Introduction

CIH was founded in 1999 to help agriculture producers, processors and end-users gain control over their commodity price risk.

Today CIH is a company of 70 professionals serving over 500 clients in the ag community. Known for their innovation, CIH is widely recognized as a leader in bringing together technology, consulting, and education to achieve better outcomes for their clients.

CIH’s Grain Origination Service offers a unique combination of personalized consulting and highly specialized tools that enable originators to generate more revenue, originate more bushels, increase grower engagement, and offer a game plan in any market condition.

**Mike Shawver**, Vice President of Business Development has been with CIH for 12 years. Mike has been instrumental in developing products and services across a number of different areas including poultry, cattle, and dairy producers.

**Ryan Walsh**, Manager of Origination, has been with CIH for 2 years. As team leader of the Origination Team Ryan has been responsible for developing an integrated approach to supporting originators. Prior to joining CIH he originated grain for ten years in Illinois and Indiana.
CIH’s background

Developing risk management plans with farmers
Supporting procurement programs with integrators
Distilling market data into actionable information
Connecting the dots
Engaging Farmers in the 21st Century
NGFA Country Elevator Conference
Topics for today

Changing the discussion with growers from news and market direction to value at risk

Using objective metrics to identify marketing opportunities

Making the connection between market information and effective strategies
Growers seem stuck

They have seen all time highs in farm income
They are using storage as a crutch to not make decisions
Market has shifted from demand driven to supply driven
They forward contract less grain despite yield increases
How does our own bias affect the dialogue?

How do you talk about risk when you are bullish?

Do you omit structures because you are worried about wins or losses?
Growers are inundated

Market gurus

Newsletters

Podcasts

Technical analysis
An explosion of complex offerings

- Pacer Plus
- Pacer Ultra
- Pro Pricing Program
- Equalizer
- Compass
- Foundation
- Price Builder Bonus
- Modified Capped Average
- Freedom Trader
- Freedom X-Tra
- Freedom Bin
- Freedom Max
- Freedom Tech
- Velocity Pro
- Premium Plus
- Merchants Plus
- Digital Range Accrual
- Bonus Premium
- Min Max Plus
- Flex Floor Advantage
- PSS Either/Or
- PMin (Euro)
- PSS Ladder
- PSS KO
- Daily Price Plus
- Spring Price Plus
What does the Grower really need?

More newsletters?

More exotic contracts with exotic names?

More quoting packages?

More technical analysis?
They need a decision making process

They need to know how to apply all of these tools and data to their operation

They need to move away from market direction and towards

**Identifying opportunities**

**Understanding value at risk**

**Building a plan to capture revenue**
An opportunity for elevators and originators

Established relationships and geographic foot print

Create more sticky growers

Get a larger forward book

Generate more revenue from your origination efforts

Keep value in your ag community
Embrace a decision making process

What is the framework for guiding the discussion?

What basket of tools, data, ideas can you use to help farmers evaluate opportunities?

How do you connect the structure of the market to actions the farmer can take?

How do you overcome your own biases?
Building a context for decisions

Are prices currently high or low?

Are margins high or low?

How did the market behave in the past?

Are we currently following that pattern?

How does the market structure affect contract selection?
Build on an understanding of the contracting alternatives

Underlying every structured contract is a mix of options, futures, swaps, etc

Mostly boils down to the relative cheapness of options

Any decision making framework needs a process for understanding option pricing
Last but not least, GROWER BIAS

What is the growers market bias?

Tolerance for risk?

The grower is naturally long, do they understand that?

Level of education on outcomes of contracting alternatives.

What contracts have they used in the past?

Most important – What will they do?
An example framework
## Context starts with breakeven

<table>
<thead>
<tr>
<th>Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Sale Price</td>
<td>$3.7300 /bu</td>
</tr>
<tr>
<td>Unsold Cash Price</td>
<td>$3.7275 /bu</td>
</tr>
<tr>
<td>At Market Price</td>
<td>$3.7293 /bu</td>
</tr>
<tr>
<td>Breakeven</td>
<td>$3.9395 /bu</td>
</tr>
<tr>
<td>Margin</td>
<td>-$0.2102 /bu</td>
</tr>
<tr>
<td>Coverage</td>
<td>72.7%</td>
</tr>
</tbody>
</table>

