



Grain Marketing

Center for Farm Financial Management
University of Minnesota

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July 13, 2010 (revised November 9, 2010)

Spring Wheat: 2011 Pre-Harvest Marketing Plan

by Ed Usset

Expected 2011 production: 30,000 bushels (640 acres @ 47 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 5,000 bushels at \$5.60 cash price/\$6.20 Sep wheat futures using forward contract/futures hedge/futures fixed contract.
- Price 5,000 bushels at \$6.00c/\$6.60f, or by March 18, pricing tool to be determined (“tbd”).
- Price 5,000 bushels at \$6.40c/\$7.00f, or by April 18, pricing tool tbd.
- Price 2,500 bushels at \$6.80c/\$7.40f, or by May 17, pricing tool tbd.
- Price my last 5,000 bushels at \$7.20c/\$7.80f, or by June 15, pricing tool tbd.

Plan starts on November 1, 2010. Earlier sales will be made at a 30 cent premium to price targets noted above and will be limited to 15,000 bushels.

I will consider the December futures contract for new crop sales at a 15 cent premium to September. Ignore decision dates and make no sale if prices are lower than \$5.60 local cash price/\$6.20 September futures.



January 3, 2011

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Spring Wheat: **Execution** of the 2011 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 5,000 bushels at \$5.00 cash price/\$5.50 Sep wheat futures using forward contract/futures hedge/futures fixed contract. **Futures sale on July 13, 2010 @ \$6.54³/₄ Dec'11 contract**
- Price 5,000 bushels at \$5.40c/\$5.90f, or by March 18, pricing tool to be determined ("tbd").
Futures sale on July 13, 2010 @ \$6.54³/₄ Dec'11 contract
- Price 5,000 bushels at \$5.80c/\$6.30f, or by April 18, pricing tool tbd.
Futures sale on July 16, 2010 @ \$6.70³/₄ Sep'11 contract
- Price 2,500 bushels at ~~\$6.80c/\$7.40~~, or by **May 17**, pricing tool tbd.
- Price my last 5,000 bushels at **\$7.20c/\$7.80f**, or by June 15, pricing tool tbd.
Futures sale on January 3, 2011 @ \$8.88³/₄ Sep'11 contract



January 3, 2011

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July 13, 2010: I love big carrying charges – every seller should love big carrying charges. Who can argue with \$6 wheat as a place to start pricing 2011 spring wheat, particularly when I can estimate production costs closer to \$5 per bushel? I priced 33% of my expected 2011 production by selling 2 contracts of December wheat futures.

July 16, 2010: The wheat price rally continues and I'll make one more sale with September 2011 spring wheat futures at \$6.70.

November 9: It is no secret that fuel and fertilizer prices have been tracking with grain prices and rising rapidly over the last few months. It's time to revise my plan. It's no use worrying about earlier sales made (in retrospect) too cheap. The good news remains that most of next year's crop is not priced and the market is showing pricing opportunities well above these revised and higher production costs.

January 3, 2011: January 1 is my official start date and I think it is time to make another sale. I will price 5,000 bushels with a futures sale of Sep'11 at \$8.88¾. Regarding my last sale, I have decided to ignore the price objective defer to the decision date in May. The market is strong and I am looking for a disciplined way to step aside and let it run. Time will tell if it works.

I am 60% sold on my 2011 crop at an average Sep'11/Dec'11 futures price of \$7.80/\$6.55 or a cash price of about \$6.90 per bushel.