable prices at a time when the market is usually rewarding selling is a great plan. Do those charts mean that we haven't hit the top yet? No. It shows that a consistent marketing plan that sells ahead, over the long haul, will yield positive results.

We are in the action season for new crop!

We can't change the past and we don't know the future, so let's take a look at what the current picture is and what steps can be taken now.

At this point much of the cost of the crop is known and you can really make some great business decisions about profitability on the upcoming crop. Prices are high right now and most places are going to show good profitability numbers. But how much is enough? How much should be sold right now? What if there are production issues? All good questions.

In times like this, it's useful to think in terms of how much of the crop is needed to cover production costs and how many bushels would we have above that in an average year. Here is a sample from a recent conversation with a corn farmer in the south with some rough numbers:

In this case, the farmer had 75% crop insurance coverage. So, he could sell about two thirds of his production (118 bushels/acre) and cover all of his costs, but still be below his insurance coverage in the case of non-production. In doing this, he guarantees he can cover all the costs of his farm this year and any corn bushels he makes above 118 bu/acre will be 100% profit.

Current Year Corn	
Current Price	\$5.50
Cost Per Acre	\$650.00
Breakeven Bushels	118
Avg Prod History (APH)	180
% to cover all costs	65.7%

What does this math look like for you? Maybe you've sold some ahead already and would need to average up a bit. Maybe you haven't sold any yet, but your costs situation is much different. Or maybe this is pretty close to your situation.

Whatever the case, it's important to know where you are right now so you can make some decisions about it. Depending on when you are reading this, we are in or very close to the traditional time for making good new crop sales. Maybe selling today makes sense, if not, you need to have a plan and some target price contracts in and working with your local grain elevator so that you reward the market if and when the price gets to where you need it.

Make the 2021 crop a marketing win! Be decisive and take some action today!