Fine-tuning your 2012 Malting Barley Contract and Wheat Marketing Strategies in Volatile Grain Markets

Presented by Craig Corbett, market analyst & grain producer

IDAHO BARLEY COMMISSION

Selling Production

Forward Contracting

Selling In The Cash Market

Questions We All Have

- Is this a good price ?
- Will the prices go higher or lower ?
- Should I pull the trigger ?
- What happens if I am wrong ?
- How does the price fit my plan ?

Insanity: doing the same thing over and over again and expecting different results.

Albert Einstein

What are Futures Options ?

- An option is the right, not the obligation, to buy or sell a futures contract at a designated strike price. For trading purposes, you buy options to bet on the price of a futures contract to go higher or lower. There are two main types of options - calls and puts.
- **Calls** – You would buy a call option if you believe the underlying futures price will move higher. For example, if you expect corn futures to move higher, you will want to buy a corn call option.
- **Puts** – You would buy a put option if you believe the underlying futures price will move lower. For example, if you expect soybean futures to move lower, you will want to buy a soybean put option.
- **Premium** – You are obviously going to have to pay some kind of price when you buy an option. The term used for the price of an option is premium. You can think of the pricing of options as a bet. The bigger the long shot, the less expensive they will be. Oppositely, the more sure the bet is, the more expensive it will be.
- **Contract Months (Time)** – Options have an expiration date, which means they only last for a certain period of time. When you buy an option, you cannot hold it forever. For example, a December corn call expires in late November. You will need to close the position before expiration. Generally, the more time you have on an option, the more expensive it will be.
- **Strike Price** – This is the price at which you could buy or sell the underlying futures contract. For example, a December $3.50 corn call allows you to buy a December futures contract at $3.50 anytime before the option expires. Most traders do not convert options, they just close the option position and take the profits.

Malt Barley Co

- Offer to contract at $6.50/bu.
- Price can move with other grains
- Price can move as company fills needs

What are you going to do?

- Is this a good price?
- Is the market look like its going higher?
- Could this be the top?
- Will it move later on in the year?
- What does my plan list?
- It has got to go higher they (the buyer) knows this or they would not have offered this price.

Options

- Sell some at the price forget it after it is done, its over.
- Sell at some at the price look to replace with call options
- Buy puts and study the market when the grain is priced lift the put hedge.
- Do nothing. Be a market watcher.

Buy Call Options

- Replace sold grain with Call Options.
- Look at both Corn and Wheat Calls
- Which will work better for us and what are the market trends.

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March Corn

- March trading at 663.5
- 660 call is bid .49 cents
- 680 call is bid .40.5 cents
- 700 call is bid .33 cents
- 720 call is bid .26.5 cents

March Wheat Chicago

- March Wheat Trading at 664.0
- 660 Call is bid 48.5
- 680 Call is bid 40.5
- 700 Call is bid 32.5
- 720 Call is bid 26.5

Call Option Strategy

- Price for grain is locked in.
- Can pick up price increase in call option
- Only lose what the Call option costs.
- Study markets. Don’t let it go to 0.

Put Option Strategy

- **Puts** – You would buy a put option if you believe the underlying futures price will move lower. Or as a hedge for lower prices on grain that is not priced.
- **Premium** – You are obviously going to have to pay some kind of price when you buy an option. The term used for the price of an option is premium. You can think of the pricing of options as a bet. The bigger the long shot, the less expensive they will be. Oppositely, the more sure the bet is, the more expensive it will be.
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Put Option Strategy

- Buy puts and let the cash market go you will be locked in at the strike price of the put option you buy less the premium you pay.

March Corn

- March Corn trading at 663.5
- 660 put is bid 45.5
- 640 put is bid 36.0
- 620 put is bid 27.5

March Wheat Chicago

- March Wheat Trading at 664
- 660 put is bid at 45.5
- 640 put is bid at 36.5
- 6.20 put is bid at 28.0

- If Puts are used lift them at the time of cash sale.
- If calls are used lift them when your market study tells you to.

RA Crop Insurance

- One of the best tools to use to manage risk-- both production and price.
- Crop Insurance is buying both Puts and Calls for you with the correct buy up policy.
- Buy up all you can, then go one level higher!!
- You will farm with less risk.
- It will cost you out of pocket money.
- In some cases the revenue value will make the insurance crop loss cost very little.
- The market figures will be real.

Dec 6th Workshop with Dr. Art Barnaby, notable KSU ag economist.

Red Lion Hotel, Pocatello, ID 8:30-4:00PM.

Pre-register by calling IBC office at 208-334-2090 or email kolson@idahobarley.org

Thank You For Attending

QUESTIONS?

Thank You

IBC would like to thank the University of Idaho CALS (IT staff Adam McKinney) for providing webinar technical support; and the Western Center for Risk Management Education and USDA/NIFA for funding support.

Washington State University Extension
Western Center for Risk Management Education

USDA NIFA
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National Institute of Food and Agriculture

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