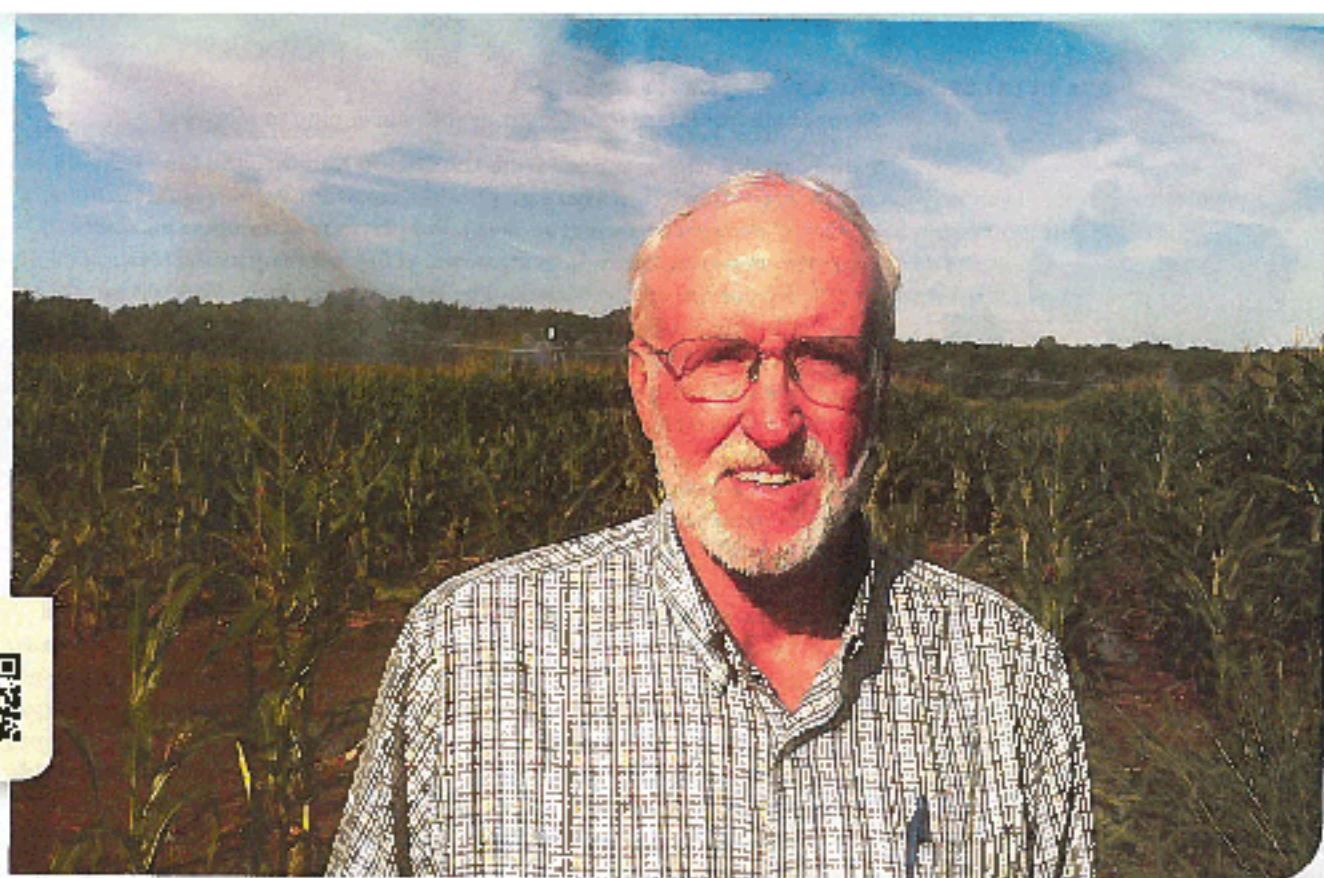


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Think different

With new-crop corn potentially dipping below \$5, there are fears \$4 could be nearby. That signals storing unsold grain, or backing up sales with call options to capitalize on price rallies, says Gavin McPherson, consultant/analyst with CIB in Chicago.

"My function is to make the farmer-client accountable, to realize where things are and to have them make a decision," he says. "If you're not selling today (with lower prices), you should be in a protection mode."

Ken Norton's average corn price this year was about \$6 per bushel, including \$5.50 put options that helped capture downward shifts in futures prices.

Manage your margins

Tie production costs and pricing decisions together.

