



August 27, 2010

Grain Marketing

Center for Farm Financial Management

University of Minnesota

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Spring Wheat: 2010 Post-Harvest Marketing Plan

by Ed Usset

2010 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, 2011.

- 15,000 bushels priced before harvest with Sep'10 futures sales at a price of \$7.45 per bushel (August 27 closing price @ \$7.07): Place in storage and roll the hedge forward to the March contract, trading at \$7.19³/₄ per bushel. I am hoping that the current basis of 90 cents under the September contract can narrow to 10 cents under the March contract, early in 2011. Exit plan: Unwind the hedge when the cash basis reaches 10 under the March futures contract or by the last week of February.
- 2,500 bushels priced before harvest with HTA contract at \$5.77¹/₄ per bushel in the December contract: Place in storage and maintain the hedge. Exit plan: Unwind the hedge when the cash basis reaches 25 under the December contract or by the last week of November.
- 5,000 bushels priced before harvest with a futures sale at \$5.77¹/₄ per bushel in the December contract: Place in storage and maintain the hedge. Exit plan: Unwind the hedge when the cash basis reaches 25 under the December contract or by the last week of November.
- 7,500 bushels remaining: Place in storage and use an HTA to sell March futures at \$7.19³/₄. Exit plan: Unwind the hedge when the cash basis reaches 5 under the March futures contract or by the last week of February.



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May 27, 2011

Spring Wheat: Execution of the 2010 Post-Harvest Marketing Plan by Ed Usset

August 27, 2010: Carrying charges in the futures market are not large (about 2 cents per month from September to March, but the spring wheat basis is punishingly weak. The basis at harvest is 90 cents under the September contract – an unprecedented wide level for harvest. So while the carry in futures is modest, the total carry implied by the poor basis is large. 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 modest 13 cent carry from Sep'10 to Mar'11, (3) defer income to next year and, (4) wait for a harvest basis of 103 cents under the March to strengthen. I think a spring wheat basis of 25 cents under the December and 10 under the March are possible in the months ahead.

November 26, 2010: I'll set the basis at 58 cents under the Dec'10 contract on 5,000 bushels priced before harvest with Dec futures at \$5.77¼. My final price on this lot is \$5.19¼ per bushel (\$5.77¼ Dec futures - \$0.58 basis). This will be my worst sale of the 2010 crop. Concerning 5,000 bushels price with a December futures hedge at \$5.77¼, I will roll the hedge forward to the March contract at a 17 cent carry (Dec'10 @ \$7.34, Mar'11 @ \$7.51). I think a spring wheat basis of 30 under the March is possible by February.

February 18, 2011: I'll set the basis at 6 cents under the Mar'11 contract on 7,500 bushels priced with an HTA at harvest with Mar futures at \$7.19¾. My final price on this lot is \$7.13¾ per bushel (\$7.19¾ Mar futures - \$0.06 basis).

February 25, 2011: I have 20,000 bushels hedged in the March contract. The basis has not reached my objective but the carry to the May and July contracts is good. I will roll my position forward to the July contract by buying back March futures at \$9.15¾ and selling July futures at 9.36¼, thus adding 20½ cents to my original hedges. It takes a lot of math, but my current position is short 20,000 bushels of July wheat at a weighted average price of \$7.37½. This play buys time for an improved basis, which I will set sometime in May or June.

May 27, 2011: Basis levels in spring wheat finally started to show some life in early April. I'll set the basis at 23 cents over the July contract by selling cash wheat for \$10.79 per bushel and buying back July futures at \$10.56¼. My final price on 15,000 bushels is \$8.01¼ per bushel (\$7.78¼ Jul futures + \$0.23 basis). My final price on 5,000 bushels is \$6.37¼ per bushel (\$6.14¼ Jul futures + \$0.23 basis).

Summary of the 2010 Wheat Crop:

15,000 bushels sold for....	\$8.01¼
2,500 bushels sold for....	\$5.19¼
5,000 bushels sold for....	\$6.37¾
7,500 bushels sold for....	\$7.13¾
Final average price for 2010 wheat	\$7.28½