Farmer for the day
Do you have what it takes?
How did we do?
NC State Farmers

Situation:
• Grain farmer that grows corn and beans
• Expect to grow 100,000 bushels of corn this year
• Corn cost of production is $500 per acre or $4.16 per bushel (based on 120 avg yld)
• Have inputs locked in so you know your cost per acre
• when given a market update you must decide each time
• Put a Name, Date, and Choice on a piece of paper
• Keep a record of your decisions each time
Marketing Options

• **Cash Price**: Lock in price for corn (futures + basis)
  - Ex. $3.90cz18 + $0.60 = $4.50 cash price

• **Basis contract**: Lock in the basis but not the futures prices
  - Ex. $4.50 cash, $3.90cz18 = $0.60 Basis

• **HTA**: Lock in the futures but not the basis
  - Ex. $4.50 cash, +$0.60 basis = $3.90 futures
  - The HTA contract is one that offers the seller of grain the ability to lock in the futures market portion on a cash grain contract. The basis portion of the cash grain contract will be locked in at a later date per contract specifications.
  - The buyer of the grain takes the risk on margin calls!
Rules of the Game

• Must have 100% of your crop marketed by the end of the game
• Basis contracts must be priced by the end of the game
• HTA contracts must be marketed to market
  • Need to have a basis set at some point in the game
• Winner will get the grand prize
• Your corn is not planted yet
• USDA report is predicting a big carryout for 2019
• Funds are record long
• Just purchased a new farm

• Basis = $0.65
• Futures(cz18)= $4.08
• Your corn is all planted into great conditions
• The corn belt had delayed planting
• Brazil had a bad second corn crop
• US exports are bigger than expected

• Basis= $0.60
• Futures= $4.25
• Your corn looks good but are worried about hot night temps causing yield lost
• Mexico imposed a 5% tariff on US corn imports
• US corn belt conditions look great

• Basis= $0.50
• Futures= $3.98
• The corn looks great but long forecast predicts little to no rain
• Your corn looks great and starting to see some “tip back”
• Oil has rallied to 5 year highs

• Basis: $0.55
• Futures: $4.12
• Your corn crop is a bumper crop
• North Carolina is going to have a record yield
• US corn belt will have record crop
• You are now harvesting your corn

• Basis: $0.45
• Futures: $3.87

Date: August 10\textsuperscript{th} 2018
• You are now done with harvest
• Your operating loan is now due and must market all grain
• South American crop is not looking like it is going to get planted
• Trump and Mexico make a great deal

Basis:$0.35
Futures:$4.30
End of the game

• Please hand in your results
Farmer of the Day Game

Strong Futures and relative strong basis combine for the highest cash price of the season.

Futures highest based on delayed planting and geopolitical environment.

Basis was the highest first period—bid for acres.
RECOMMENDED MARKETING STRATEGIES FOR DIFFERENT FUTURES PRICE AND BASIS RISK SITUATIONS: The benefits of hindsight

**Strong Current Basis**
- Basis Contract
- Cash Forward Contract
- Futures Hedge or Buy Put Option
- 3/20/2018
  - Basis=$0.65;
  - Futures $4.08

**Low Current Futures Price**
- Do Nothing Now
- Buy Put Option

**Weak Current Basis**
- Futures Hedge or Buy Put Option

**High Current Futures Price**
- Cash=$4.95
- 9/15/2018
  - Basis=$0.65;
  - Futures $4.30
<table>
<thead>
<tr>
<th>Date</th>
<th>Futures</th>
<th>Basis</th>
<th>Cash</th>
<th>Basis</th>
<th>Futures</th>
<th>Net Cash Price</th>
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<tbody>
<tr>
<td>3/20/2018</td>
<td>$4.08</td>
<td>$0.65</td>
<td>$4.73</td>
<td>Basis Contract ($0.65)</td>
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<tr>
<td>8/10/2018</td>
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<tr>
<td>9/15/2018</td>
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<td>$0.35</td>
<td>$4.65</td>
<td>Cash Contract (F=$4.30)</td>
<td>$0.65+$4.30=$4.95</td>
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</tr>
</tbody>
</table>
All About Strategy—Lessons From Top Gun (the movie 1986)

Top Gun—The Birdie—For the Speculators
https://www.youtube.com/watch?v=KPxDoFbsvWA

Top Gun—From your Instructor
https://www.youtube.com/watch?v=EPIPLahykrI

Top Gun—Getting to Confident The Tower Buzz
https://www.youtube.com/watch?v=VllZvuvars

Top Gun--Sticking to the rules—Pays in the Long Run From your Instructor
https://www.youtube.com/watch?v=mNTmQhivfDk
Speculating **happened** to pay-off this time earning additional profit above the winning strategy

Several had the winning strategy without speculating

Basis contract at planting typically a good strategy