

This is the second in a series of monthly articles sponsored by Asgrow that discuss consistency and simplicity in grain marketing. Ed Usset, grain marketing specialist with the University of Minnesota, discusses his simplified approach to grain marketing.



Ed Usset

# The Postharvest Marketing Challenge

While preharvest marketing plans change little from year to year, postharvest plans can and must change every year, says Ed Usset, University of Minnesota grain marketing specialist. "To me, postharvest marketing is all about understanding carrying charges

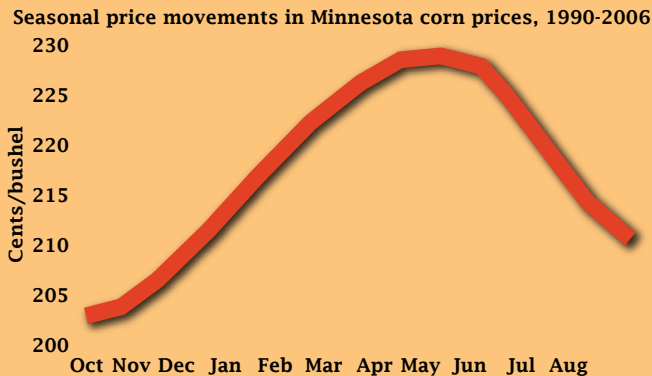
- what they tell me about the market and how should I react."

But first, let's look at postharvest seasonality of cash and futures prices and basis.

## Price patterns after harvest

To no one's surprise, on average, cash grain prices are lowest at harvest and rise in the spring. "Many producers believe futures prices have the same tendency, but the evidence is not there for corn and spring wheat. Future's price direction after harvest is a coin flip," Usset says.

For example, in his book "Grain Marketing Is Simple,"



Usset analyzes July futures price changes from harvest to the following spring (Oct. 15 to May 15) over the last 18 years. For corn, the market declined in 10 of those 18 years. For soybeans, the market increased 13 out of 18 years from autumn to spring. Results in wheat mirrored corn - declines in 10 of 18 years.

Averages, of course, can be deceiving, and there are exceptions, just as there is great price volatility from one year to the next. "For the cash market, a narrowing basis is clearly the primary driver behind rising prices in corn, but futures prices are a wild card.

## Carrying charges and selling the carry

A basic carrying charge (difference in price between futures delivery months) rule of thumb is that large grain supplies = large carrying charges and low prices. "Large carrying charges tell us that the market doesn't need grain today but will pay a premium for grain later. The opposite of this (inverted market) where future prices are lower means your grain is wanted today, not in the future," Usset says. "And more often than not, we ought to do what the market wants us to do."

Selling the carry demands a view of the whole market: futures and cash. If the carry is large enough in both markets, then sell the carry using a forward contract, selling futures or a hedge-to-arrive (HTA) contract. Your opinion of basis will determine which tool works best.

"For example, in early September, CBOT had a large corn carry of 41¢ (December corn \$5.62 and July \$6.03), so selling the carry may offer a better result and less risk. But in soybeans, the opposite is true. There is currently a 45¢ carry (November beans \$12.52 and July \$12.97), which isn't big enough due to storage costs, but at least it is positive," he says.

## Storage costs

"Know your on-farm costs, because it's difficult to make commercial storage work over the long haul at 4¢/bu./month, Usset says. The most important on-farm storage costs are variable costs, with interest expense and in-and-out handling (shrink, damage) costs being the most important variables (unless you have fixed costs on bin loans, as well). "North Dakota State University studies estimate in-and-out costs at 8¢/bu. for corn and wheat and 11¢ for soybeans.

"If your operation has debt and pays commercial storage rates, it is difficult to make the case for storing unpriced grain or selling the carry," he adds.

Next issue: How to write a postharvest marketing plan.



For more details on this topic, watch Usset's video on this subject at [http://cornandsoybeandigest.com/consistency\\_counts\\_asgrow/](http://cornandsoybeandigest.com/consistency_counts_asgrow/) and buy his book called "Grain Marketing Is Simple" at [www.cffm.umn.edu/simple/](http://www.cffm.umn.edu/simple/).