### Coverage

<table>
<thead>
<tr>
<th>Potential</th>
<th>75.8%</th>
<th>125,000</th>
<th>$3.7340</th>
<th>$466,750</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold</td>
<td>72.7%</td>
<td>120,000</td>
<td>$3.7300</td>
<td>$447,600</td>
</tr>
<tr>
<td>Unsold</td>
<td>27.3%</td>
<td>45,000</td>
<td>$3.7275</td>
<td>$167,738</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>165,000</td>
<td>$3.7293</td>
<td>$615,338</td>
</tr>
</tbody>
</table>

- **What have they sold?**
- **What is the value of grain in the bin?**
- **How does their *net* price compare to breakeven?**
- **Are they losing money?**
Historical patterns help anticipate

10 year Tendency – 24 months out

Percentile ranking

0%  20%  40%  60%  80%  100%

Jan  Apr  Jul  Oct  Jan  Apr  Jul  Oct

Previous Growing Season

Current Growing Season
Compare today’s opportunity to history
Use breakevens and price together

<table>
<thead>
<tr>
<th>Percentile</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 17: $3.425</td>
<td>2.662%</td>
<td>6.135%</td>
<td>4.596%</td>
</tr>
<tr>
<td>Dec 18: $3.875</td>
<td>44.928%</td>
<td>49.576%</td>
<td>35.996%</td>
</tr>
<tr>
<td>Dec 19: $4.070</td>
<td>68.817%</td>
<td>88.972%</td>
<td>67.041%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentile</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>$4.283</td>
<td>$4.488</td>
<td>$5.48</td>
</tr>
<tr>
<td>90</td>
<td>$4.178</td>
<td>$4.085</td>
<td>$4.688</td>
</tr>
<tr>
<td>80</td>
<td>$4.14</td>
<td>$3.988</td>
<td>$4.308</td>
</tr>
<tr>
<td>70</td>
<td>$4.085</td>
<td>$3.945</td>
<td>$4.105</td>
</tr>
<tr>
<td>60</td>
<td>$3.995</td>
<td>$3.908</td>
<td>$3.988</td>
</tr>
<tr>
<td>50</td>
<td>$3.97</td>
<td>$3.873</td>
<td>$3.92</td>
</tr>
<tr>
<td>40</td>
<td>$3.965</td>
<td>$3.838</td>
<td>$3.865</td>
</tr>
<tr>
<td>30</td>
<td>$3.948</td>
<td>$3.77</td>
<td>$3.80</td>
</tr>
<tr>
<td>20</td>
<td>$3.938</td>
<td>$3.603</td>
<td>$3.718</td>
</tr>
<tr>
<td>10</td>
<td>$3.93</td>
<td>$3.48</td>
<td>$3.515</td>
</tr>
<tr>
<td>0</td>
<td>$3.873</td>
<td>$3.155</td>
<td>$3.155</td>
</tr>
</tbody>
</table>
What is volatility telling us?

As volatility increases, the cost of flexibility increases.
### Connecting the dots…

**When Grower Bias is...**

<table>
<thead>
<tr>
<th>Bias</th>
<th>Strategy</th>
<th>Volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bearish</td>
<td>Accumulator Most firm Short Volatility</td>
<td></td>
</tr>
<tr>
<td>Negative</td>
<td>Cash Sale Firm when basis is strong</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>HTA Firm when basis is weak</td>
<td></td>
</tr>
<tr>
<td>Friendly</td>
<td>Min - Max Least expensive w/flexibility Neutral</td>
<td></td>
</tr>
<tr>
<td>Bullish</td>
<td>Minimum Price Most flexible Long Volatility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Seasonal Pool Unbiased</td>
<td></td>
</tr>
</tbody>
</table>
What’s the takeaway?

There is a better approach....

Create a framework for making decisions

Use objective metrics to identify opportunities

Help growers develop a game plan for any marketing condition

Connect the dots with actionable information

Engage the farmer where they need the most help
Thank you
There is a risk of loss in futures trading. The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, CIH Trading, LLC nor any other affiliates, subsidiary, or employee, collectively referred to as CIH, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a trading recommendation by CIH. The rules and regulations of the individual exchanges should be consulted as the authoritative source on all contract specifications and regulations. Past performance is not indicative of future results.