Grain Market Prospects for 2017

A ‘Test Drive’ of 2017 Grain Sales Strategies

Otis, Kansas – February 14, 2017

DANIEL O’BRIEN
EXTENSION AGRICULTURAL ECONOMIST

Probability of Corn Futures Trends
Examining 1990-2016 (Last 27 years)

■ Likelihood of Level-Higher DEC Corn Futures??

- Trends through Spring-Summer (June-July)?
  ⇒ Spring-Summer Price ↑ occurred 27/27 Years (100%)

- Which direction did prices move by Fall (Nov-Dec)??
  ⇒ Price moving sideways / higher = 9/27 Years (33%)
  ⇒ Price moving lower = 18/27 Years (67%)
Probability of HRW Wheat Futures Trends
Examining 1990-2016 (Last 27 years)

- Likelihood of **Level-Higher** JULY HRW Wheat futures??
  - Trends through Spring (March-May)??
    - Spring Price ↑ occurred 26/27 Years (96%)
  - Which direction did prices move by **Summer** (July-August)??
    - Price moving sideways / higher = 10/27 Years (37%)
    - Price moving lower = 17/27 Years (63%)

Probability of Soybean Futures Trends
Examining 1990-2016 (Last 27 years)

- Likelihood of **Level-Higher** NOV Soybean Futures??
  - Trend through Spring-Summer (May-August)??
    - Spring-Summer Price ↑ occurred 23/27 Years (85%)
  - Which direction did prices move by **Fall** (Oct-Nov)??
    - Price moving sideways / higher = 12/27 Years (44%)
    - Price moving lower = 15/27 Years (56%)
Kansas Grain Market ‘Test Drive’ for 2017” Presentation
Walnut Creek District Extension Grain Marketing Strategies Workshop, Otis, KS

February 14, 2017

Prepared by Daniel O’Brien, Extension Agricultural Economist
Kansas State University
HAYS, KS: Corn Basis - MIDLAND MARKETING

www.AgManager.info

Corn Basis, 02-08-2017

Basis = Cash Price - Nearby Futures Price

CBT Mar Futures Price: $3.71

$/Bushel

- .36
- .44
- .47
- .49
- .52
- .54
- .61
- .64
- .69
- .75

Prepared by Daniel O’Brien, Extension Agricultural Economist
Kansas State University
Kansas Corn Seasonal Cash $ Index


West Central KS Corn Seasonal Cash $ Index

Monthly Prices: Comparing 5, 10, 15 year Historical Averages

Comparison of Historical Averages
Corn Cash & Futures Prices – Otis, KS
Local Elevators – February 13, 2017

<table>
<thead>
<tr>
<th>Month</th>
<th>Low Cash/FC$</th>
<th>High Cash/FC$</th>
<th>Futures</th>
<th>Marketing Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 2017</td>
<td>$3.76</td>
<td>$3.10</td>
<td>$3.00</td>
<td>$0.03/mo</td>
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<tr>
<td>Mar 2017</td>
<td>$3.89</td>
<td>$3.83</td>
<td>$2.04</td>
<td>$0.03/mo</td>
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<tr>
<td>Apr 2017</td>
<td>$3.94</td>
<td>$3.94</td>
<td>$2.04</td>
<td>$0.03/mo</td>
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<td>May 2017</td>
<td>$4.00</td>
<td>$4.00</td>
<td>$2.04</td>
<td>$0.03/mo</td>
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<td>Jun 2017</td>
<td>$3.52</td>
<td>$3.52</td>
<td>$2.04</td>
<td>$0.03/mo</td>
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</table>

HAYS, KS: Grain Sorghum Basis - MIDLAND MARKETING

www.AgManager.info

Prepared by Daniel O’Brien, Extension Agricultural Economist
Kansas State University
Grain Sorghum Basis, 02-08-2017
Basis = Cash Price - Nearby Futures Price

Kansas Sorghum Seasonal Cash $ Index

Prepared by Daniel O’Brien, Extension Agricultural Economist
Kansas State University
West Central KS Sorghum Seasonal Cash $ Index

**Monthly Prices:** Comparing 5, 10, 15 year Historical Averages

<table>
<thead>
<tr>
<th>Season</th>
<th>5-Year Average</th>
<th>10-Year Average</th>
<th>15-Year Average</th>
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<tbody>
<tr>
<td>Sept</td>
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<td>Dec</td>
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</tbody>
</table>

Sorghum Cash & Futures $’s – Otis, KS

Local Elevators – February 13, 2017

- **Futures:** $3.76
- **Low Cash/FC$:** $3.83
- **High Cash/FC$:** $3.89
- **Marketing Loan:** $3.94
- **Price / bu:**
  - $2.64
  - $2.74
  - $1.83
  - $4.00

*Price per bushel*
**What “Old Crop” Corn & Sorghum Marketing Strategies are Likely to Work Best in 2017?**

► For “Old Crop” 2016 Feedgrains

- **On-Farm Storage** ⇒ *Yes, but* not until spring-summer 2017
- **Off-Farm Storage** ⇒ *Maybe, but* will need larger 2017 rallies
- **Storage Hedge / Fwd Contract** ⇒ *No* ⇒ futures are “too flat”!
- **Buy Puts or Marketing Loan** ⇒ [*+ Mktg Loans*](#) (*↓ put costs*)
- **Sell Cash & Buy Call Options** ⇒ [*↓ wide Basis*](#) (*But DO after sales*)

