

# **Executing a 2012 Idaho Grain Marketing Plan**

**Presented by Craig Corbett, Grace, ID  
& Carley Garner, DeCarley Trading**

**November 20, 2012**

# Idaho Grain Production Scenarios

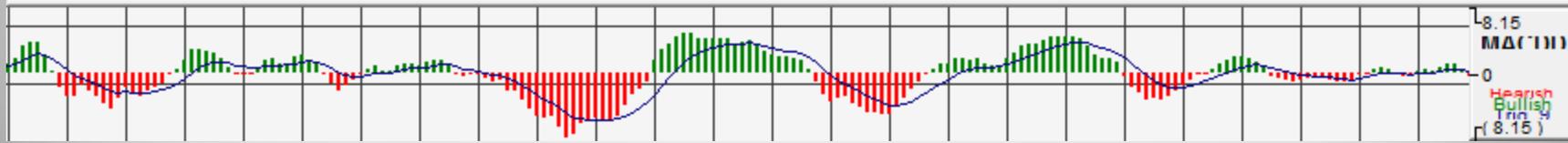
- **700 acres malting barley, ave. yield 120 bu (84,000 bu).**
  - 100% forward contracted at ave. price of \$6.65/bu
- **800 acres winter soft white wheat, ave. yield 130 bu (104,000 bu).**
  - 25% forward contracted at \$6.15/bu

# Malting Barley Marketing Scenarios

- **700 acres malting barley, ave. yield 120 bu (84,000 bu).**
  - 100% forward contracted in late fall 2011 at ave. price of \$6.65/bu
- **Key Decision Points:**
  - March 2012 planting date.
  - Price outlook - CHI Dec. 2012 corn chart for guidance (barley cross hedge)

# Corn (Combined) Dec-12

MOVING AVERAGES: [9Dy : 743.86] [18Dy : 748.96]



# Malting Barley Marketing Scenarios

- **Corn futures price has been down-trending since Sept. 2011 high.**
- **Weak technicals-** 50% retracement and cross over of Moving Average and MACD signal lower lows.
- Market believes 15 billion bu crop coming, based on +4% acreage.
- **Jan. market moved sideways.**

# Malting Barley Marketing Scenarios

- **Actions:**

- Do nothing – at risk of lower prices.
- Buy highest level of Revenue Protection insurance you can afford (such as 80 to 85% buy-up) with harvest price option.
- Buy puts below the market to lock in price floor on % of production.

# Malting Barley Marketing Scenarios

- Hedging with commodity options
  - Like insurance, it isn't free (or even cheap) but you'll be glad you have it if you ever need it
    - Because there are no guarantees the insurance will pay off, cost management is critical
- Options markets offer hedgers a more liquid, transparent and customizable insurance policy than traditional means
  - Futures/options trading/hedging involves risk and may not be suitable for everyone

# Malting Barley Marketing Scenarios

- Steps to purchase commodity options
  1. **Open a trading account**
  2. **Determine service level**
  3. **Weigh your “options”**

# Malting Barley Marketing Scenarios

- **Account type** – Corporate, Partnership, Individual, Joint
  - Electronic Account Application (electronic question and answer, electronic signature using recorded IP address)
    - 5 to 10 minutes
    - Account number within a day or two
  - PDF Application (print, sign, return)
    - For those uncomfortable with online security
      - Can be returned by fax, scan and email or mail
- **Email [cgarner@decarleytrading.com](mailto:cgarner@decarleytrading.com) for account application**

# Malting Barley Marketing Scenarios

## ***3 Ways to execute option purchase***

- **Broker** – Full service or broker assisted clients place orders by phone, email or instant message (subject to technical issues)
- **Trading Platform** – Downloadable or web-based application that enables traders to buy or sell commodity futures and options electronically without interaction with a broker
  - Mobile (BlackBerry, iPad, iPhone, Android)
- **Trade Desk** – 24 hour service available to clients in the case of an absent broker (overnight) or technical problems with trading platform

# Malting Barley Marketing Scenarios



**Buy Call ~ Bullish**  
(Insurance against rising prices)

- Pay (premium) for the right but not the obligation to *buy* a futures contract at a specified price (the strike) at a specified date in the future
  - The “option” to buy the underlying
  - Buyers are acquiring the rights that come with the option
  - Eroding asset
    - Right becomes less valuable as time passes



**Buy Put ~ Bearish**  
(Insurance against falling prices)

- Pay (premium) for the right but not the obligation to *sell* a futures contract at a specified price (the strike) at a specified date in the future
  - The “option” to sell the underlying
  - Buyers are acquiring the rights that come with the option
  - Eroding asset
    - Right becomes less valuable as time passes

# Malting Barley Marketing Scenarios

Most important rule in buying calls or puts for insurance...

