

# Agricultural Update

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## General

### Selling Corn at Harvest and Re-owning it on Paper

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The USDA is forecasting record corn production for 2000. Most areas of Missouri are reporting good crops, and there is the sentiment that above average (to near record yields) will occur in most areas of the state. The anticipated large production has driven down crop prices considerably during the past few months. The size of the crop and low prices has caused many producers to express interest in storing grain. There is only one problem, many elevators are booked so that producer's will have to sell their crop at harvest. This is not an exciting alternative for many producers. The producer will likely sell in the cash market and take the LDP to net the county loan rate. This value is far below most producers' cost of production. One additional marketing strategy crop producers may consider is re-owning the grain in the futures market to take advantage of a price increase.

Re-owning grain in the futures market can be equivalent to retaining ownership of the grain through storage for marketing a later date. The difference between the gain, or loss, from storage and re-owning grain on paper is the change in the basis over the period. Basis trends are not discussed in this write up. Re-owning your crop on paper is the process of selling cash grain and purchasing (going long the market) futures contracts (5,000 bushels each) equal to, or a part of, your actual production. This marketing strategy is considered speculating. One particular advantage to this strategy is that you do not have to worry about grain quality deterioration because you don't own the physical quantity of grain.

Historically, how has this strategy fared for corn? Tables 1, 2, and 3 summarize how this strategy fared for last year and on average over the previous 2, 5, and 10 years for the December, March and May Chicago Board of Trade (CBOT) corn futures contract. The interpretation of the values reported in these tables is as follows. Take for example the second week of September for the December (Table 1) contract over the previous 5 years. The reported value is  $-\$0.08$ . This value represents a  $\$0.08$ /bushel decrease in value between the second week in September (long position taken) and the last week in November (sold back position) during the previous 5 years. This decrease in value does not account for brokerage fees. Brokerage fees may range for  $1/2\text{¢}$ /bushel to  $1.5\text{¢}$ /bushel. Thus, this strategy would have netted a loss of around  $\$0.09$ /bushel if used both of the past two years.

Why sell back the futures contract the last week in November? Two reasons: 1) by riding the position into the contract month you take the risk of being delivered on - **you don't want to own the grain**; 2) research has indicated that futures markets may react to non-market factors during the month of expiration. You sell back the futures prior to contract expiration. Thus, if the price increases to meet your market price goal any time while you hold the contract, then sell back the futures contract. Table 2 is for the March contract for buying in the futures for the weeks stated and holding through the final week in February, and Table 3 is for the May

contract for busying in the futures for the weeks stated holding through the final week in April.

The months and weeks chosen represent the period when a majority of the corn harvest occurs in Missouri. One will notice that the returns from re-owning corn on paper for the March and May CBOT futures contract are fairly large. What one can not see from the data reported is that there were two or three "good" years that offset the losses in many of the other years. It is suggested you use the 5- or 10-year average as a best guess of what might happen. Of course, if you believe the markets will trend lower in the next few months, then you should not re-own corn on paper.

In the following weeks I will cover strategies such as soybean futures, corn and soybean options, and basis trends for those considering storage. If you have any questions, please contact Joe Parcell at [parcellj@missouri.edu](mailto:parcellj@missouri.edu) or 573.882.6533.

Table 1. Corn Per Bushel Returns from buying one December CBOT 5, 000 bushel Corn Futures Contract (week indicates when long position was taken and position held until the final week of November)

	week	Last Year	2-year avg	5-year avg	10-year avg
Sep	1	-\$0.27	-\$0.07	-\$0.09	-\$0.04
	2	-\$0.28	-\$0.11	-\$0.08	-\$0.03
	3	-\$0.20	-\$0.05	-\$0.04	-\$0.01
	4	-\$0.17	-\$0.03	-\$0.03	\$0.00
Oct	1	-\$0.17	-\$0.05	-\$0.01	\$0.01
	2	-\$0.10	-\$0.04	-\$0.06	-\$0.01
	3	-\$0.07	-\$0.08	-\$0.09	-\$0.02
	4	-\$0.08	-\$0.05	-\$0.07	-\$0.02
Nov	1	-\$0.07	-\$0.03	-\$0.05	-\$0.02
	2	-\$0.04	-\$0.05	-\$0.02	-\$0.01
	3	-\$0.01	-\$0.02	-\$0.01	-\$0.02