**What “New Crop” Corn & Sorghum Marketing Strategies are Likely to Work Best in 2017?**

► For “New Crop” 2017 Feedgrains

- **Futures Hedge (HTA)** ⇒ *Yes, but* not until spring-summer 2017
- **Forward Contract** ⇒ *Maybe, but* watch for wide basis bids
- **Buy Puts** ⇒ *Maybe @ spring/summer rallies*
- **Marketing Loans** ⇒ Be aware of Mktg Loan$ vs Net Put$
- **Fwrd Contract + Buy Calls** ⇒ [*↓ wide Basis*](#) (*+ rally protection*)
**Wheat Markets**

CME Kansas Hard Red Winter Wheat


- **$4.33**
- **$4.59**
- **$6.01**
- **$3.67**
- **$4.66**

MAR 2017

$4.66

2/13/2017

Prepared by Daniel O’Brien, Extension Agricultural Economist
Kansas State University
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Kansas Wheat Seasonal Cash $ Index

**Monthly Prices:** 1999/00 – 2015/16 + “Current” MY 2016/17

West Central KS Wheat Seasonal Cash $ Index

**Monthly Prices:** Comparing 5, 10, 15 year Historical Averages
What “Old Crop” Wheat Marketing Strategies are Likely to Work Best in 2017?

- **For “Old Crop” 2016 Wheat**
  - **On-Farm Storage** ⇒ By now are waiting for Spring 2017 rally
  - **Off-Farm Storage** ⇒ Ditto on-farm, but need larger 2017 rallies
  - **Storage Hedge / Fwd Contract** ⇒ Hedge w. open basis (HTA)
  - **Buy Puts or Marketing Loan** ⇒ + Mktg Loans** (only buy put if LDP)
  - **Sell Cash & Buy Call Options** ⇒ ↓ wide Basis (but do if after sales)
What “New Crop” Wheat Marketing Strategies are Likely to Work Best in 2017?

For “New Crop” 2017 Wheat

- **Futures Hedge** ⇒ Yes, *but* not till Spring 2017 (watch basis risk***)

- **Forward Contract** ⇒ Maybe, *but* watch for wide basis bids

- **Buy Puts** ⇒ Maybe @ Spring rallies above Mktg Loan

- **Marketing Loan** ⇒ Today’s *dominant* strategy (end dates?)

- **Forward Contract + Buy Calls** ⇒ ↓ wide Basis (+ rally protection)

Soybean Markets

*Department of Agricultural Economics*
**Soybean Basis, 02-08-2017**

Basis = Cash Price - Nearby Futures Price

<table>
<thead>
<tr>
<th>Price</th>
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<tbody>
<tr>
<td>$0.06</td>
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<td>$0.98</td>
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<tr>
<td>$0.99</td>
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<tr>
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<td>$1.19</td>
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<td>$1.24</td>
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**Kansas Soybean Seasonal Cash $ Index**

*Monthly Prices:* 1999/00 – 2015/16 + “Current” MY 2016/17

Separate Months of the Sept. 1 to Aug. 31 U.S. Soybean Marketing Year

- **High** 85%
- **Average** 15%
- **Low** U.S. 2016/17 ($9.79 Avg$)
West Central KS Soybean Seasonal Cash $ Index

**Monthly Prices:** Comparing 5, 10, 15 year Historical Averages

### Comparison of Historical Averages

Seasonal Price Index

- **5-Year Average**
- **10-Year Average**
- **15-Year Average**

<table>
<thead>
<tr>
<th>Month</th>
<th>Seasonal Price Index</th>
<th>5-Year Average</th>
<th>10-Year Average</th>
<th>15-Year Average</th>
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<tbody>
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<td>Sept</td>
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<tr>
<td>Oct</td>
<td>100.0%</td>
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<tr>
<td>Nov</td>
<td>110.0%</td>
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<td>Dec</td>
<td>95.0%</td>
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### Soybean Cash & Futures $’s – Otis, KS

Local Elevators – February 13, 2017

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- **Low Cash/FC$**
- **High Cash/FC$**
- **Marketing Loan**

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<tbody>
<tr>
<td>Feb 2017</td>
<td>$10.54</td>
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<td>$0.0575 /mo</td>
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<td>Mar 2017</td>
<td>$10.25</td>
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<td>$0.04 /mo</td>
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<tr>
<td>April 17</td>
<td>$10.66</td>
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<td>$4.85</td>
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<tr>
<td>May 2017</td>
<td>$10.74</td>
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<td>June 2017</td>
<td>$10.71</td>
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<td>July 2017</td>
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What “Old Crop” Soybean Marketing Strategies are Likely to Work Best in 2017?

- **For “Old Crop” 2016 Soybeans**
  - **On-Farm Storage** ⇒ Yes, but @ risk to ↑ 2017 So. America crop
  - **Off-Farm Storage** ⇒ Ditto On-Farm storage but at higher costs
  - **Storage Hedge / Fwd Contracts** ⇒ No!! – futures are “too flat”!
  - **Buy Puts or Marketing Loans** ⇒ Yes ⇒ Buy Puts (No ⇒ Mktg Loan)
  - **Sell Cash & Buy Calls** ⇒ Use after cash sales “IF” mkt rallies

What “New Crop” Soybean Marketing Strategies are Likely to Work Best in 2017?

- **For “New Crop” 2017 Soybeans**
  - **Futures Hedge** ⇒ ??? – How much risk of low fall 2017 $’s?
  - **Forward Contract** ⇒ Ditto, but watch for wide fall ‘17 basis bids
  - **Buy Puts** ⇒ Yes – @ spring/summer rallies
  - **Marketing Loans** ⇒ Extremely low Mktg Loan$ vs Net Put$s
  - **Forward Contract + Buy Calls** ⇒ Use as post-FC rally protection