

CROP TALK MARKET UPDATE

Provided by

Lance Wilson, Grain Marketing Advisor
Integrity Consulting Company

DELAYED PRICING CONTRACTS

Markets have been trading sideways for the past week, with little news released during that time. The Ag industry is focused on the upcoming talks between the U.S. and China in Malaysia, but aside from that, we continue to hear about the lack of farmers selling while harvest progresses in the U.S.

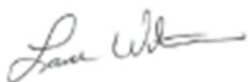
Multiple companies are beginning to offer Delayed Pricing contracts in an attempt to get producers to deliver grain. This has been increasing for corn and soybean areas as crush facilities are dependent on grain coming in to keep crush facilities operating. The delayed pricing contracts offer free storage, buying producers time before settling.

Delayed pricing contracts can be beneficial if there is a reason for markets to rally, but I have often found that this is a way for producers to avoid taking action, as they put marketing on the back burner while focusing on other tasks, such as harvesting. Corn has been trading in a consolidation range with prospects of high yields and strong exports keeping prices range-bound. Soybeans have rallied on the hope of a positive outcome from the U.S. and China trade talks, but without a definitive outcome, they are also trading sideways, but in a wider range.

When entering into any contract, you should be asking what the benefits are, what the risks are associated with the contract, and if you have any options once you are engaged in the contract. What are the benefits of a delayed pricing contract? Free storage would come at the top of the list. A delayed pricing contract also allows you time, but time can also be a risk, as many will become focused on other tasks rather than putting focus into marketing. Another risk is that merchants do not have to offer incentives to get you to deliver grain, as they already hold it. There is still price risk with a delayed pricing contract, as there is no floor to futures or basis, and producers are still subject to the possibility of lower prices. A producer's options with a delayed pricing contract are limited. A producer still has the option to purchase put options to protect downside risk, or lock futures by possibly taking advantage of the carry or a bounce in the markets.

This year has been full of surprises, and from a market perspective, it hasn't been positive. The latest developments in ongoing trade talks with China, which seem unlikely to come to fruition but keep the industry hopeful, along with the U.S. government shutdown, have reduced the flow of fundamental reports, leaving the industry somewhat in the dark. U.S. corn and soybean harvests were expected to be near record levels, and with U.S. farmers still holding a portion of last year's crop, expectations were for increased producer selling off the combine. While there has been some movement out of the field, it has not met the levels merchants were anticipating, and now we face another year of delayed pricing contracts. My experience suggests that delayed pricing generally does not lead to better prices for farmers, and the carry in U.S. markets is not bullish. Additionally, markets have been ignoring seasonal trends, and prices may continue to decline. This means that with a delayed pricing contract, farmers might wait until the end of their contract period just to sell for less.

Until next time,



Lance Wilson
Integrity Consulting Company
Grain Marketing Advisor

e wilson59602@mt.net

c. 406 231 5044

6350 Sleeping Giant View, Helena, MT 59602

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