

OCTOBER, 2020

VOLUME 1, ISSUE 7

BRINGING YOU THE LATEST IN
THE GRAIN MARKETS TO KEEP
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GRAIN BIN BULLETIN

UNDERSTANDING INVERTED MARKETS: THE OPPORTUNITY AND RISK OF AN INVERSE

LANE AVENATTI



We are in the heat of harvest. As a friendly reminder stay rested in this busy time of the year, as it is important for the safety of your operations and others. With the dry weather that we have seen in the last couple of weeks it has been perfect weather for field fires as we have seen over the last couple of days. Be aware and watch for these conditions.

On a different note we are seeing some interesting action in the spreads for the bean market. If you look at the spread from November futures to January futures, it has at times moved from a small carry to an inverse several times in the last couple of weeks. When the spread is inverted and a producer has an opinion that causes them to want to stay in the market, locking basis against a deferred futures month will keep those bushels from having to go on delayed price or open storage.

If you look at the November to March Spread, it is inverted by 15 cents at the time of writing this article. The way this allows a producer to stay in the market is by setting basis against the November then rolling it to the January or March. Here is an example of the of the math on this. Let's say the November futures is currently at 10.60 while March is 10.45. We take that 15 cent inverse and add it to the November basis, which is -23 cents at Miller Station. This would be $(-23 + 15(\text{inverse}) - 1(\text{roll fee}) = -9$ basis against the March futures).

This is a cheaper alternative than going on delayed price or open storage, but typically when there is an inverse that means there is a stronger demand in the nearby months than there is in the deferred months. With that being said, it may not be bad time to price out beans now! Contracting basis against the March futures is an option for a producer that wants to stay in the market while avoiding drop charges and monthly fees. It is important when deciding to take advantage of this inverse that the futures markets are watched because futures price risk is our remaining risk on the table. The inverse could also increase it doesn't have to narrow. The markets could drop very quickly and you could receive less than if you would just sell cash today, which is likely above breakeven for most.

As always, if you have any questions just reach out to your Farm Marketing Specialist and we will be happy to walk you through all the possibilities and outcomes.

I wish you all smooth sailing for the rest of harvest! Stay safe and healthy.

The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.

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MARKETING OPPORTUNITIES

TANNER SALTSGAVER



As harvest is in full swing and our focus is on getting the remainder of the 2020 crop out of the field, the market has brought us some excitement this last month. Last week's USDA WASDE report was favorable for the market's sake. The price levels are at levels we only dreamed of seeing again this season just a few months ago. This has provided us with many opportunities as yields seem to be coming in at better than expected. Soybeans leave us wondering what could have only been with a little timelier rain in August. Corn has some great stories and some very large disappointments, but we all expected that. Population is showing to be key once again along with other management and environmental circumstances.

As the markets have made a large turn around this is creating some great opportunity out there. Remember, we are here to help to provide a plan for any bushels not marketed yet this season. I do not believe we need to get complicated by any means with the profitability values that are currently available, but some growers are looking for strategies to see if we can continue to capture some upside still to help make up for earlier sales made this summer. This would be a great time to give your Farm Marketing Specialist at Premier a call to have a quick discussion. Especially before making any decisions with DP and storage as our goal is to help provide you with a plan that fits your needs while being mindful of total overall profitability. With the market rally it is also a great time to discuss some 2021 opportunities with your Marketing Specialist, also. Having a plan in place and acting upon it can help us to weather any market swings and rest well at night knowing we are going to be profitable. If there was ever a year to show the value of a great marketing plan it was 2020. Growers are applying inputs for the 2021 crop and will be meeting with their suppliers shortly after harvest is over. It helps to have someone in your corner to navigate through those decisions and make sure profitability is at the forefront.

Premier has put together many great tools to help with these decisions over the past year. We look forward to those conversations and opportunities to work with you. Have a safe rest of harvest and please feel free to reach out to us.

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FARM MARKETING TEAM CONTACT INFO



Tanner Saltsgaver

Office: 217-993-8196

Cell: 217-840-2218

Email:

tsaltsgaver@premiercooperative.net



Lane Avenatti

Office: 217-733-2182

Cell: 217-480-5480

Email:

lavenatti@premiercooperative.net



Ed Hannagan

Office: 217-599-5017

Cell: 217-621-7126

Email:

ehannagan@premiercooperative.net



Darrin Wax

Office: 217-599-0302

Cell: 217-621-0270

Email:

dwx@premiercooperative.net

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