



## 1996 FARM BILL

### Risk Management is Imperative

The 1996 farm bill eliminated deficiency payments which, since 1973, provided producers of program crops price supports during years of low prices. Producers will now receive "CONTRACT PAYMENTS" that are fixed.

The 1996 farm bill provides FIXED payments in two installments.

- 50% advance payment made on the 15th of December or January, at the option of the producer.
- Final payment made no later than September 30th of each fiscal year 1997 - 2002.

Contract Payment estimates (Payments are adjusted up or down depending on participation):

YEAR	CORN	WHEAT	MILO
1997	46 cents	61 cents	50 cents
1998	36 cents	65 cents	42 cents
1999	36 cents	63 cents	43 cents
2000	32 cents	57 cents	37 cents
2001	26 cents	46 cents	30 cents
2002	25 cents	45 cents	29 cents

Payments are made on 85% of your base acres with your payment yield level remaining constant.

Set aside authority has been eliminated - full flexibility in planting.

Farm payments are fixed and decline at the end of 7 years.

The Target price levels from the 1990 farm bill no longer applies. Those levels were:

Corn	\$2.75
Milo	\$2.61
Wheat	\$4.00

Two Major types of risk associated with growing crops:

- Price Risk
- Production Risk

#### Managing Price (Marketing) Risk

- Know the level of risk you are comfortable with.
- Be willing to increase the number of skills in your marketing toolbox. Develop a Marketing Plan.

#### Managing Production Risk

- Enterprise Diversification.
- Crop Insurance.
- Contract Production



## DEVELOPING A MARKETING PLAN

A marketing plan should be an integral part of your farming operation's total business plan. The two major components of a marketing plan, and the amount of emphasis each component should receive when developing your marketing plan are...

- |            |     |
|------------|-----|
| ✓ Outlook  | 10% |
| ✓ Strategy | 90% |

Let's take a look at what determines price outlook.

- ✓ **Weather**
  - Before planting (when/if crop gets planted)
  - Growing (Hot, dry, too wet, freeze)
- ✓ **Acres**
  - How many will be planted? (price/weather)
- ✓ **Demand**
  - A major factor after the crop is harvested.

**Weather** is the most volatile component of outlook. Weather can easily drive prices sharply higher or lower. This component is highly UNPREDICTABLE.

**Acres** planted to a crop can be affected by price, rotation practices and weather. USDA will release it's first forecast of planting intentions in January for Winter Wheat and on March 31st for Spring Wheat, Corn and Soybeans. On June 30th, USDA will release the planted acreage report. Grain futures prices can move sharply higher or lower depending on the outcome of these acreage reports.

**Demand** can have a major influence on grain future prices when the crop is harvested and in the bin.

How accurately can anyone predict the **WEATHER** or the number of **ACRES** that may be planted to a crop or what the **DEMAND** will be for that crop? Let's face it, it is very DIFFICULT to predict weather, planted acres or demand.

Based on the facts just presented, outlook is extremely variable. And because of that, 90% of your market planning should concentrate on STRATEGY.

Let's look at developing a marketing plan based on the assumption that we will have a normal growing season; but let's also have a backup plan just in case a short crop develops.



## MARKET PLAN DEVELOPMENT

### What do you need to know to put a plan together?

- ✓ Grain available to market
- ✓ Available On-farm Storage
- ✓ When you need money
- ✓ Tax ramifications (if any)
- ✓ Realistic price objective
- ✓ Break-even price
- ✓ Stay in business price (covers all out-of-pocket cash expenses)

### The next step is to MAP OUT A PLAN.

Your plan will be unique; it's your personal strategy.

### Define your selling season - Break down season by season (component).

	Percent of Crop to Market	Marketing Tools
Pre-plant	_____	_____
Growing	_____	_____
Harvest	_____	_____
Storage	_____	_____

### Goals of your Marketing Plan

Profitability  
Control Risk

**Mapping out your plan:** Set price and time objectives for each component of your defined selling season. Have a default date and quantity if your **Price Target was not achieved.**



## NEW CROP - MARKET PLAN DEVELOPMENT

**CROP:** \_\_\_\_\_

I am willing to either Forward Contract or HEDGE \_\_\_\_\_ %  
I am willing to use a Minimum Price Contract on \_\_\_\_\_ % of my realistic projected production before  
HARVEST.

