5 ways to up your marketing

Practical tips from experts across Canada to take your grain marketing to the next level

BY TREENA HEIN

You know the basics of grain marketing and you have scored some solid wins. Now you're looking for achievable ways to grow your confidence in your marketing and to improve your overall pricing percentage. *Country Guide* approached some of Canada's leading experts for guidance about how you can best chart your course to the next level. To up your game, read on.

1 GET A HANDLE ON THE BASIS

"Track the basis level, the difference between your local cash price and what the futures market is doing," advises David Derwin, portfolio manager for commodities at PI Financial in Winnipeg. It may not be new advice but it remains underutilized.

"Understanding basis gives you a sense of how much demand there is in the local area compared to North America and also globally," Derwin says. "There could be a strong demand in the area and local prices could be very good. However, if the futures price is strong and the local price is not, you could hedge and sell some futures while keeping an eye on the local prices."

2 DIVERSIFIY YOUR MARKETING

The market is increasingly filled with unusual twists and turns, notes Thompsons Limited grain originator Heather Moffatt. Even so, your risk can be managed through several strategies.

"Keep an eye on managed fund positions," Moffatt says. "I'm not a seller of cash grain when they're record short, and always watch for a turn when they're overextended on the long side. Use technical analysis for medium-term price moves. If you don't understand, you will find information on the internet pertaining to technical indicators. The CME Group website has a fantastic library of information."

Also, create a hedge account. Besides risk mitigation, Moffatt says a hedge account provides value in removing emotion from decision-making.

"Soybean pricing this year is a perfect example," she says. "Flat price for soybeans last year fluctuated around $13. This year it's been hard to reach $12. For now, there appears to be ample soybeans in the U.S. and the world. Huge supplies and anemic demand don't favour rallies. Bean values continue to struggle." In other words, until we know differently, she says, downside risk is very real.

"If you're hesitant to sell cash, buy soybean puts," Moffat says. "If beans go lower, you're covered. Should beans rally, you'll have an opportunity to sell cash at better levels. Put options allow producers to protect current prices, but leave the door open should better pricing opportunities present themselves. Ensure you work with a broker who is experienced and can assist you with the learning process."

3 DEVELOP YOUR MARKETING PLAN EARLIER

"Many producers don't develop a marketing plan early enough and therefore miss opportunities," notes Kevin Patrick, head of agriculture programs at Saskatchewan Polytechnic, which offers annual grain marketing courses.

4 GET MORE EDUCATED

Patrick adds that effective use of tools such as hedging, deferred delivery contracts and futures' options only comes with full understanding of the advantages and disadvantages of each in various market situations.

It's also obviously very important to understand how the futures markets, cash markets and grain basis work, but it takes more.

"Find training opportunities and seek out information until you possess comprehensive knowledge," he says. "Most grain companies have developed a full slate of marketing tools available to producers."

TIP: USE PDQ

Although the Alberta Wheat Commission created its PDQ site in 2015 to improve transparency into price marketing for the benefit of farmers, its manager of business development and markets Geoff Backman notes that many farmers are not aware of this free service.

"Growers can benefit from the updated pricing information and we also want other parties to use the site so they can be better informed and therefore better help farmers," Backman says. "Farmers can use the site anytime and also sign up for a free subscription to access past prices and a daily price update email with average basis levels in their region. It helps farmers build a strong connection to the market and grasp changes to the average basis level over time, and should prompt you at various times to call your elevator or do some online research to investigate what's happening. A better-informed marketer is a better marketer."

Look for top courses. For instance, if you're in Alberta, take the AWC's "Hedging Edge" program (presented by Derwin and others). Backman says participants often take the course more than once as it contains a lot of valuable information to absorb. The December 2018 course in Red Deer, Alta., was sold out; registration for the 2019 program begins in November. The course provides access to the 18 video tutorials and two days of interactive instruction and market scenario exercises.

> **"Breaking your crop into five equal chunks and putting orders in above the market is a viable strategy," Backx says**

5 BREAK IT UP

"As no one knows with any certainty what markets are going to do, breaking your crops into five equal chunks and putting orders in above the market is a viable strategy," notes Frank Backx, grain and field marketer at Hensall Co-op in Ontario. "When the first 20 per cent gets filled, put in another 20 per cent order above the current mark, and so on."

To pick your prices, Backx advises remembering that "about two out of every three years, corn and soybeans make their highs just ahead of planting. This is a good time of the year to make that first forward contract sale." He also advises learning technical analysis.

"The charts can give important clues as to what the markets will do, as patterns, etc., repeat themselves," he says. "Getting price targets from the charts can be helpful in achieving higher prices. Studying charts also shows you the trend."

Last, Backx recommends studying the fundamentals as to whether carry-outs are going up or down, and how crops are doing, especially in the Midwest. CG

Should I use options?

Numbers are hard to come by, but the consensus from our experts is that only a relative handful of Canadian grain farmers use options. Should more farmers sign up?

On that point, the consensus isn't as clear.

Option strategies exist to help mitigate risks, notes Geoff Backman of Alberta Wheat Commission, and it's important for farmers to understand how much risk they are taking on.

Kevin Patrick of Saskatchewan Polytechnic explains that determining which option to purchase and when it should be used can be difficult, and it may take years before an individual is comfortable. "Another reason for limited use of options is that producers who may have tried using options in the past didn't see any benefit and felt discouraged," he reports. "A producer may have purchased a futures' option, the option eventually expired with no value and the individual incurred a loss of the option premium." But that may be shortsighted. Purchasing individual options, option combinations and using options in conjunction with cash delivery contracts all have their benefits as well as limitations, Patrick says. "They can be an extremely valuable marketing tool if they are used correctly in the right situation and market condition."

David Derwin of PI Financial agrees. Options are a very important tool to use, he explains. "They give farmers a lot more flexibility and they are your insurance so you can sleep at night. Producers don't want to lock in and take that risk that the price might go up."

Getting started, says Derwin, is about getting comfortable and confident, but he warns that this will only come with time and effort. "We all get busy and it's so easy to push things to the side, and you can educate yourself with information online or sit down with an advisor, but either way, you'll have to invest some time to learn the ropes," he says. "Then, it's a matter of taking the plunge. We have to learn by doing. You can start the process fairly easily with canola. The minimum contract size is 20 tonnes. With corn, wheat and soybeans, you can start with 5,000 bushels. It's not that different than the cash market, just more flexibility."

However, Frank Backx of Hensall Co-op is not an options fan. He believes using options or futures only complicates marketing. "Selling the physical crop reduces risk," he says. "If it's sold at a profit, be happy with that. Buying futures or options after you've sold the crop adds risk again, so why go there? For many, there's mental anguish that goes along with doing futures and options. It's money paid out to hold positions. The stress involved can result in making bad decisions, especially with futures. At least buying options has a predetermined risk; why go there when the goal is to get rid of risk? Option premiums are a function of volatility. And we are again in more volatile markets, so time value premiums have increased, making it harder to make money on the transaction."