



August 28, 2009

Grain Marketing

Center for Farm Financial Management

University of Minnesota

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Spring Wheat: 2009 Post-Harvest Marketing Plan

by Ed Usset

2009 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, 2010.

- 10,000 bushels priced before harvest with Sep'09 futures sales at an average price of \$10.02 per bushel (August 28 closing price @ \$5.21½): Place in storage and roll the hedge forward to the March contract, trading at \$5.58½ per bushel. I am hoping that the current basis of 37 cents under the September contract can narrow to 5 cents under the March contract, early in 2010. Exit plan: Unwind the hedge when the cash basis reaches 5 under the March futures contract or by the last week of February.
- 7,500 bushels priced before harvest with HTA contracts at an average of \$6.97 per bushel: Place in storage and roll the hedge forward - the elevator will rewrite my HTAs using an adjusted March futures base of \$7.34 per bushel (\$5.58½ + \$1.75½ gain on September contracts). Exit plan: Unwind the hedge when the cash basis reaches 5 under or by the last week of February.
- 7,500 bushels remaining: Place in storage and use an HTA to sell March futures at \$5.58½. Exit plan: Unwind the hedge when the cash basis reaches 5 under or by the last week of February.



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May 28, 2010

Spring Wheat: Execution of the 2009 Post-Harvest Marketing Plan by Ed Usset

August 28, 2009: A year ago I lamented a series of pre-harvest sales that were too early and too cheap (but, I like to remind readers, profitable). I made up the shortfall and more in just one year – my pre-harvest sales were NOT too early and certainly not cheap – I had 75% of my crop priced at an average of \$8.71, or nearly \$3.50 higher than September futures at harvest. Looking ahead to post harvest opportunities, I see a very large carry in the Minneapolis wheat market. By my calculation, the Sep/Mar spread of 37 cents is 315% of interest costs to store \$4.85 wheat for 6 months (based on 4.5% interest). That is the largest carrying charge in spring wheat I have seen at harvest in the past 20 years. I like to sell large carrying charges. Placing grain in storage at harvest and selling (or rolling to) the March contract allows me to, (1) hedge against lower prices, (2) capture a large, 37 cent carry from Sep'09 to Mar'10, (3) defer income to next year and, (4) wait for a harvest basis of 74 cents under the March to strengthen. I think a spring wheat basis of 5 cents under the March is possible in the next 6 months.

November 20, 2009: The spread from Mar'10 to Jul'10 futures has widened to 25 cents per bushel. I will buy back two contracts of March wheat and sell two contract of July wheat at 25 cent premium July. I am hoping that the current basis of 20 cents under the March contract can narrow to 5 cents under the July contract, sometime in May or July of 2010. **My new exit plan is to unwind the hedge when the cash basis reaches 5 under the July futures contract or by the last week of May.**

February 26, 2010: It is time to deliver 15,000 bushels on two HTA contracts of 7,500 bushels each, locking in a basis of 11 cents under the March contract (Mar'10 futures @ \$5.17, cash price @ \$5.06). The final price on 7,500 bushels is \$7.34 March base - \$0.11 basis = \$7.23. The final price on the other 7,500 bushels is \$5.585 March base - \$0.11 basis = \$5.475.

May 28, 2010: It's time to wrap-up the 2009 crop with the unwinding of a futures hedge and delivery of 10,000 bushels. Pricing this grain started in August 2008, when I sold two contracts of Sep'09 futures at \$10.02 per bushel. At harvest in August 2009, I placed the wheat in storage and rolled the hedge forward to the March contract, adding 37 cents of carry. In November, I rolled the hedge forward again, this time to the July contract, adding another 25 cents in carry. My base futures price is now \$10.64 July wheat ($\$10.02 + 0.37 + 0.25$). Spring wheat is now trading at 27 cents under the July contract. My final price on 10,000 bushels is $\$10.64 - 0.27 = \10.37 per bushel.

Summary of the 2009 Wheat Crop:

10,000 bushels sold for....	\$10.37
7,500 bushels sold for....	\$7.23
7,500 bushels sold for....	\$5.47½
Final average price for 2009 wheat	\$7.96