***Buy insurance when you can, not  
when you have to***

# Lower Cost of Option Insurance with Timing of Price and Volatility

ZC212 ~ Daily - SMA SMA SMA

Puts are insurance against price declines, be cost efficient with timing and placement.

Buy puts on an upswing, or in a quiet market

Buy puts with strikes below support.



Contract	Last	Order Entry	Monetary ...	Net Change	NC %	High	Low	Bid	Ask	Open	Volume
ZCH13	723^0 ( 1 )		\$36,150.00	0^6	0.10 %	730^0	720^2	722^6 ( 60 )	723^2 ( 51 )	722^0	39104

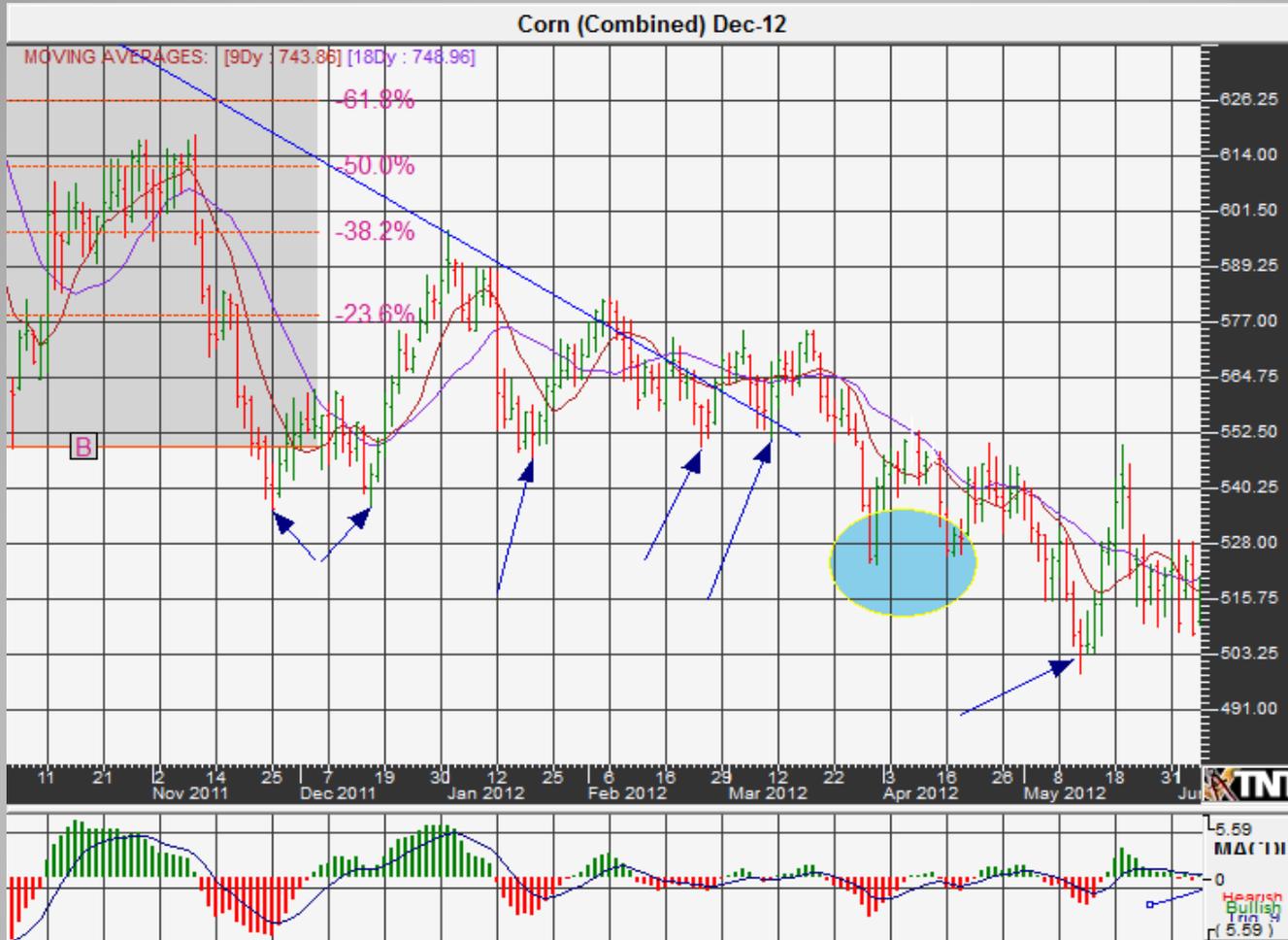
P/L	\$0.00	Delta	~ 0.0000	Gamma	~ 0.0000	T
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F13-January 13   G13-February 13   H13-March 13

