

# Cash Wheat Price Elements

- Futures plus Basis = Cash delivery location price
- Futures price can be Kansas City (hard Red Winter ) Minneapolis Dark Northern Spring Chicago (Soft Red) also used by most of trade as relative value trade for Soft White.
- Basis definition– The difference between the cash delivery point price less the Futures price.

# What do you believe will happen?

- 1 , 2 , 3 , 4 , —
- 1 , 2 , 3 , 4 , 5 , 4 , 3 , 2 , 1 , 0 , -1 , -2  
.....
- The price of soft white wheat on Sept 15
- 2005-\$3.54 2006-\$4.08 2007-\$8.70  
2008 .....

# Marketing is an emotional endeavor

- Marketing rather than price taking requires knowing what you want and preparing the assumptions and action steps.
- Marketing rather than price taking is a very mental endeavor. Strong emotional control and the right set of core beliefs are essential for self-felt and economic success.
- Most Professional traders have a common goal of capital appreciation from marketing decisions--- NOT --speculation on non-trending commodity moves.

# Do you know you?

- **We are a product of our personal belief structure.**

**How will you feel if you contract a portion of next years wheat crop for \$9.50 and the price when harvest arrives is at \$3.00?**

- **How will you feel if the price when harvest arrives is at \$16.00?**

- **What if that portion was 25%**

- **Making profit is seldom the real emotional goal when we sell or at what price.**

- **It is the means to the end, a currency that buys us emotional states (e.g., feeling safe, feeling proud, feeling free, feeling right).**

Has this ever happened to you?

Last year at this time Joe farmer sold 25% of his expected wheat crop for this harvest at \$ 5.35 saying it was a great sale.

Did he have a good reason? Sure did , it was a price well above the harvest price for the past several years. He knew it was a good profitable price and knew he would have at least that many bushels.

But - as is always the case with regret syndrome markets, the price went up and up after the sale.

In fact, to Mr. Farmer it almost seemed that the wheat market had become aware that he had sold his wheat and used that information as the catalyst to move up more and more over the next several days and months.

Then something weird happened; He found himself rooting that the market would go lower.

After all, since he still owned 75% of the wheat crop, every move higher was making him money.

But every move up was also a stinging rebuke of his completely arbitrary but financially sound decision to forward sell 25% of the crop at \$5.35.

This resulting conclusion is inescapable;  
Joe literally found himself wanting to lose money.

• Why would Joe Farmer ever want to do that??  
It's simple. We find ourselves valuing the emotional return as more important even then the financial return.

• **In most cases, our financial emotional self is poorly conditioned.**

• Making profit is seldom the real emotional goal when we sell or at what price.

Making profit is seldom the real emotional goal when we sell or at what price.

It is the means to the end, a currency that buys us emotional states (such as, feeling safe, feeling proud, feeling free, feeling right).

Unfortunately, sometimes our emotional goals and financial goals are incompatible

Being aware of our secret reasons for making financial decisions (Emotional Return on Investment) is what helps us overcome our psychology and navigate through the emotional mindfield of purchasing and marketing decisions.

Question:

Have you had times when you rooted against yourself and actually wanting to lose money?

# Planning for the future

## *Emotional*

- Decisive action happens only if we are mentally positioned to capture assumptions which fit our desired personal outcome. **Paradigms**
- Understand what makes us act and respond the way we do.
- Mental conditioning (thru strategic planning) makes us more proactive to situations and enables us to more quickly recognized fitting opportunities.
- Listen with the intent to hear what is being said, especially by those who challenges our paradigms.
- **Understand from the other persons viewpoint.**

# Planning for the future

## *Strategic Planning*

**Strategic Planning** = Mapping the future based on defined possibilities and probabilities of what will happen and your needed actions to capture positive results.

- 2. After defining the future then define what risks you are willing to take on and which risks you will be passing to others?
- 3. Identify the necessary action steps, constraints and time lines to accomplish a predetermined goal.
- 4. Have the Back up Plan so you can be proactive to missed assumptions.

