



August 22, 2014

Grain Marketing

Center for Farm Financial Management

University of Minnesota

www.cffm.umn.edu/grain

Spring Wheat: 2014 Post-Harvest Marketing Plan

by Ed Usset

2014 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, 2015.

- 15,000 bushels priced before harvest with Sep'14 futures sales at \$7.53/bu. (average of two sales, August 22 closing price @ \$6.26³/₄): Place wheat in storage after harvest and roll the hedge forward to the Jul'15 contract, trading at \$6.60¹/₂ (33³/₄ cent positive carry). The cash price is \$5.97/bu. and the harvest basis is 30 cents under the September and 64 cents under the July contract. Basis will narrow in the months ahead, possibly to option price or better against the July contract by spring. Exit plan: Unwind the hedge when the cash basis reaches option price (0 basis July contract) or by June 15.
- 10,000 bushels: Hedge with the sale of Jul'15 futures at \$6.60¹/₂/bu. Exit plan: Unwind the hedge when the cash basis reaches option price (0 basis) or by June 15.
- 2,500 bushels priced before harvest with HTA contract at \$7.83¹/₂ per bushel in the September contract: Set the basis at 30 cents under and sell at harvest for \$7.53¹/₂ /bu.
- 2,500 bushels remaining: Sell at harvest for \$5.97/bu.



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March 23, 2015

Spring Wheat: Execution of the 2014 Post-Harvest Marketing Plan by Ed Usset

August 22, 2014: Like last year, early sales worked very well and the September contract is more than \$1/bu. below my first sales prices. The spring wheat market is showing positive carrying charges, all the way out to the Jul'15 contract. Nice carrying charges and the opportunity for a much stronger basis next year point to selling the carry with as many bushels as possible (25,000). 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.

March 23, 2015: The basis for spring wheat is very strong, and my objective for the basis – option price the July contract – has been exceeded. The spring wheat basis has narrowed 74 cents since harvest (64 cents under the July at harvest to 10 cents over today). The spot basis is 15 cents over the May contract, Taking into account a 5 cents positive carry to the July contract, the current basis is 10 cents over the July, and 10 cents better than my “option July” target. I will sell cash wheat today for \$6.08/bushel, and simultaneously buy back July futures for \$5.98/bu. My final price on 10,000 bushels hedged with a sale of July futures at \$6.60½ will be \$6.70½ (6.60½ + .10 basis). My final price on 15,000 bushels hedged in the September contract before harvest, and the hedge rolled forward to the July at harvest will be \$7.96¾ (6.60½ + .10 basis + 1.26¼ Sept. futures profit).

Summary of the 2014 Wheat Crop:

2,500 bushels sold for...	\$5.97
2,500 bushels sold for...	\$7.53½
15,000 bushels	\$7.96¾
10,000 bushels	<u>\$6.70½</u>
Final average price for 2014 wheat	<u>\$7.34</u>