By Larry Stalcup

A positive return is all Ken Norton asks for from his Bronson, Mich., farm. He pursues that by maximizing margin management to march input costs with market trends on his corn, soybean and hog operation.

Norton is part of the Kendale Farm partnership, which typically grows 900 to 1,000 acres of field corn, 600 acres of seed corn and 1,200 to 1,300 acres of soybeans. Most corn production is marketed through the hog program. "We run 1,425 sows and produce 32,000 pigs a year," Norton says. "We finish about 6,000 and sell the balance.

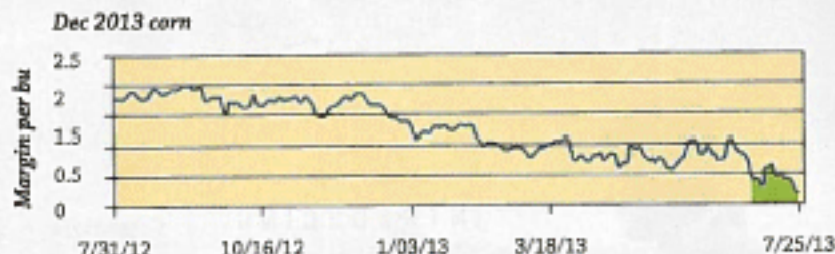
"I don't look for a set margin of cost plus 10% to 15%," he says. "More than that, I look at potential sales of my hogs as relates to my cost of production. If you know roughly what your cost is, then taking steps to obtain potential prices is more attractive."

While most field corn is marketed through the hogs, futures or options back up seed-corn sales to Pioneer Hi-Bred. "Our average corn price is about \$6 per bushel," Norton says. That includes \$5.50 put options that can help capture downside shifts in futures prices.

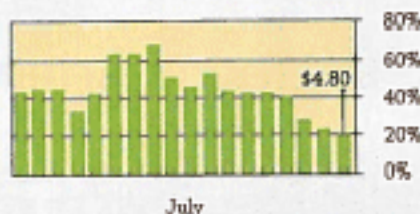
Beans are marketed with cash sales to a local elevator. Sales for 2013 beans are in the upper \$11 per bushel to mid-\$12s. "I priced about two-thirds of our conservative yield projection of about 45 bushels," he says.

Norton looks at margins over just prices. "I like to price fertilizer and other inputs early, but in making crop sales, it's not as direct a correlation as it is with buying hog inputs and making sales," he says. "I meet with my consultant to look at corn and bean pricing opportunities."

He talks weekly with Gavin McPherson, consultant/analyst with



High \$2.04 Low \$0.20 Last \$0.20



Source: Graph Courtesy CIH

This sample CIH corn Margin Watch graph illustrates how a \$4.90 December futures price in late July had a margin of 20 cents over production costs, compared to a \$2-plus margin when the price was about \$2 higher last fall heading into January. (The top chart is based on a typical Midwest farm averaging 183 bushels per acre yield, with operating cost of \$573 per acre and land cost of \$240 per acre. Its left-hand column registers \$ per bushel margin over costs. The lower chart shows the average profit percentile for July prices over the past five years. For example, at \$4.80 for the 2013 December corn contract, a typical Midwest producer could attain a margin in the 13th percentile of the past 10 years. That's about \$2 lower than the 75th percentile that same producer could have attained last September through December when December 2013 corn was about \$2 higher.

YOUR PERFORMANCE PLAYBOOK
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CIH in Chicago. CIH emphasizes margin management. It walks producers through a process of identifying a farm's input costs, yield potential and overall financial goals, then advises them how and when to lock in a margin.

"It starts with determining inputs as accurately as possible," McPherson says. "We plug them into a margin calculator using a historical price and basis format."

From there, production cost is measured against current prices and future prices. "We look at margins in 'percentiles,'" McPherson says, adding that margin percentiles don't necessarily match the percentage of price over or under production costs.

For example, December 2013 corn futures at \$4.80 on July 24 was the lowest price level for the last 10 months. "At \$4.80 for the 2013

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December corn contract, a typical Midwest producer could attain a margin of about the 13th percentile of the past 10 years," McPherson says. "That was about \$2 higher than the 75th percentile that same producer could have attained last September through December when December 2013 corn was about \$2 higher."

CIH's Margin Watch newsletter uses a typical central Illinois farm model to show producers future opportunities. An example of corn margins uses University of Illinois data that currently projects average yields at 183 bushels per acre with estimated non-land operating cost at \$573 per acre and land cost at \$240 per acre, McPherson says. They also account for new-crop basis, which as of mid-July was offered at 13 cents under the December 2013 futures contract.