# Planning for the future

## *Financial*

- Pay yourself a wage monthly.
- Profits only uses should be as tools for measurement, growth, or retirement.
- Understand and measure your use of depreciation dollars for growth.
- Procure inputs and market outputs from a manufacturing perspective.
- Know the markets and what they are telling you.
- Make sure that your Banker, Accountant, and Insurance agent are part of your Strategic Plan and understand the planned action steps

# Using depreciation as a tool for wealth growth

P%L Statement	
<b>sales</b>	<b>\$ 395,250.00</b>
operating expenses	\$ 150,000.00
Depreciation	\$ 40,000.00
Labor	\$ 60,000.00
Other	\$ 15,000.00
<b>Total expenses</b>	<b>\$ 265,000.00</b>
<b>Net taxable Income</b>	<b>\$ 130,250.00</b>
<b>Total Cash</b>	
<b>Net taxable Income</b>	\$ 130,250.00
Depreciation	\$ 40,000.00
<b>Net cash</b>	<b>\$ 170,250.00</b>

## ***Return on investment***

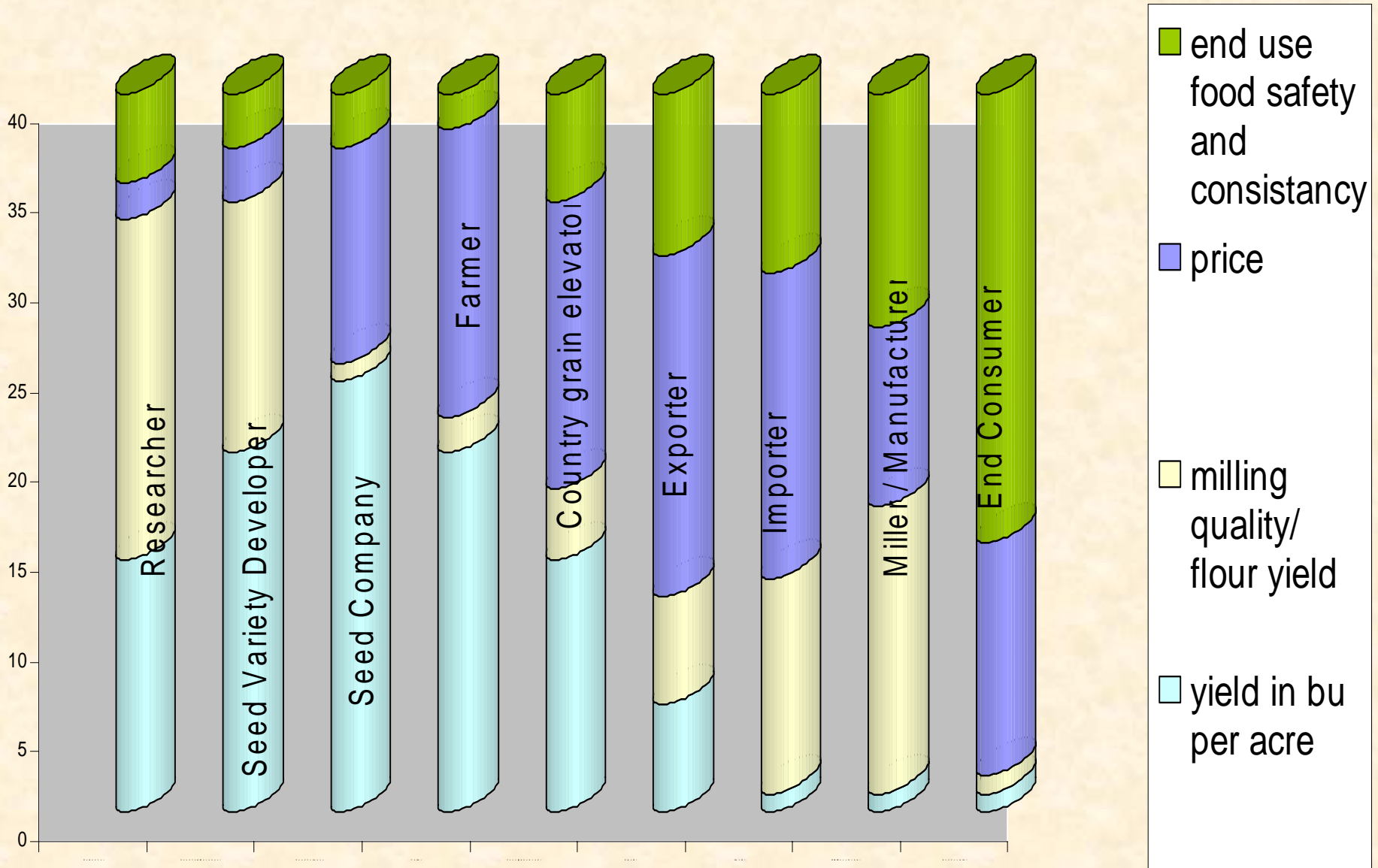
<b>Cost of production per acre</b>	<b>\$ 240.00</b>
<b>yield per acre (Bu)</b>	<b>60 Bu</b>
<b>Cost per bu produced</b>	<b>\$ 4.00</b>
<b>Desired return on investment</b>	<b>20%</b>
<b>needed price per bu to get desired return</b>	<b>\$ 4.80</b>
<b>Current price at Portland for pricing period</b>	<b>\$ 4.50</b>
<b>Your Location differential(Basis) to portland</b>	<b>\$ 0.57</b>
<b>Your location price</b>	<b>\$ 3.93</b>
<b>Improvement over cost of production (acre)</b>	<b>\$ (4.20)</b>
<b>Improvement over cost of production (Bu)</b>	<b>\$ (0.07)</b>
<b>Rate of return over investment cost</b>	<b>-1.8%</b>
<b>Bushels to sell to cover cost of production</b>	<b>61.07</b>

