

## New Crop Corn Marketing Alternatives December 2001

**Instructions:** You're making plans for your '02 corn crop (fall tillage, spreading fertilizer, purchasing seed). You note that today's December '02 Corn Futures are already trading at \$2.47 (the summer high for '01 December Corn Futures). Please use the information provided to examine four different marketing alternatives then use the table below with 3 different Futures Price Outcomes to calculate the price per bushel outcome.

**The corn marketing alternatives are:**

- Sell a December '02 Corn Futures contract for 5,000 bushel and pay a 1-cent per bushel brokerage fee. You plan to hold this futures position until harvest, so use the *Futures Price Outcomes* listed below.
- Buy a December Put on 5,000 Bushels with a \$2.50 "at the money" strike price (the premium is 12 cents plus a 1-cent brokerage fee.) You hold the put option until harvest, so use the *Futures Price Outcomes* listed below.
- Sell 5,000 Bushels using an A+ Contract (You'll receive the average Dec. '02 Corn Futures price with an "averaging window" from February 15<sup>th</sup> until June 20<sup>th</sup>. These averages turned out to be \$2.75, \$2.55 and \$2.35 for the *Futures Price Outcomes*).
- Sell 5,000 Bushels using a Floored Average Contract with a \$2.30 strike price that costs you 15 cents and the "averaging period" from April 20<sup>th</sup> until July 5<sup>th</sup>. These averages turned out to be \$2.70, \$2.45 and \$2.30 for the *Futures Price Outcomes*.

**What are the price outcomes in price per bushel for each alternative (assume an Oct./Nov. harvest delivery basis will be 30 cents per bu.)? Fill in the blanks below with the expected cash price that will result for each *Futures Price Outcome*.**

Dec. '02 Corn <i>Futures Price Outcomes</i> (on Oct. 15 <sup>th</sup> )	<u>Sell December Futures</u>	<u>Buy a Put</u>	<u>A+ Contract</u>	<u>Floored Average Contract</u>
<b>\$2.90 per Bu.</b>				
<b>\$2.50 per Bu.</b>				
<b>\$2.10 per Bu.</b>				

**Discussion Questions based on an October 15<sup>th</sup>, 2002 scenario where:**

- 1. After entry into the World Trade Organization, China is suffering its worst crop disaster in 50 years. They are importing record amounts of U.S. corn and the December Corn Futures price has risen to \$2.90 per bushel. If so, which of the 4 alternatives would have netted the highest price per bushel?**
- 2. The corn market is in trouble. The U.S. planted 80 million acres of corn in the spring. The crop struggled after late planting and then dry conditions in June. However, July rains came just as the majority of the corn was pollinating. USDA now projects and a record average yield of 140 bushels per acre. If so, which alternative would appear to net the highest price per bushel?**
- 3. If cash prices fall below the County Loan Rate, then an LDP can be claimed or a Market Loan can be requested on those bushels. At which *Futures Price Outcome* might there likely be an LDP?**

**What's the risk of taking the LDP vs. using the Marketing Loan?**

**Can you LDP those bushels that you already forward priced?**

**Can you use the Marketing Loan on those bushels?**

**What's the advantage of the Marketing Loan vs. the LDP?**

- 4. What other marketing alternatives are available to gain price protection on your '02 corn production?**
- 5. Why aren't some of these same marketing alternatives used to market new crop corn not being used extensively for new crop soybeans?**