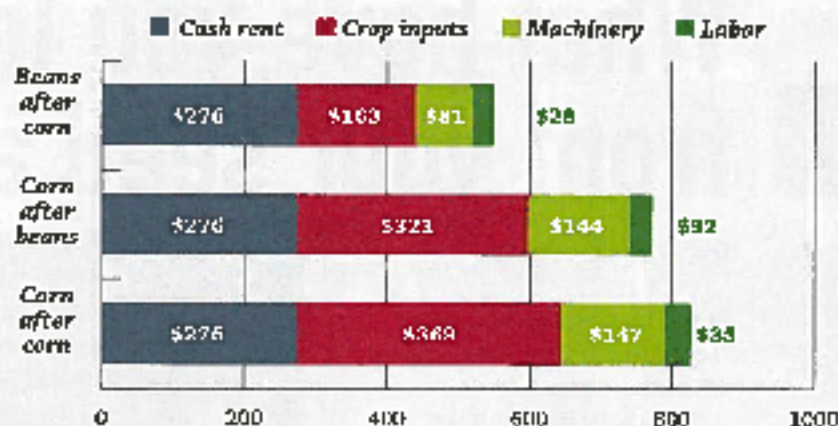
That data is used for CIH's Margin Watch newsletter calculation, which is a more generic benchmark. However, in its crop-margin consulting service, CIH shows a producer his forward-margin opportunities based on a model built specifically for his farm operation incorporating user-defined variables.

Using these figures and measuring December 2013 corn futures at about \$4.90 per bushel in late July, the margin was about 28 cents over production costs, McPherson says, compared to a \$2-plus profit margin last fall and into January.

Soybean margins were a little higher. Using the same Illinois farm scenario, average bean yield is 53 bushels per acre, non-land operating cost is \$373 per acre, and land cost is about \$240 per acre. The forward basis offer at the time was 17 cents under the November 2013 futures contract. With November 2013 soybean futures at about \$12.80, the margin was about \$1.50 over production costs, at the 40th percentile of the past 10 years.

As with corn, actual margin calculation is based on a soybean model built specifically for a particular farm and farmer.

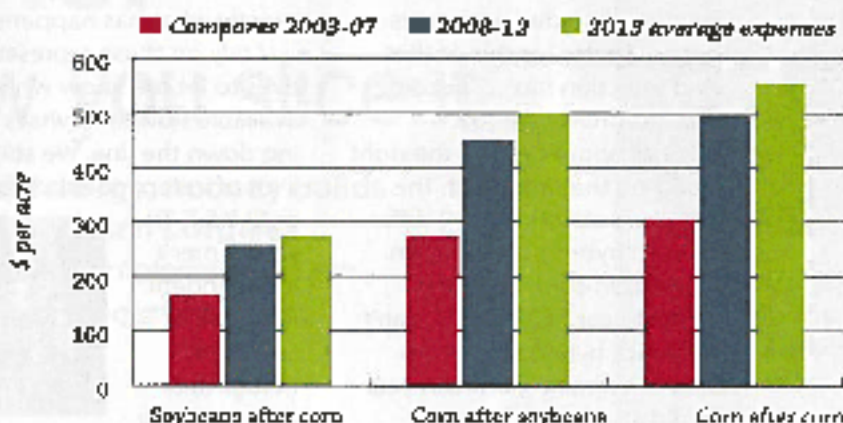
Early 2014 crop cost estimates (\$ per acre)



	Total cost	Expected yield bu/a	Cost per bushel
Beans after corn	\$570	50	\$11.40
Corn after soybeans	\$798	180	\$4.43
Corn after corn	\$853	105	\$8.12

Source: IGC Extension Economics

Non-land crop costs (\$ per acre)



Graphics by Michael Duffy, IGC Extension economist

These estimates illustrate the need to manage your margins. You can see the increase of non-land cost of production by crop rotation since 2007.

Norton takes a conservative approach in crop sales. And he's loyal to revenue protection insurance. "We're usually in the 75% to 85% range in coverage," he says. "We always consider that when I discuss margins with Gavin (McPherson). Every week we look at where we are, what opportunities are there for further sales or storage, then analyze what might work best for me."

With price pressure sending new-crop corn quickly below \$5, there are fears \$4 can only be nearby. That sig-

nals storing unsold grain, or backing up sales with call options to capitalize on price rallies, McPherson says.

"My function is to make the farmer-client accountable, to realize where things are and to have them make a decision," he says. "If you're not selling today (with lower prices), you should be in a protection mode." **ISU**