You can and should shape your  
own future.

If you  
don't someone else surely will.



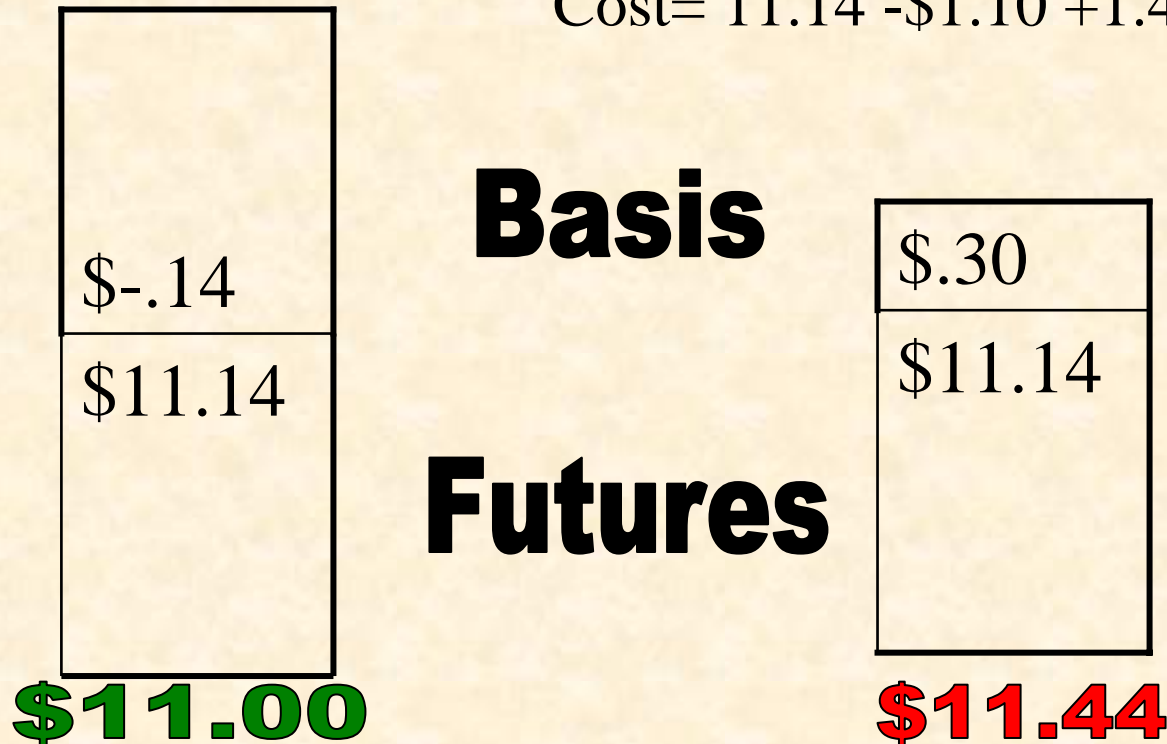
# Where is the shared focus



We know what the  
White Wheat market  
has to offer today for  
today and the future.

