



Think Outside the Bin

By Tim Smith (Nov 9)

Harvest activity is nearing completion and farmers are faced with historically weak basis and corn values below their cost of production. Farmers across the Midwest are likely planning on storing corn either in on-farm storage or through their local elevator, crossing their fingers and hoping to achieve a profitable sales price at a later date. I am asking producers to “think outside the bin,” avoid storage shrink and paying hefty storage costs, while still setting a minimum price for your bushels and participating in potential future market gains.

The most straightforward re-ownership strategy is to simply sell cash grain and simultaneously buy futures. This allows producers to generate cash flow, set a minimum price, remove basis risk, and provide unlimited upside potential. Re-ownership through futures will allow a producer to benefit penny for penny in a rise in value. Risk is unlimited and it should be understood that a decline in value would create the immediate need for additional margin funds.

Producers that are more risk adverse could consider making a cash sale and purchasing a call option. The producer’s risk is limited to a one-time premium cost, which will vary depending on the amount of time purchased. The long call will allow a producer to have the ability to be long the market and maintain ownership of their previously sold bushels, while avoiding the risk for additional margin funds if values decline.

Producers that believe the lows have been reached and are less risk adverse could consider selling cash and transferring risk to the futures market through buying a call and selling an out-of-the-money put. The long call allows a producer the ability to participate in market gains, while the short put reduces the upfront cost. There is margin risk associated with the short put and additional funds would be required if values decline. A producer benefits from this strategy if market value rises during a specific timeframe.

My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions at 312.242.7308 and tim.smith@archerfinancials.com.

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