**Strike = Price insurance kicks in**

Strike	Order Entry	Last	Prev. Settlement	Monetary Va...	Days to Exp.	Bid	Ask	Delta	Exp. Date
650		1^5 P	1^5	\$81.25	39	1^4 ( 196 )	1^7 ( 115 )	-0.0747	12/21/2012
655		2^0 P	2^0	\$100.00	39	2^0 ( 140 )	2^2 ( 35 )	-0.0896	12/21/2012
660		2^4 ( 10 )	2^4	\$125.00	39	2^3 ( 181 )	2^5 ( 10 )	-0.1032	12/21/2012
665		3^1 P	3^1	\$156.25	39	3^0 ( 102 )	3^2 ( 20 )	-0.1227	12/21/2012
670		3^6 ( 1 )	3^7	\$187.50	39	3^5 ( 130 )	4^0 ( 168 )	-0.1436	12/21/2012
675		3^7 ( 1 )	4^6	\$193.75	39	4^3 ( 193 )	4^6 ( 45 )	-0.1659	12/21/2012
680		5^3 ( 3 )	5^6	\$268.75	39	5^3 ( 95 )	5^5 ( 20 )	-0.1916	12/21/2012
685		6^7 P	6^7	\$343.75	39	6^3 ( 142 )	6^6 ( 77 )	-0.2195	12/21/2012
690		8^0 ( 1 )	8^1	\$400.00	39	7^5 ( 143 )	8^0 ( 120 )	-0.25	12/21/2012
695		9^0 ( 10 )	9^4	\$450.00	39	9^1 ( 121 )	9^4 ( 138 )	-0.2834	12/21/2012
700		10^7 ( 4 )	11^1	\$543.75	39	10^7 ( 10 )	11^1 ( 107 )	-0.3183	12/21/2012
705		12^5 ( 10 )	13^0	\$631.25	39	12^4 ( 134 )	12^7 ( 10 )	-0.3532	12/21/2012
710		14^1 ( 7 )	15^1	\$706.25	39	14^5 ( 74 )	15^0 ( 136 )	-0.3906	12/21/2012
715		16^4 ( 14 )	17^3	\$825.00	39	16^7 ( 63 )	17^2 ( 76 )	-0.4281	12/21/2012
720		18^5 ( 10 )	19^6	\$931.25	39	19^2 ( 99 )	19^5 ( 3 )	-0.4656	12/21/2012
725		21^0 ( 8 )	22^4	\$1,050.00	39	21^7 ( 89 )	22^3 ( 72 )	-0.503	12/21/2012
730		24^0 ( 9 )	25^3	\$1,200.00	39	24^6 ( 72 )	25^2 ( 93 )	-0.5396	12/21/2012
735		26^5 ( 58 )	28^4	\$1,331.25	39	27^6 ( 72 )	28^2 ( 10 )	-0.5753	12/21/2012
740		31^6 P	31^6	\$1,587.50	39	31^0 ( 56 )	31^4 ( 37 )	-0.6095	12/21/2012
745		35^1 P	35^1	\$1,756.25	39	34^2 ( 56 )	35^1 ( 90 )	-0.6418	12/21/2012
750		37^4 ( 1 )	38^6	\$1,875.00	39	37^5 ( 50 )	38^5 ( 1 )	-0.6738	12/21/2012
755		39^1 ( 1 )	42^4	\$1,956.25	39	41^3 ( 50 )	42^3 ( 45 )	-0.7024	12/21/2012
760		46^3 P	46^3	\$2,318.75	39	45^1 ( 54 )	46^2 ( 45 )	-0.7299	12/21/2012
765		48^6 ( 1 )	50^3	\$2,437.50	39	49^1 ( 45 )	50^2 ( 44 )	-0.7546	12/21/2012
770		54^4 P	54^4	\$2,725.00	39	53^2 ( 1 )	54^3 ( 44 )	-0.7771	12/21/2012
775		58^6 P	58^6	\$2,937.50	39	57^2 ( 12 )	58^5 ( 12 )	-0.7992	12/21/2012
780		63^0 P	63^0	\$3,150.00	39	61^5 ( 12 )	62^7 ( 12 )	-0.818	12/21/2012
785		66^4 P	66^4	\$3,325.00	39	65^7 ( 12 )	67^2 ( 12 )	-0.8364	12/21/2012
790		71^0 P	71^0	\$3,550.00	39	70^3 ( 12 )	71^6 ( 12 )	-0.851	12/21/2012
795		76^3 P	76^3						

