ProfitTalk
Simple perspective on disciplined grain marketing for producers

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SEP/OCT 2024

BUYING MORE THAN TIME

This fall finds many producers undersold and looking at unappealing prices. These factors lead many to look for a way to stay in the market in hopes of a rally after harvest.

Unfortunately, any strategy used to market grain beyond harvest will come with a cost. Knowing this, it makes sense to look for ways to pay less or reduce risk. In most post-harvest marketing scenarios, you are paying for time, but that is the only benefit you receive. On the other hand, for a one-time upfront fee, a Minimum Price Contract (MPC) gives you **time**, **cash in hand**, and a **price floor**!

Time

As previously stated, marketing grain after harvest requires that you pay for more time. There are several ways this can be done. Some strategies have easy to identify direct costs and others have indirect costs that are a little tougher to pinpoint. Everything is out in the open when entering into an MPC. You sell grain at the current price minus a fee. The cost is known up front and does not continually accrue like some other contracts such as storage or Price Later (a.k.a. DP or NPE). Once written, the MPC gives you the right to take advantage of a market rally for a set amount of time. The fact that you have priced the grain is key to the next two points.

Cash in Hand

This is where the real value starts to show up. With an MPC you pay for time but also get your money in hand at the time of delivery. Entering into a storage or Price Later contract offers no money up front and other contracts that do put money in hand will typically only advance 50-75% of the current cash value. An MPC pays out the entire minimum price which is typically 90-95% of the current value. When you figure the value of having your money now, an MPC starts to pay for itself!

Price Floor
This is where an MPC pulls away from the field. The price you receive up front is the absolute minimum you will be paid! You are able to take advantage of a rally in the market but will be unaffected if the price drops! You may think the market will not go lower, but it always can. Other strategies can give you the chance to capitalize on a rally but leave you equally at risk of lower prices.

There are a number of ways to stay in the market for the possibility of cashing in on a rally but only the MPC protects against the risk of lower prices. Consider that an MPC gives you all this and is often cheaper than commercial storage or Price Later fees! Why pay as much or more to stay in the market without reaping the extra benefits of an MPC?

An MPC is not a silver bullet; just like all other strategies, there is no guarantee that you will see higher prices. Before taking any steps to “buy” more time, carefully examine whether you are better off taking what is currently available and starting to concentrate on next year.

If you decide to pay for more time, consider getting more for your money with a Minimum Price Contract.