



MACC INDUSTRY SECTOR UPDATE

October, 2013

October Features the Grain Marketing Cooperative Sector of our Membership

Market Planning

Planning sales of grain production is an ongoing process, not a one-time event. The primary reason is that the markets and a farmer's production are 'moving targets.' Both commodity prices and production outcomes are highly dependent upon weather developments and other unpredictable events throughout the production and marketing year. The process of pricing grain requires forward thinking and market planning, combined with flexibility at times, if a producer is to make informed, profitable decisions.

Grain marketers are faced with two types of risk: price and yield.

Grain marketing alternatives, used properly, provide one mechanism for dealing with these risks. Price risk is dealt with via various methods: forward pricing in the cash market, hedging futures, buying put options for price risk protection, buying call options to replace grain ownership, etc. Options, in particular, are applicable during the growing season, because it is not necessary to deliver the bushels contracted when using options for price protection. The grain marketer's plan needs to include taking other steps to assure that all of the bases have been covered, such as the purchase of crop insurance.

Commodity prices, based upon global supply and demand, are constantly changing, thereby requiring flexibility in formulating a plan for marketing a crop. Yields also can be highly variable. Grain market planning involves collecting and analyzing information to make informed decisions that are flexible enough to allow necessary adjustments.

1. Establish Price Objectives Based Upon Costs of Production - Price objectives = acceptable sales prices. Price objectives can be used as indicators in making grain sales. Many times, grain marketers establish maximum and minimum sales price objectives. The maximum includes fixed costs and profit. The minimum price accounts for the cash costs of production and allows one to stay in business for the coming year. Minimum and maximum sales price objectives help grain sellers recognize profitable sales opportunities.

2. Keep Abreast of Market Developments - Since the grain market is a moving target, factors that are affecting the market today may not be relevant tomorrow. Commodity prices can change rapidly. There are two ways in which a grain seller can become acquainted with price direction for specific commodities and begin to anticipate where prices appear to be headed - fundamental and technical analysis. Fundamental analysis is used to track the supply and demand for a given commodity. Supply and demand balance sheets are reported monthly for all major commodities grown in the U.S. and the world by the United States Department of Agriculture (USDA).

3. Learn to use and understand Historical and Current Basis Information. Basis should be considered in every grain sales decision. Basis must be understood before grain sales can be made effectively. Basis is a key component of all grain marketing and sales decisions. In the case of grains, the futures price generally refers to the price quoted for a specific delivery month for a commodity traded on the Chicago Board of Trade or other futures market exchange.

4. Select the appropriate Sales Method. Grain sellers have numerous marketing alternatives from which to choose (please see chart below and visit <http://www.grainmarketingprimer.com/grainmarketdecisions.com/> for more information).



5. Become Familiar with Contract Information and the Language of the Marketplace - Grain sellers can obtain cash market contract information from local grain dealers or CashGrainBids.com. Information pertaining to contract specifications for futures and options can be gotten at the Chicago Mercantile Group website at <http://www.cmegroup.com>.

6. Plan Sales According to Cash Flow and Income Needs - At times it may become necessary to haul grain to market due to the need for cash to meet financial obligations. Sometimes a predicted storm can make it necessary to make the proper arrangements to haul grain immediately. At other times, it may be desirable to defer income from cash grain sales into the next tax year.

7. Select a Broker - Before making transactions in the futures and options markets, you may be required to set up an Internet-based trading account or contact a licensed brokerage representative to open an account. Broker listings are available at the CME Group and National Futures Association (NFA) websites.

8. Make Necessary Adjustments - The nature of the grain marketing business requires grain sellers to adjust their market planning continually. Sometimes that requires offsetting a position previously taken in options or futures. At other times, it will mean sticking to your decision and seeing a transaction through. (excerpts from the Grain Marketing Primer)



2013 MAC-ED PROGRAM CALENDAR

Co-ops 101

Nov. 8 Farm Credit Mid-America Louisville, KY

Co-op Summit

Nov. 1 Indiana Farm Bureau Indianapolis, IN

CFO Essentials Conference

Nov. 20-21 Embassy Suites North Indianapolis, IN

CFO/Controller Conference

Nov. 21-22 Embassy Suites North Indianapolis, IN

Co-op Board Chairmen's Roundtable

Dec. 12-13 AIEC Springfield, IL

MACC Membership Meeting

Dec. 16 Select Sires Plain City, OH

Rod's Thoughts

Grain Marketing Cooperatives

Grain marketing cooperatives provide significant marketing power for grain farmers in Illinois, Indiana, Michigan and Ohio. With an estimated 13.8 billion bushels of corn produced in 2013, America's estimated 350,000 grain farms (> 10 acres) have little market leverage with the handful of end users and buyers. **Thus, as in the early part of the 20th century, it is equally important that these farmers own and control the marketing channel where their grain is sold.**

Most of the cooperatives you see in the Midwest today can trace their roots back to being established soon after the end of WWI. The *Treaty of Versailles* was signed in June of 1919. Cooperative businesses were beginning to be established after the Clayton Act of 1914, which allowed for "agricultural or horticultural organizations instituted for the purpose of mutual help and not having capital stock or conducted for profit." However, there was confusion as to how two farmers could discuss how and when they would sell their grain and be exempt from "collusion", as identified in the *Sherman Antitrust Act of 1890*.

The *Capper-Volstead Act* was passed in 1922, resolving this confusion, and was applied broadly to associations of agricultural producers (cooperatives), both capital stock and non-stock associations.

The *Capper-Volstead Act* was a God-sent blessing for Midwestern grain farmers, as commodity prices had dropped by over 50% from 1917 to 1922. Rural America's depression started about a decade before the rest of the country. **These newly formed cooperatives simply allowed grain farmers to pool their grain and sell it to end users in larger blocks, to create more market power than the individual farmer.**

One grain cooperative in Central Illinois explained how a newly formed grain cooperative purchased 12 scoop shovels, so that farmers could shovel their own grain into box cars for shipment. Most of these new cooperative members needed to borrow the money necessary to start their cooperative. Their end goal was achieved with their cooperative having more control and autonomy in the marketplace. As a cooperative, they received the service and economic benefit from their business.

When I watch current grain cooperatives dump their member/owner's 1,000 bushel trailer in about 30 seconds, it is hard to imagine how farmers 85 years ago purchased scoop shovels to take more control of how their grain was marketed. Of course, those farmers were averaging around 30 bushels per acre while current farmers may average over 200 bushels for their fields. These new grain elevators are truly a "modern marvel"!

The current grain cooperatives offer financial stability, and the capacity to receive the grain and dry the grain nearly as fast as it can be harvested. **While today's grain cooperatives have consolidated their purchasing power to establish world markets, they continue to hold fast to their cooperative roots. They are still owned and controlled by their farmer board of directors.**

Mid America Cooperative Council
6302 Rucker Road, Suite H Indianapolis, IN 46220
Phone: (317) 726-6910 Fax: (317) 726-2630
Email: knowledge@macc.coop Web: <http://www.macc.coop>
Rod Kelsay, Executive Director
Alice Pickler, Administrative Assistant