



August 25, 2017

Grain Marketing

Center for Farm Financial Management

University of Minnesota

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Spring Wheat: 2017 Post-Harvest Marketing Plan

by Ed Usset

2017 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, 2018.

- 20,000 bushels priced before harvest with Sep'17 futures sales at \$6.96/bu. (average of four sales, August 25 closing price @ \$6.50½, Dec'17 at \$6.69¼), then rolled forward to the Dec at a 10 cent carry (Dec'17 average price of \$7.06/bu.): Place wheat in storage after harvest and roll the hedge forward to the Mar'18 contract, trading at \$6.75¼ (6 cent Dec/Mar positive carry). The cash price is \$6.34/bu. The harvest basis is 17 cents under the September, 35 under the Dec and 41 under the March contract. Basis will narrow in the months ahead, possibly to 10 cents under the March contract by early December. Net result if I reach 10 cents under the March? $\$6.7525 + (-0.10) + 0.455 \text{ Sep futures gain} + 0.10 \text{ Sep/Dec carry} = \$7.21/\text{bu}$. Exit plan: Unwind the hedge when the cash basis reaches 10 cents under the March contract (-0.10H) or by February 25.
- 2,500 bushels priced before harvest with HTA contract at $\$7.71\frac{3}{4}$ per bushel in the September contract: Set the basis at 17 cents under and sell at harvest for 7.55\$/bu.
- 7,500 bushels remaining: I don't have the space to store it all. Sell at harvest for \$6.34/bu.



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December 22, 2017

Spring Wheat: Execution of the 2017 Post-Harvest Marketing Plan by Ed Usset

August 25, 2017: The second worst drought in the last 30 years made for a very tense and interesting summer (Need you ask? the worst drought was 1988). The lack of early pricing opportunities of the past few years was not an issue in 2017. Prices started rallying sharply in mid-June and the market peaked just 3 weeks later. Sep'17 wheat ended the month of May under \$5.80/bu., but started July over \$8.00/bu. Big moves and many early pricing chances. Basis at 17 cents under the Sep is the strongest seen since 2005. But, we might ask, if the drought was so severe, why has Sep'17 lost over \$1.50/bu. value over the last 8 weeks. The U.S. wheat crop is smaller. The Canadian wheat crop will also be smaller. The Russian wheat crop will be much larger, with an increase more than enough to make up for short crops in the U.S. and Canada. World wheat carryout is slated to increase AGAIN.

December 22, 2017: The spring wheat basis has been narrowing steadily since harvest, finally reaching my objective of 10 cents under the March contract (Mar'18 futures at \$6.1175, cash bid at \$6.02). I will unwind the hedge – sell wheat held in storage and buy back March futures at \$6.1175 – to complete the marketing of my 2017 crop. Net result on 20,000 bushels? \$6.7525 Mar'18 futures sale + (-0.10) basis + 0.455 Sep futures gain + 0.10 Sep/Dec carry = \$7.21/bu.

Summary of the 2017 Wheat Crop:

| | |
|------------------------------------|---------------|
| 2,500 bushels sold for... | \$7.55 |
| 7,500 bushels | \$6.34 |
| 20,000 bushels | <u>\$7.21</u> |
| Final average price for 2017 wheat | \$7.02 |