



August 26, 2011

Grain Marketing

Center for Farm Financial Management

University of Minnesota

www.cffm.umn.edu/grain

Spring Wheat: 2011 Post-Harvest Marketing Plan

by Ed Usset

2011 production: 30,000 bushels, harvest in late August.

Objective: Seek strategies that balance risk and reward in the current market environment. Hold no unpriced wheat beyond July 1, 2012.

- 10,000 bushels priced before harvest with Dec'11 futures sales at a price of \$6.54¾ per bushel (August 26 closing price @ \$9.36¾): Place wheat in storage after harvest and maintain the hedge. The spring wheat basis will narrow in the months ahead, from a current basis of 40 cents under the December contract (cash price at \$8.97) to option price by late November. Exit plan: Unwind the hedge when the cash basis reaches option price (0 basis) or by the last week of November.
- 2,500 bushels priced before harvest with HTA contract at \$9.45½ per bushel in the December contract: Place in storage and maintain the hedge. Exit plan: Unwind the hedge when the cash basis reaches option price or by the last week of November.
- 10,000 bushels priced before harvest with two September futures sale at an average price of \$7.79¾ per bushel: Buy back futures at \$9.56¼ (\$1.77 loss) and sell cash wheat at harvest for \$8.97 per bushel. Final price is \$7.20 per bushel.
- 7,500 bushels remaining: Sell at harvest for \$8.97 per bushel.



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November 25, 2011

Spring Wheat: **Execution** of the 2011 Post-Harvest Marketing Plan by Ed Usset

August 26, 2011: Carrying charges in the futures market are inverted with September wheat is trading at a 20 cent premium to December wheat. At 59 cents under the September contract, the basis at harvest is weak but not terrible when you consider it is only 40 cents under the December contract. I am bullish the basis and I will maintain my December hedges. However, any grain hedged in the September contract or not priced before harvest will be sold and priced at harvest.

November 25, 2011: It is time to unwind my remaining hedges and sell the rest of the 2011 spring wheat crop. I had 10,000 bushels hedged in the December contract and another 2,500 bushels with a December HTA contract. The cash basis finally reached "over" the December contract (9 cents over) in the last week of November (cash wheat price @ \$8.36/bu. and Minneapolis Dec'11 contract @ 8.27¼/bu.

Summary of the 2011 Wheat Crop:

10,000 bushels sold for....	\$7.20
7,500 bushels sold for....	\$8.97
10,000 bushels sold for....	\$6.63 ³ / ₄
2,500 bushels sold for....	\$9.54 ¹ / ₂
Final average price for 2011 wheat	\$7.65