Store or Sell?

As harvest winds down producers are faced with the delima of whether to sell grain or put it in storage. Most producers when faced with this decision tend to focus on their own unique storage situation, with storage available on the farm, and simply "fill the bins." The logic is that the bins are there and consequently they should have grain in them. The bins are paid for, or are being paid for, thus the mindset is that it doesn't cost anything to put the grain in storage. This ignores the facts that there is the interest costs on the money, a producer may need to run the fans, the time and effort (labor) of periodically checking on the grain, the invisible shrink, or the quality issues of actually storing the grain. We'll leave that discussion for another day but we do firmly believe that there is at the very least the interst costs and around 10 cents/bu., for the 3-6 months of storage, in other costs.

The corn market currently, as of Friday 10-30-20, has a carry of about 9 cents from Dec. to July. At one time last week there was no carry, the Dec. and July were trading at the virtually same price. The soybean market is actually inverted, meaning the deferred contracts are trading at a discount to the nearby Nov. contract. Currently, as of 10-30-20, that inverse is at 13 cents. It has been as much as 30 cents. The normal structure of the grain market is a carrying charge market. This offers the owner of the grain an incentive to carry, or store, the grain out into the future. The smallest carry for corn, in the last 5 years, at this time of the year, was about 18 cents with the biggest nearly 30 cents. In the soybeans the smallest of the past 5 years was about 25 cents with the greatest just over 50 cents.

When we have a flat or inverted market that is the market telling you that "you can store the grain but we are not going to pay you for it," in the soybeans it is saying that we will even penalize you by paying you less than we will right now!

The other consideration is the basis, when the basis is strong it is a sign that the market wants your grain now. When it is weak, and there is a carry in the marketplace, it is telling you that you should own, or store, grain. Currently the corn and bean basis levels are very good, in corn it is equal to or better and in soybeans it is significantly better, than they have been in each of the last 3 years. This is a marketplace that is saying that it wants your grain now rather than paying you, either with a basis improvement or carry in the market, to store your grain for later deliery.

If ownership is desired look to futures or to call options. Our preference is call options as they offer a limited risk position. If the market turns lower, for any reason, the premium that you pay for the calls is all the exposure that you have. At-the-money July calls, currently they are the $4.10 in corn or the $10.40 for soybeans. Presently these are trading for around $.30 and $.60 respectively for the corn and bean calls. If prices continue higher, they will gain in value keeping the upside price potential open. If, however, we see a correction (China completes their purchase program??) and prices move lower then with the call opitons you would have limited risk position. The premium that was paid to purchase the calls is all that is at risk.

We are not necessarily bullish or bearish, we simply think that managing your price risk and exposure makes sense. With the recent, historical, strong counter-seasonal price strength and all of the uncertainty surrounding COVID-19 and the economy (and China) we like the limited risk position that the calls offer. The marketplace is telling you, via the lack of carry in the market and the strong basis levels, that it wants your grain now. We are inclined to take advantage of that, moving grain now and then, if retained ownership is desired, to use call options.

For more information on this or a free on farm analysis of your unique situration contact Market Wise at 1-800-928-5401, or email us at research@marketwiseagservices.com.

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