



August 29, 2008

Grain Marketing

Center for Farm Financial Management

University of Minnesota

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Spring Wheat: 2008 Post-Harvest Marketing Plan

by Ed Usset

2008 production: 25,000 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, 2009.

- 15,000 bushels priced before harvest with Sep'08 futures sales at an average price of \$5.69 per bushel (August 29 closing price @ \$8.61): Place in storage and roll the hedge forward to the March contract, trading at \$8.84½ per bushel. I am hoping that the current basis of 57 cents under the September contract can narrow to 30 cents under the March contract, early in 2009. Exit plan: Unwind the hedge when the cash basis reaches 30 under the March futures contract or by the last week of February.
- 2,500 bushels priced before harvest with an HTA contract @ \$6.89: Place in storage and roll the hedge forward - the elevator will rewrite my HTAs using an adjusted March futures base of \$7.12½ per bushel (\$8.84½ - \$1.72 loss on the September contract). Exit plan: Unwind the hedge when the cash basis reaches 30 under or by the last week of February.
- 7,500 bushels remaining: Place in storage and use an HTA to sell March futures at \$8.84½. Exit plan: Unwind the hedge when the cash basis reaches 30 under or by the last week of February.



February 20, 2009

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Spring Wheat: Execution of the 2008 Post-Harvest Marketing Plan by Ed Usset

August 29, 2008: My pre-harvest sales were too early and too cheap, but it's time to take a fresh look at post-harvest opportunities. My good friend Wally Whipsaw would note that wheat prices soared after harvest in 2007 – holding unpriced grain in the bin is his way of doing what he should have done last year. I don't like Wally's approach. Despite reaching prices over \$20 per bushel earlier this year, current cash wheat prices of \$8 plus are high based on a record world wheat crop production in 2008. Placing grain in storage at harvest and selling (or rolling to) the March contract allows me to, (1) hold onto the current price level, (2) capture a modest carry (33½ cent carry from Sep'08 @ \$8.61 to the Mar'09 @ \$8.84½) and, (3) wait for a harvest basis of 57 cents under the Sep'08 (90 cents under the March) to strengthen. I think a spring wheat basis of 30 cents under the March, and as high as option price is possible by year-end or early in 2009.

Mid-October 2008: The spring wheat basis is strengthening quickly and I see no end in sight as the market has fundamentally changed in the past few months. I will wait for the new year (and new tax year) to unwind my transactions.

January 2, 2009: A new tax year has arrived. I will unwind my futures hedge on 15,000 bushels, buying back 3 contracts of March futures at \$6.55¼ per bushel, and deliver cash wheat at \$7.00 per bushel – a basis of 45 cents over. My final price will be... \$5.69 (Sep'08 sales average) + \$0.23½ (carry to the March on Aug 29) + \$0.45 basis = \$6.37½. I intend to hold off pricing and delivery of HTA contracts until the last half of February.

February 20, 2009: On my remaining HTA contracts, I set the basis at 11 cents over the March contract, to price and deliver all remaining bushels. Final price established of \$7.23½ on 2,500 bushels (7.12½ + 0.11 basis), and \$8.95½ on 2,500 bushels (8.84½ + 0.11 basis)

Summary of the 2008 Wheat Crop:

15,000 bushels sold for....	\$6.37½
2,500 bushels sold for....	\$7.23½
7,500 bushels sold for....	<u>\$8.95½</u>
Final average price for 2008 wheat	\$7.23½