# ARBITRAGE RELATIVE VALUE

- April Portland SWW = **\$11.00**
- SRW to Portland =
- Futures + Basis at Iowa + Transport Cost =  $11.14 - \$1.10 + 1.40 = \mathbf{\$11.44}$



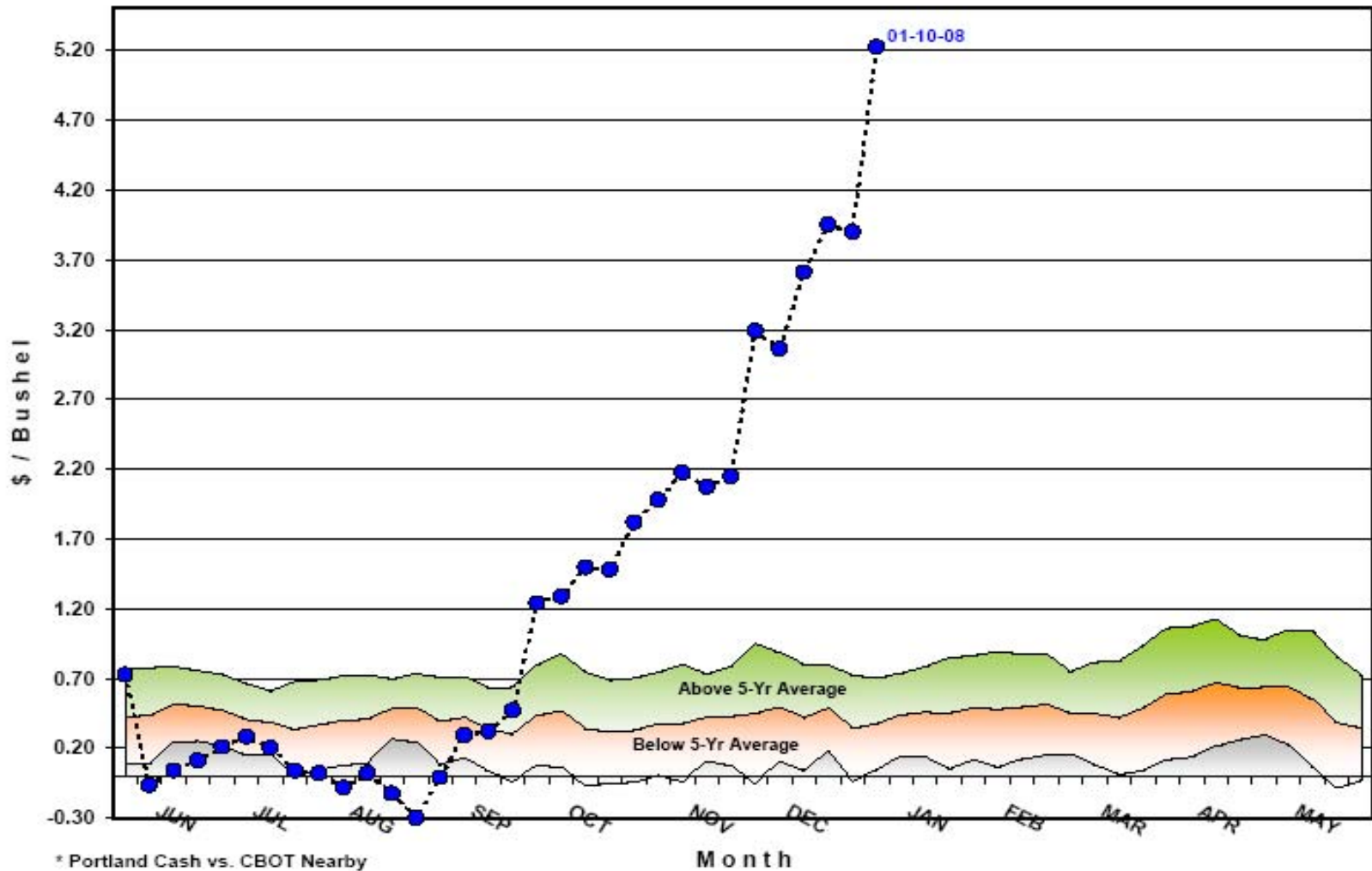
# Current Prices (03-07-08)

