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Grain Marketing

Center for Farm Financial Management

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Spring Wheat: 2007 Pre-Harvest Marketing Plan

by Ed Usset

Expected 2007 production: 25,000 bushels (640 acres @ 38 bushels per)

Objective: Buy crop insurance to protect my production risk, and have 75% of my APH insured wheat crop priced by early June.

- Price 2,500 bushels at \$3.25 cash price/\$3.60 Sep wheat futures using forward contract/futures hedge/futures fixed contract.
- Price 2,500 bushels at \$3.40c/\$3.75f, or by March 15, pricing tool to be determined (“tbd”).
- Price 2,500 bushels at \$3.55c/\$3.90f, or by April 2, pricing tool tbd.
- Price 2,500 bushels at \$3.70c/\$4.05f, or by April 17, pricing tool tbd.
- Price 2,500 bushels at \$3.85c/\$4.20f, or by May 2, pricing tool tbd.
- Price 2,500 bushels at \$4.00c/\$4.35f, or by May 16, pricing tool tbd.
- Price my last 2,500 at \$4.15c/\$4.50f, or by June 1, pricing tool tbd.

Plan starts on September 1, 2006. Earlier sales will be made at a 25 cent premium to price targets noted above.

I will consider the December futures contract for new crop sales at a 10 cent premium to September. Ignore decision dates and make no sale if prices are lower than \$3.25 local cash price/\$3.60 September futures.



September 1, 2006

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Spring Wheat: **Execution** of the 2007 Pre-Harvest Marketing Plan

by Ed Usset

Objective: Buy crop insurance to protect my production risk, and have 75% of my anticipated spring wheat crop priced by early June.

- Price 2,500 bushels at \$3.25 cash price/\$3.60 Sep wheat futures using forward contract/futures hedge/futures fixed contract. **Hedge-to-arrive on May 5, 2006 @ \$4.51 Sep'07 contract**
- Price 2,500 bushels at \$3.40c/\$3.75f, or by March 15, pricing tool to be determined ("tbd").
Hedge-to-arrive on May 5, 2006 @ \$4.51 Sep'07 contract
- Price 2,500 bushels at \$3.55c/\$3.90f, or by April 2, pricing tool tbd.
Hedge-to-arrive on May 5, 2006 @ \$4.51 Sep'07 contract
- Price 2,500 bushels at \$3.70c/\$4.05f, or by April 17, pricing tool tbd.
Futures sale on September 1, 2006 @ \$4.80½ Sep'07 contract
- Price 2,500 bushels at \$3.85c/\$4.20f, or by May 2, pricing tool tbd.
Futures sale on September 1, 2006 @ \$4.80½ Sep'07 contract
- Price 2,500 bushels at \$4.00c/\$4.35f, or by May 16, pricing tool tbd.
Futures sale on September 1, 2006 @ \$4.80½ Sep'07 contract
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Futures sale on September 1, 2006 @ \$4.80½ Sep'07 contract



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May 5, 2006: The opportunity to price new crop spring wheat has presented itself earlier than any other time in the history of the MGEX. The 2007 September contract started trading in early April 2006, and today I find the prospect of \$4.50 new crop wheat irresistible. I use a hedge-to-arrive contract to price 7,500 bushels, representing 30% of my expected 2007 production. This will establish a new crop 2007 cash wheat price of about \$4.20 per bushel, assuming a harvest basis of 30 under September futures. I am reluctant to price more than 30% of a crop more than one year in advance of harvest, so don't expect any more actions until September 1, 2006.

September 1, 2006: My 2007 pre-harvest marketing plan has officially started. Prices are high so I'm going to price another 45% of my 2007 crop by selling two contracts (10,000 bushels) of Sep'07 futures at \$4.80½ per bushel. High prices are driven by a world wheat situation that is very tight. I might consider the use of options but they are not trading and, even if they were, I suspect they would be very expensive.

One year prior to harvest, I am 75% priced on my 2007 pre-harvest marketing of spring wheat with an average September futures price of \$4.68, or a cash price of \$4.35-4.40 per bushel.