Pick your time to sell when storing grain

Growers can benefit from market fluctuations – even without grain in store, says **Jeremy Cole**

How long should you store wheat and oilseed rape? Do you store beyond November or December? Personally, I see very little point in it – certainly if the only aim of the exercise is the hope to make money from a rising market.

The same results – wheat at £150/t and oilseed rape at £300/t – can be achieved with a piece of paper in the form of a Financial Price Risk Management (FPRM) tool, pinned on the office wall. What if the market falls?

Storing grain to November or December I can see the point of. The increment over harvest prices is approx £5-6/t for wheat (less obvious for OSR as only £8-10). And there may very well be a need to condition the crop post-harvest to get it in a saleable form and work load at harvest.

This more than covers interest lost in these times of low interest but maybe not any higher overdraft fees. And most farmers are very busy during the September and October months with land work, drilling and spraying. The last thing that is needed is the hassle of loading grain lorries.

But consider storage until May versus having a May wheat Option instead.

Scenario 1 – on-farm storage: The cost of storage on farm must be £1/month, that is say £9-10/t to May, if interest lost, time spent monitoring the grain for ACCS, blowing, foregone rental value, 1/2% weight loss and the worry about a capital loss if the market falls are taken into account. A double whammy.

Scenario 2 – grain in a commercial store: Rates are £10, plus £4-6 haulage to store, £1/month rent, handling charge and weight loss and the worry about a capital loss if the market falls are taken into account. A double whammy – again.

June 2014 futures prices since harvest 2013 have seen a £15 rise, a £15 fall and a £15 rise and finally in the last week a £10 fall again. It is now the same as it opened in September '13. So futures seem to have been 'efficient' and been a true indication of what the future price would be.

So everyone storing grain this year since harvest, when the June 2014 future price was £150, has had a £10-15 in store loss. With prices as they are now, this is 8-10% loss of the value of the crop, and the money has been tied up for 9 months.

Scenario 3 – Using an option: If grain was sold and a June 2014 option had been taken out, even as late as at harvest, the result would have been much the same, as it has turned out. However, importantly from the practical farmer's point of view, the store would have been empty from Harvest/November, much less stress of looking after the crop in store and a much improved cash flow. This is almost identical to the 2011/12 time-period.

The cost of the option, taken off the price of

Continued on page 28

Continued from page 26

the grain for whichever month it was sold for, Harvest/S/O/N/D and a Strike price for May futures was set, 'at the money' at £10/t. That meant that for a £12 premium, the June 2014 futures would have to have risen £10 before the farmer would start to gain, with no other possible costs/downside risks.

The premium could be reduced significantly by having a strike price 'out the money' (just like having an excess on the policy). The market would have had to risen further before a gain was made. If it didn't, as it didn't, then the premium would be less and so the eventual costs less. If it did, then the gain would be there, but a little less due to the 'excess' and so the strike price was higher. The farmer can decide the level of risk: reward they desire, as per normal insurance, when you add excesses to reduce premium costs.

But... with the option applied, the grain would be gone and the shed is empty, available for other farm or even better, non-farming uses. Interest can be gained on the grain revenue, received earlier than normal, to offset overdrafts or use in other ways.

Most importantly, in this year's case, when the market did not rise, all the farmer would have paid is the option premium, £10/t and not the £10-15 cost incurred from keeping grain in their or a third party store, and no associated grain store costs or pest worries or worries over looking after a £150-200/t asset.

With OSR, the option costs are approximately 6% of the value of the asset, half that of wheat, on an asset that is worth twice as much and much more likely to 'go off' in the shed if not looked after properly.

There is no need to have physical grain in a store to benefit from grain market fluctuations.

Jeremy Cole, BSc Agr Econ (Reading), runs Agricole – an independent grain brokering and marketing service for farmers. For a weekly grain market report, call 01954 719452 or visit www.agricole.co.uk

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