## Soft white wheat Portland

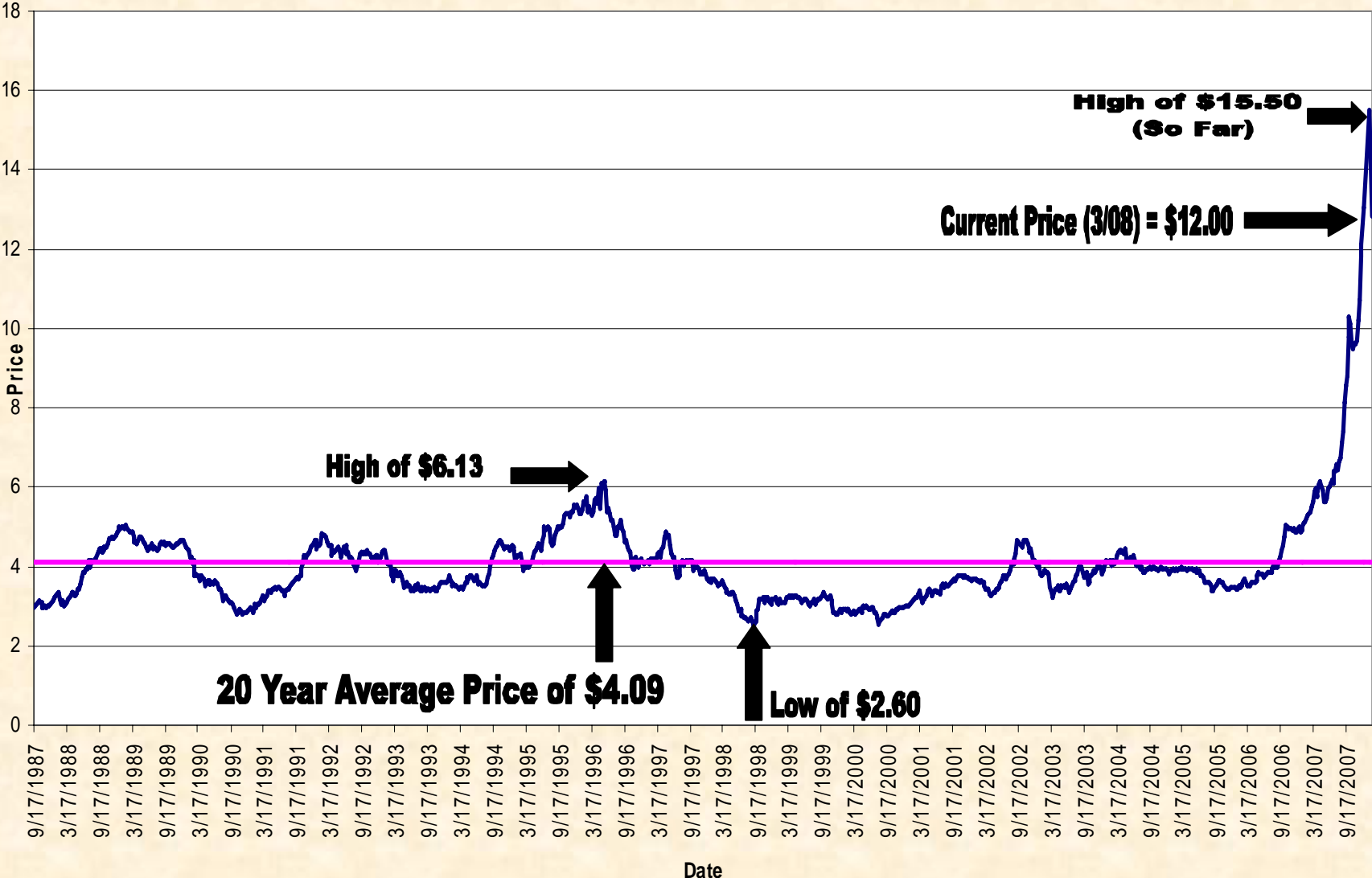
MONTH	FIRST HALF	SECOND HALF
March-08	\$11.0000	\$11.0000
April-08	\$11.0000	\$11.0000
May-08	\$11.0000	\$11.0000
June-08	\$11.0000	\$11.0000

