



August 31, 2007

Grain Marketing

Center for Farm Financial Management

University of Minnesota

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Spring Wheat: 2007 Post-Harvest Marketing Plan

by Ed Usset

2007 production: 25,000 bushels, harvest in August, loan rate @ \$2.62.

Objective: Seek strategies that offer a price higher than the loan rate. Hold no unpriced wheat beyond July 1, 2008.

- 17,500 bushels priced at \$4.68 per bushel. This based on an average of 3 HTA sales at \$4.51 per bushel, and 4 futures sales at \$4.80½, all using the September contract (August 31 close of \$6.92). These bushels will be placed in storage and I will roll the hedges forward to the March contract, trading at \$7.25 per bushel. The elevator will rewrite my HTAs using an adjusted March futures base of \$4.84 per bushel (\$7.25 - \$2.41 loss on the September contract). Considering the loss in September futures, my new March hedge is at \$5.13½ per bushel (\$7.25 - \$2.11½ loss on the September contract). I am hoping that the current basis of 65 cents under the September contract can narrow to 30 cents under the March contract by late February. Exit plan: I will unwind my storage hedge when the cash basis reaches 30 under the March futures contract or by the last week of February.
- 7,500 bushels remaining: place in storage and sell March futures at \$7.25. Exit plan: I will unwind my storage hedge when the cash basis reaches 30 under the March futures contract or by the last week of February.



December, 2007

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Spring Wheat: **Execution** of the 2007 Post-Harvest Marketing Plan by Ed Usset

August 31, 2007: The spring wheat market is sporting a 33 cent carry from September to March, remarkably wide and a nice incentive to sell the carry. For bushels priced before harvest (17,500 @ \$4.68 average in the September contract), I am aiming for a final cash price of \$4.71 per bushel (\$5.01 March futures less a 30 cent basis). These figures seem old-fashioned in light of the current market run-up. My aim on the remaining 7,500 bushels is \$6.95 per bushel (\$7.25 March futures less a 30 cent basis). Current price levels are unprecedented and certainly make my proactive decisions of the past year look too early and too cheap. I could look back with regret but I choose to look ahead to fantastic opportunities in 2008 and beyond.

December 7, 2007: This is a volatile market – cash prices and basis are strengthening very quickly. March wheat futures are trading at \$10.03 and cash price bids are \$9.92 per bushel! I will take the opportunity to set the basis at 11 cents under the March contract on my HTA contracts, and on my March futures sales. On my HTA contracts, rolled forward at \$4.84 per bushel at the end of August, my net price is \$4.73 (\$4.84 futures - \$0.11 basis). On futures sales, my net price will be \$5.02 (\$7.25 March futures - \$0.11 basis - \$2.12 loss on September contracts).

Net price on remaining 7,500 bushels: \$7.25 March futures less \$0.11 basis = \$7.14.

Summary of the 2007 Wheat Crop:

7,500 bushels sold for....	\$4.73
10,000 bushels sold for....	\$5.02
7,500 bushels sold for....	<u>\$7.14</u>
Final average price for 2007 wheat	\$5.57