



August 21, 2015

# Grain Marketing

Center for Farm Financial Management

University of Minnesota

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## Spring Wheat: 2015 Post-Harvest Marketing Plan

by Ed Usset

2015 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, 2016.

- 10,000 bushels: Place wheat in storage after harvest and wait for a better price. The cash price at harvest is \$4.69/bu. Exit plan: Sell 5,000 bushels at \$5.50 and the last 5,000 bushels at \$5.75/bushel. Bushels unsold on April 15 will be sold in 2,000 bushel increments over the next 5 weeks.
- 15,000 bushels: Hedge with the sale of May'16 futures at \$5.46/bu. If the basis can narrow to 10 cents under the May contract, I will end up with \$5.36/bu. wheat, or 67 cents better than the harvest price. Exit plan: Unwind the hedge when the cash basis reaches 10 cents under the May contract (-\$0.10 basis) or by April 30.
- 5,000 bushels remaining: I don't have the space to store it all. Sell at harvest for \$4.69/bu.



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May 20, 2016

## Spring Wheat: Execution of the 2015 Post-Harvest Marketing Plan by Ed Usset

August 21, 2015: Wheat prices are down! Cash spring wheat prices are below \$5.00/bushel – we need to go back six years (2009) for the last time this was true. My gut feeling is to put unpriced wheat in storage and wait for a post-harvest rally. But carrying charges are very large in the wheat market. The carry from the Sep'15 contract to Jul'16 is 54 cents per bushel. This is the largest carry I've seen in 25 years of measuring carrying charges at harvest. When carrying charges are this large, it's almost a no-brainer to sell the carry and wait for the basis to narrow. I'll sell the carry on 15,000 bushels and hold another 10,000 bushels unpriced in storage.

November 20, 2015: The basis for spring wheat is strong, and my objective for the basis – 10 cents under the May contract – has been exceeded. Currently at 7 cents under the May contract (cash bid at \$5.11, May futures at \$5.17¾), the spring wheat basis has narrowed 70 cents/bu. since harvest (77 cents under the May at harvest to 7 cents today). Today I sell cash wheat today for \$5.11/bushel, and simultaneously buy back May futures for \$5.17¾/bu. My final price on 15,000 bushels hedged with May futures will be \$5.39 (5.46 original May sale - .07 basis).

April 15, 2016: Lofty price targets for unpriced wheat in storage have not been met – I begin the process of selling 2,000 bushels per weeks over the next 5 weeks.

May 20, 2016: 2,000 bushel increments sold weekly from April 22 thru May 20, at \$4.61, 4.82, 4.75, 4.76, and 4.68, or a 5 sale average price of \$4.72/bu.

### Summary of the 2015 Wheat Crop:

5,000 bushels sold for...	\$4.69
15,000 bushels	\$5.39
10,000 bushels	<u>\$4.72</u>
Final average price for 2015 wheat	\$5.05