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Futures Markets: Where do they fit in my marketing plan?

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Meeting the Challenge:
Farming In Uncertain Times

University of Nebraska Lincoln EXTENSION

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Crop producers in Nebraska have a number of market options to consider each year. The proper use of these tools and the timing of sales are the keys to successfully marketing strategies. The keys to a good marketing plan are knowing what it cost to produce the crop, both cash costs and total costs, understanding the market, setting sales goals, and making sales when those goals are reached.

For corn producers, the highest price for the year occurs between February and July each year. The exceptions over the past 10 years were 2002 and 2006. Knowing the markets and having tools in place to make these sales may make the difference between capturing a profitable price and losing money on the corn crop.

Over the past 10 years, there were only two years when a corn producer did not have an opportunity to sell above $2.70 per bushel, and only three years when there was no opportunity to sell above $3.00 per bushel. In most years, there are a number of marketing opportunities, including futures, options, cash forward contracts, and cash marketing after harvest.

Since early last summer, the opportunities for cash forward contracts have been a little more difficult to find. In some cases, cash contracts were not available for a period of time when prices moved toward record highs. As of early April, cash contracts for the 2010 crop were still either limited or not available at all. With this tool unavailable, it may be a good year to look into setting up a hedging account in case the cash contracts are not available for another key period this summer.

Looking into the next couple of crop years, there may be some real opportunities to enter into the futures market in the next few months. Hedging the corn crop might be a way to capture the typically higher prices between now and mid-July. A key to hedging crops is to stick with the hedge even if prices move much higher than anticipated. This will take discipline as the margin calls come in and the market moves higher.

Producers who placed a hedge on corn at this time last year were able to lock in $5.00 corn prices and looked to be in great shape. In late June, weather scares pushed the corn price to nearly $7.00 and producers who had hedged in March were concerned about the margin calls. However, those same producers were pleased to have that $5.00 hedge when harvest rolled around and corn was in the $3.50 range.

There will be weather-related increases in the corn market this spring and early summer, as there are nearly every year. Be prepared to take advantage of these opportunities when they occur and get some corn sold at the time when corn prices are historically at their highest.

Now is the time to sit down and determine what your costs will be this year and develop that marketing plan. Once the marketing plan is put together, communicate with your lender, buyer, and broker (if necessary) on a regular basis to allow you to make timely sales and put the market to work for you.

Online at:

http://panhandle.unl.edu/web/panhandlerec/meeting_challenge_10