



August 24, 2012

# Grain Marketing

Center for Farm Financial Management

University of Minnesota

[www.cffm.umn.edu/grain](http://www.cffm.umn.edu/grain)

## Spring Wheat: 2012 Post-Harvest Marketing Plan

by Ed Usset

2012 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 June 1, 2013.

- 20,000 bushels priced before harvest with Sep'12 futures sales at a price of \$8.63¾ per bushel (August 24 closing price @ \$9.18½): Place wheat in storage after harvest and roll the hedge forward to the May'13 contract, trading at \$9.45¼ (27 cent positive carry). The cash price at harvest is \$8.37/bu. and the harvest basis is 82 cents under the September contract. Basis will narrow dramatically in the months ahead, from 82 cents under the Sep (or 109 cents under the May) to option price the May contract by April. Exit plan: Unwind the hedge when the cash basis reaches option price (0 basis) or by the last week of April.
- 5,000 bushels: Hedge with the sale of May'13 futures at \$9.45½. Exit plan: Unwind the hedge when the cash basis reaches option price (0 basis) or by the last week of April.
- 2,500 bushels priced before harvest with HTA contract at \$8.21½ per bushel in the September contract: Set the basis and sell at harvest for \$7.40½ per bushel.
- 2,500 bushels remaining: Sell at harvest for \$8.37 per bushel.



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April 30, 2013

## Spring Wheat: Execution of the 2012 Post-Harvest Marketing Plan by Ed Usset

August 24, 2012: As drought in the Corn Belt propelled corn and soybean prices higher, wheat futures prices followed and the wheat basis collapsed to nearly record levels. Unlike the corn and soybean markets, wheat futures are showing modest but positive carrying charges. Modest carrying charges alone are not enough to warrant selling the carry, but selling the carry is also a basis play. Looking ahead to the first half of 2013, I am very bullish on the spring wheat basis. Selling the carry with the May'13 contract gives me the opportunity to pick up as much as \$1/bu. when the May basis (currently at 109 cents under at harvest) narrows to something closer to option price by next spring. After storing and selling the carry on 25,000 bushels, I'll price and deliver the bushels I can't store (5,000) at harvest.

April 30, 2013: Option price basis May was a dream. I settle for 24 cents under the May in nearby Beltrami. It's time to unwind the hedge – buy back May futures at \$8.37½ and sell cash wheat at \$8.04/bu. On 20,000 bushels price before harvest with Sep sales, the final price is \$8.67/bu. (\$8.63¾ Sep sales + 26¾ cents carry Sep to May - 23½ May basis). On 5,000 bushels hedged at harvest, my final price is \$9.22/bu. (\$9.45½ May futures sale - 23½ May basis).

### Summary of the 2012 Wheat Crop:

2,500 bushels sold for...	\$7.40½
2,500 bushels sold for...	\$8.37
20,000 bushels	\$8.67
5,000 bushels	\$9.22
Final average price for 2012 wheat	<u>\$8.63</u>