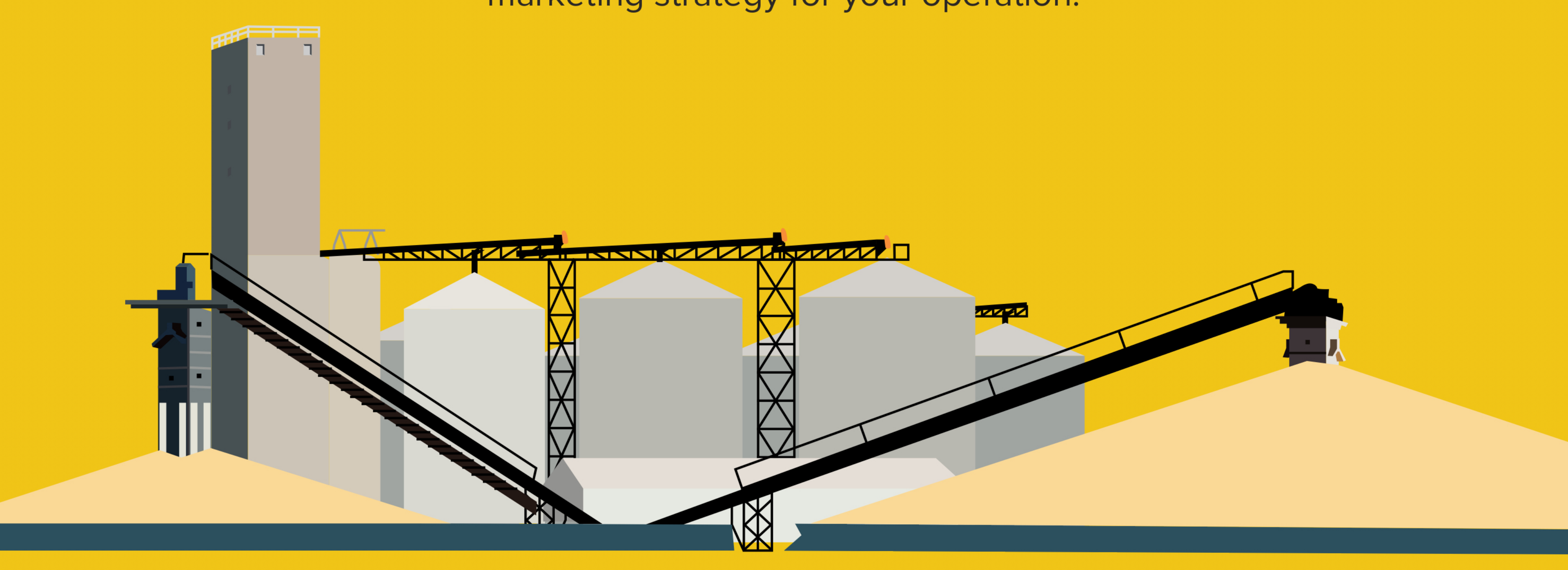
FarmLogs

Grain Marketing Strategies Decision Guide

Compare Your Alternatives for Protecting Risk

Deciding how to market your grain can be complicated. With so many different strategies, it can be difficult to figure out where to start. We've put together a decision guide to help you choose the most effective grain marketing strategy for your operation.



PAPER CONTRACTS on the Exchange

With paper contracts on the exchange, you execute through a marketing consultant or broker.

PHYSICAL CONTRACTS with a Local Buyer

When you use physical contracts with a local buyer, you execute through an elevator, processing plant or ethanol plant.

Find the Best Fit for Your Operation

Exploring different grain marketing strategies can help you figure out what works best for your unique operation.

In the chart below, you'll see a variety of different marketing strategies and their benefits. The left side covers marketing strategies executed through a marketing consultant or broker. The right side covers marketing strategies executed through a local delivery point. In the middle, yellow column you'll find questions to consider when making a decision on a marketing strategy.

PAPER CONTRACTS on the Exchange					PHYSICAL CONTRACTS with a Local Buyer			
SELL FUTURES *Protects against falling prices*	**BUY A PUT** *Protects against lower prices, but provides opportunity if prices rise*	**SELL A CALL** *Increase your selling price in a stable market*	**BUY A CALL** *Protects against rising prices*		**CASH CONTRACTS** *Sell at a specified delivery point for a specified cash price*	**HEDGE-TO-ARRIVE** *Sell at a specified delivery point and set the futures price, basis is floating*	**BASIS CONTRACT** *Sell at a specified delivery point with the basis, futures price is floating*	**SPOT SALE** *Sell at the market to a local delivery point*
Initial margin required, must have cash flow reserved to handle margin calls	Maximum loss is limited to the premium of the option	Potential loss is unlimited, position behaves similar to selling futures if the market moves higher	Maximum loss is limited to the premium	**What should I consider from a financial standpoint?**	Settlement at local delivery point			
Futures as a hedge	None, you set a futures price floor, the floor = the Put Strike - the Premium	Potentially fixed if the market goes above strike price, not fixed if market stays below strike	None	**What price is fixed?**	Futures and basis	Futures	Basis	Futures and basis
Financially settled, so delivery remains flexible				**What about delivery?**	Contracted delivery to a specific location			
Basis is floating				**What about basis?**	Basis is fixed when contracted	Basis is floating	Basis is fixed when contracted	Basis is fixed when contracted
To protect a specific futures price when not ready to set basis, has flexible delivery location and opportunity to market 1-2 seasons in advance	To set a futures price floor in the market or minimum price	To lower cost of buying a call	"Plan B" against priced crop that is undelivered, to re-own priced, delivered crop	**When is it best?**	To protect a specific futures and basis price and secure delivery at a specific location	To protect a specific futures price when not ready to set basis, and secure delivery at a specific location (in some cases, may be able to pickup carry)	To protect a specific basis price when not ready to set futures, and secure delivery at a specific location	Strong basis or flat price bid
No upside participation	You have upside particpation: Final futures price = Market price - Put option premium	Potentially short futures at strike price	The value of the call will likely increase	**What if futures prices go up?**	No upside participation	No upside participation	You have upside participation	No upside participation
No downside risk	Your futures price floor protects downside	Receive the premium	Lose the premium	**What if futures prices go down?**	No downside risk	No downside risk	You have downside risk	No downside risk