Note: For the 1st week of Oct, and using the 10-year average of \$0.01, the interpretation of this value is that if a trader would have taken a long position in the December CBOT corn futures and held until the final week of November the return per bushel would have been \$0.01/bushel.

Table 2. Corn Per Bushel Returns from buying one March CBOT 5, 000 bushel Corn Futures Contract (week indicates when long position was taken and position held until the final week of February)

	week	Last Year	2-year avg	5-year avg	10-year avg
Sep	1	-\$0.09	-\$0.10	\$0.03	\$0.05
	2	-\$0.05	-\$0.08	\$0.03	\$0.05
	3	-\$0.06	-\$0.09	\$0.06	\$0.07
	4	\$0.01	-\$0.08	\$0.01	\$0.05

Oct	1	\$0.04	-\$0.12	-\$0.02	\$0.03
	2	\$0.04	-\$0.08	\$0.01	\$0.03
	3	\$0.05	-\$0.06	\$0.03	\$0.03
	4	\$0.07	-\$0.08	\$0.06	\$0.04
Nov	1	\$0.11	-\$0.05	\$0.07	\$0.04
	2	\$0.11	-\$0.04	\$0.08	\$0.05
	3	\$0.14	-\$0.01	\$0.10	\$0.07
	4	\$0.15	\$0.01	\$0.11	\$0.06
Dec	1	\$0.17	\$0.02	\$0.11	\$0.06
	2	\$0.12	\$0.02	\$0.09	\$0.04
	3	\$0.13	\$0.01	\$0.09	\$0.04
	4	\$0.02	-\$0.03	\$0.09	\$0.04

Note: For the 4th week of Sep, and using the 10-year average of \$0.05, the interpretation of this value is that if a trader would have taken a long position in the March CBOT corn futures and held until the final week of February the return per bushel would have been \$0.05/bushel.

Table 3. Corn Per Bushel Returns from buying one May CBOT 5, 000 bushel Corn Futures Contract (week indicates when long position was taken and position held until the final week of April)

	week	Last Year	2-year avg	5-year avg	10-year avg
Sep	1	-\$0.10	-\$0.08	\$0.17	\$0.09
	2	-\$0.10	-\$0.11	\$0.17	\$0.10
	3	-\$0.04	-\$0.07	\$0.21	\$0.12
	4	\$0.00	-\$0.05	\$0.22	\$0.13
Oct	1	-\$0.01	-\$0.06	\$0.25	\$0.14
	2	\$0.06	-\$0.05	\$0.20	\$0.12
	3	\$0.09	-\$0.09	\$0.17	\$0.11
	4	\$0.09	-\$0.06	\$0.20	\$0.10
Nov	1	\$0.10	-\$0.04	\$0.22	\$0.11
	2	\$0.11	-\$0.05	\$0.25	\$0.12
	3	\$0.15	-\$0.03	\$0.26	\$0.12
	4	\$0.15	-\$0.01	\$0.27	\$0.13
Dec	1	\$0.18	\$0.01	\$0.29	\$0.14
	2	\$0.19	\$0.04	\$0.29	\$0.13
	3	\$0.21	\$0.05	\$0.30	\$0.13
	4	\$0.16	\$0.05	\$0.28	\$0.12

Note: For the 4th week of Sep, and using the 10-year average of \$0.13, the interpretation of this value is that if a trader would have taken a long position in the May CBOT corn futures and held until the final week of April the return per bushel would have been \$0.13/bushel.

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