Higher strike = Higher cost of insurance



**May through June 2012 –**

- **Technicals still showing downtrend (Moving Averages & MACD).**
- **Crop insur. working.**
- **Puts working.**
- **Cash forward sales working (\$6.65/bu).**



- End of June through Aug 2012 –**
- **Technicals show trends are changing.**
  - **Crop insur. Is working.**
  - **Time to lift puts and take profit.**
  - **Cash forward sales still working (\$6.65/bu), but could buy calls to capture upside price potential.**

# Calls gain value quickly! If you aren't in prior to a rally insurance is expensive.

ZC212 ~ Daily - SMA SMA SMA

Calls are insurance against price increases, be cost efficient with timing and placement.

Buy calls on a downswing, or in a quiet market

849^1

777^2

712^3

Buy calls with strikes above resistance.

RSI

WPR

Jun Jul Aug Sep Oct Nov Dec

975^0  
950^0  
925^0  
900^0  
875^0  
850^0  
825^0  
800^0  
775^0  
759^0  
751^4  
744^0  
725^0  
715^6  
72  
60  
48  
36  
100  
50  
0



# Wheat

## Marketing Scenarios

- **800 acres winter soft white wheat, ave. yield 130 bu (104,000 bu).**
  - 25% forward contracted at \$6.15/bu
- **Key Decision Points:**
  - Sept. 2011 planting date.
  - Price outlook - CHI July 2012 wheat chart for guidance

### Wheat, CBOT (Combined) Jul-12



10.27  
MA(10)  
0  
Bullish  
Bearish  
(10.27)

# Wheat Marketing Scenarios

- **Wheat futures price has been down-trending since Sept. 2011 high.**
- **Weak technicals-** cross over of Moving Average and MACD signal lower lows.
- Market is expecting large global wheat crop.
- **Jan. market moved sideways.**

# Wheat Marketing Scenarios

- **Actions:**

- Do nothing – at risk of lower prices.
- Buy highest level of Revenue Protection insurance you can afford (such as 80-85% buy-up) with harvest price option.
- Buy puts below the market to lock in price floor on % of production.

Wheat, CBOT (Combined) Jul-12



## May through June 2012 –

- **Technicals still showing downtrend (Moving Averages & MACD) BUT in early July we see significant changes.**
- **Crop insur. working.**
- **Puts working. But we lift them on June 30, take profits.**
- **Buy calls.**



## End of June – August 2012

- Futures trending higher.
- Lift puts at end of June.
- Could consider buying calls on previously sold bushels (25%).
- Sell signal when Moving Averages and MACD cross (July 25).
- Make cash wheat sales or buy puts.

# Questions?

[cgarner@decarleytrading.com](mailto:cgarner@decarleytrading.com)

# Basic Marketing Workshops

## LIVE SESSIONS IN REXBURG & POCATELLO

### **Dec. 4 - How do grain markets work and what tools are available?**

9:00 - 11:00 am at **Rexburg Library** at 73 N Center

2:00 - 4:00 pm at the **Idaho Farm Bureau** main office in Pocatello, 275 Tierra Vista Dr., alongside I-15

### **Dec. 5 - Developing a 2013 Grain Marketing Plan using cash and hedging tools and technical futures signals**

8:00 - 11:00 am at **Rexburg AmericInn**, 1098 Golden Beauty Drive

2:00 - 5:00 pm at **Idaho Farm Bureau** main office in Pocatello

### **Dec. 10 - Making Adjustments to your Grain Marketing Plan in Volatile Grain Markets**

8:30 - 11:00 am at **Rexburg Library** at 73 N Center

2:00 - 4:30 pm at the **Idaho Farm Bureau** main office in Pocatello

# Thank You to Our Sponsors

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