April 7, 2010

Friends:

A good friend recently asked this question: "To help me learn, did you sell it on the board only? I can't sell forward grain that far out here."

Well...this is a tough topic to put on paper just because it is complicated.

Bottom line....we created open contracts with Cargill back in Nov/Dec 2007 and Jan 2008 for the 08 and 09 and 10 crop years. There was no fee to do so at that time and they were thrilled to lock up hundreds of thousands of bushels back then. The contracts were not priced, nor was the basis set, they were just established.

This was critical because it let us continue to price them all through the fireworks of 2008. Also, it meant we didn't have to make any margin calls in June 2008 even though we were sold 4 weeks too early. ($1.50 to early on 3 years crops would have been enough margin to sink the plan!) We knew this going into 2008 is why we did it this way. Remember in 2005 I said corn was going to $6. Going to $8 was a risk we could not cash flow.

IMPORTANTLY, since these are all Cargill contracts, we receive no taxable money until the grain is delivered. This is CRITICAL because we then get the income into the correct crop year and avoid windfall taxes on windfall hedge account profits. Selling price after taxes is far higher in this way. Also, since we maintained the hedges and maintained our cost structure, we did in fact implement the 3 year selling plan successfully, which we take great pride in.

Also, it was CRITICAL that we had the ability to Focal Point the contracts at Cargill. This meant we could exit the price hedges if weather in 2009 was bad, or if the expected spring of 2010 lows set-up such that we want to retake price risk.

Hope this helps.

By the way...we can still do 2011 and 2012 new contracts with Cargill. The fees are terrible, the basis weak, and the grading suspect....but contract flexibility is HUGE. We may have to keep dancing with the devil.

Also, we do not plan to market any 2011 until Jan 2011 at the earliest.

Take care,
Ken