Understanding and Capturing Carry in Agricultural Futures Markets

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Commodity futures markets tend to exhibit "carry" over the winter and spring months leading up to the next harvest. The concept of carry plays a critical role in helping farmers optimize selling strategies. Carry refers to the cost or profit associated with holding a physical commodity or a futures contract over time. By recognizing and capturing carry, farmers can make more informed decisions about when to sell their crops or hedge their production.

What Is Carry?

Carry in the context of agricultural futures markets includes two primary components: (1) storage costs, which include the expenses incurred to store a commodity until it is sold, including warehouse fees, insurance, and interest on borrowed capital, and (2) futures price spread which is the price difference between futures contracts for different delivery months, often referred to as the "spread." This reflects the market's valuation of storage and time. For example, if the December corn futures price is $5.00 per bushel and the March corn futures price is $5.20 per bushel, the carry is $0.20 per bushel. This price difference compensates the holder for storing the corn until March.

Types of Carry Markets

Understanding the structure of the futures market is key to recognizing carry opportunities. When the futures price difference between two contracts perfectly reflects the cost of storage and financing, it is referred to as full carry. In this scenario, farmers storing grain are fully compensated for their holding costs. When the price spread is smaller than the storage costs, the market suggests a weaker incentive to store the commodity. This is called less than full carry. In the less likely, but not unheard of, situation where futures prices for near-term delivery are higher than for later delivery months, the market is said to be inverted. This signals strong immediate demand and discourages storage. Typically, we see full and less than full carry right around and after harvest because markets don't want grain at this time, as harvest supplies have met or more than met demand at this time of year.

Why Is Carry Important?

Farmers and grain merchandisers can use carry to determine the most profitable timing for selling crops. Recognizing carry opportunities helps farmers in three ways: (1) they can maximize revenue by locking in higher prices for future delivery months, (2) they can optimize storing decisions by knowing when the carry covers storage and interest costs which will help recognize when holding grain is no longer profitable, and (3) it can help manage risk by protecting against adverse price movements between the current time and the future delivery month.

How Farmers Can Capture Carry

Many tools and strategies can be used to take advantage of carry in the market. Note that these strategies do not eliminate risk and should carefully vetted. Market advisors and grain merchandisers can be consulted for best practices.

- *Use of Futures Contracts*

Farmers can sell futures contracts for a deferred month when carry is favorable. For instance, if the March futures price offers a better return than the current spot price plus storage costs, farmers can sell March futures and deliver the grain later.

- *Basis Contracts*
  A basis contract allows farmers to lock in the basis (the difference between local cash prices and futures prices) while leaving the futures price open. This can be combined with a favorable carry to optimize returns.
- *Storage*
  Farmers with access to storage can hold their grain and sell it later in the year when the carry justifies the storage costs. This approach is particularly useful when the market is offering close to full carry.
- *Hedge-to-Arrive (HTA) Contracts*
  An HTA contract locks in the futures price for a future delivery period while allowing farmers to set the basis later. This strategy enables them to benefit from favorable carry without immediately committing to local cash prices.
- *Monitor Seasonal Patterns*
  As already mentioned, carry opportunities often align with seasonal supply and demand trends. For example, grain prices may weaken during harvest due to abundant supply, creating potential for stronger carry into later months. Keeping tabs on local basis and use of basis contracts can also help this.

Challenges and Considerations
While capturing carry can be profitable, farmers must be mindful of potential pitfalls. Understanding storage costs are important. This isn't just fees for storage, but also interest cost related to borrowed capital. Even if you own your storage, you still need to factor in the opportunity cost. If you store corn, you are giving up storing other crops in that same bin. In addition, markets are still volatile, so changes in futures and basis level can erode the carry over time. Monitoring changes in futures and basis can be helpful in determining when holding grain is no longer profitable.

Recognizing carry in agricultural futures markets is a valuable skill for farmers working to make more strategic pricing decisions. However, success in capturing carry requires careful planning, disciplined risk management, and a keen eye on market conditions. With these strategies, farmers can turn carry opportunities into tangible financial gains.

Linda Burbidge is the Farm Management Education Instructor based in Bottineau, ND. The North Dakota Farm Management Education Program provides lifelong learning opportunities in economic and financial management for persons involved in the farming and ranching business. Visit ndfarmmanagement.com, Facebook @NDFarmManagementEducation, or contact Darin Spelhaug, State Supervisor for Agricultural Education, at dspelhaug@nd.gov or 701-328-3162 for more information. The ND Farm Management Education Program is sponsored by the North Dakota Department of Career and Technical Education.