**Pre-Plant:**

**Hedge or FC** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

**Min Price** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

\_\_\_\_\_ % TOTAL

**Growing:**

**Hedge or FC** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

**Min Price** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

\_\_\_\_\_ % TOTAL

**CROP:** \_\_\_\_\_

I am willing to either Forward Contract or HEDGE \_\_\_\_\_ %  
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**Pre-Plant:**

**Hedge or FC** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

**Min Price** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

\_\_\_\_\_ % TOTAL

**Growing:**

**Hedge or FC** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

**Min Price** \_\_\_\_\_ % of my realistic projected production By \_\_\_\_\_

\_\_\_\_\_ % TOTAL



PRICE OUTLOOK

DATE: \_\_\_\_\_

**Crops Grown**

Cash Price	_____	_____	_____	_____
New Crop Price	_____	_____	_____	_____
Cost of Production	_____	_____	_____	_____

**CONTRACT HIGHS for CROPS GROWN**

Old Crop - Grain	_____	_____	_____	_____
New Crop - Grain	_____	_____	_____	_____

**PRICE PROJECTIONS for NEW CROP: Short Crop vs Normal to Large Crop**

Short Crop - Price	_____	_____	_____	_____
Normal to Large Crop	_____	_____	_____	_____

**Your Price Outlook for crops that are raised on your farm**

Old Crop	_____	_____	_____	_____
New Crop	_____	_____	_____	_____



**NEW CROP SELLING SEASON - CROP YEAR \_\_\_\_\_**  
**CROP \_\_\_\_\_**

% of Crop to Sell Before Harvest \_\_\_\_\_ Futures or Forward Contract

% of Crop that I will cover with option strategies \_\_\_\_\_ Buy Puts  
 \_\_\_\_\_ Sell Cash - Buy Calls

**TODAY'S FUTURES**

Contract High	_____	Month	_____	Price	_____
Contract Low	_____		_____		_____
Difference	_____		_____		_____
1/3 Retracement	_____		_____		_____
1/2 Retracement	_____				
2/3 Retracement	_____				

<b>MONTH</b>						
<b>MAX % TO CONTRACT</b>						
<b>MIN % TO CONTRACT</b>						
<b>PERCENT OF GRAIN TO CONTRACT AT:</b>						
<b>PERCENT TO PROTECT WITH LONG PUTS</b>						
<b>STRIKE PREMIUM</b>						
<b>PERCENT TO PROTECT WITH LONG CALLS</b>						
<b>STRIKE PREMIUM</b>						



**OLD CROP SELLING SEASON - CROP YEAR \_\_\_\_\_**  
**CROP \_\_\_\_\_**

Bushels of \_\_\_\_\_ stored on Farm \_\_\_\_\_ Bushels in Elev \_\_\_\_\_

Total bushels to sell \_\_\_\_\_

Cash flow needed \_\_\_\_\_ Time Frame \_\_\_\_\_ Dollars \_\_\_\_\_ Bushels to Sell \_\_\_\_\_

Cash flow needed \_\_\_\_\_ Time Frame \_\_\_\_\_ Dollars \_\_\_\_\_ Bushels to Sell \_\_\_\_\_

Cash flow needed \_\_\_\_\_ Time Frame \_\_\_\_\_ Dollars \_\_\_\_\_ Bushels to Sell \_\_\_\_\_

Bushels of \_\_\_\_\_ to sell & deliver by \_\_\_\_\_ Bushels to Sell \_\_\_\_\_

Month                      Strike                      Premium

Re-ownership Strategies      Buy Calls      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

   Buy C Sell C      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

**TODAY'S FUTURES**

Contract High      \_\_\_\_\_      Month      Price

Contract Low      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

Difference      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

1/3 Retracement      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

1/2 Retracement      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

2/3 Retracement      \_\_\_\_\_      \_\_\_\_\_      \_\_\_\_\_

<b>MONTH</b>						
<b>TODAY'S CASH PRICE</b>						
<b>BUSHEL TO SELL</b>						
<b>CASH PRICE OFFER</b>						
<b>OPTION STRATEGIES</b>						
<b>STRIKE</b>						
<b>PREMIUM</b>						



## I AM WILLING TO USE THE FOLLOWING MARKETING TOOLS

- \_\_\_\_\_ CASH SALES of crops in hand when price objectives are met or cash flow needs are met.
- \_\_\_\_\_ FORWARD CASH CONTRACTS when price objectives are met.
- \_\_\_\_\_ HEDGE-TO-ARRIVE CONTRACTS when price objectives are met but want the ability roll.
- \_\_\_\_\_ SELL FUTURES CONTRACTS when price objectives are met.
- \_\_\_\_\_ BUY PUT OPTIONS when price objectives are met, but production risk does not permit price commitment.
- \_\_\_\_\_ BUY FUTURES CONTRACTS when cash sales are made, but price objectives are not met and prices are expected to move
- \_\_\_\_\_ BUY CALL OPTIONS when cash sales are made or cash flow needs occur, but price objective is not met and prices are expected to move higher.
- \_\_\_\_\_ MINIMUM PRICE CONTRACTS when cash flow needs occur, but price objective is not met and prices are expected to move higher.
- \_\_\_\_\_ SELL CALL OPTIONS on deferred futures contracts as a hedge against failing prices.
- \_\_\_\_\_ SELL PUT OPTIONS as a RE-OWNERSHIP strategy when prices are expected to trade in a sideways pattern for the life of the option.