## Soft White Wheat Basis \*

5-Year Weekly Average : 2002 - 2006



# Historic Prices vs. 20 Year Average

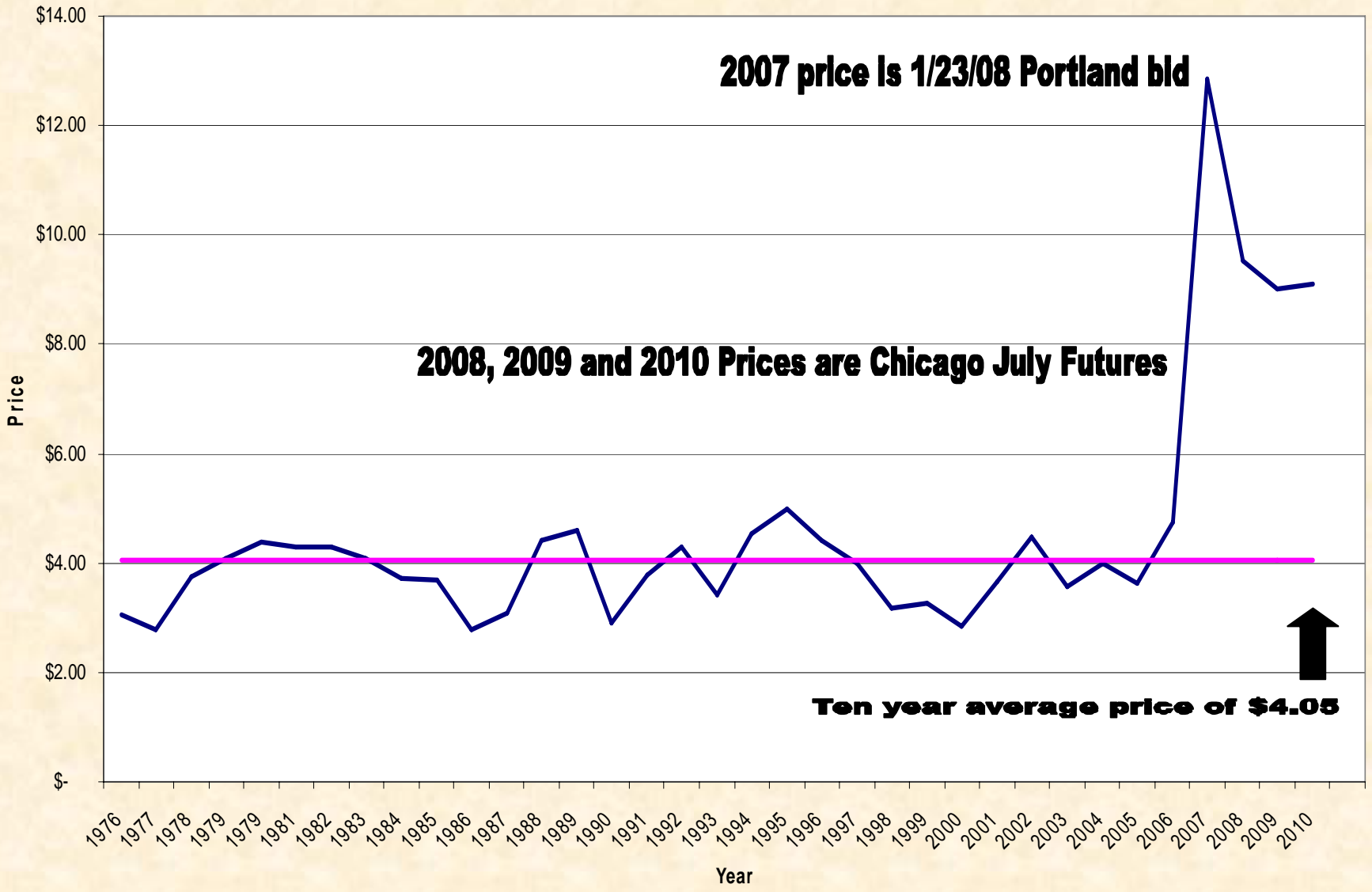


First Week of October

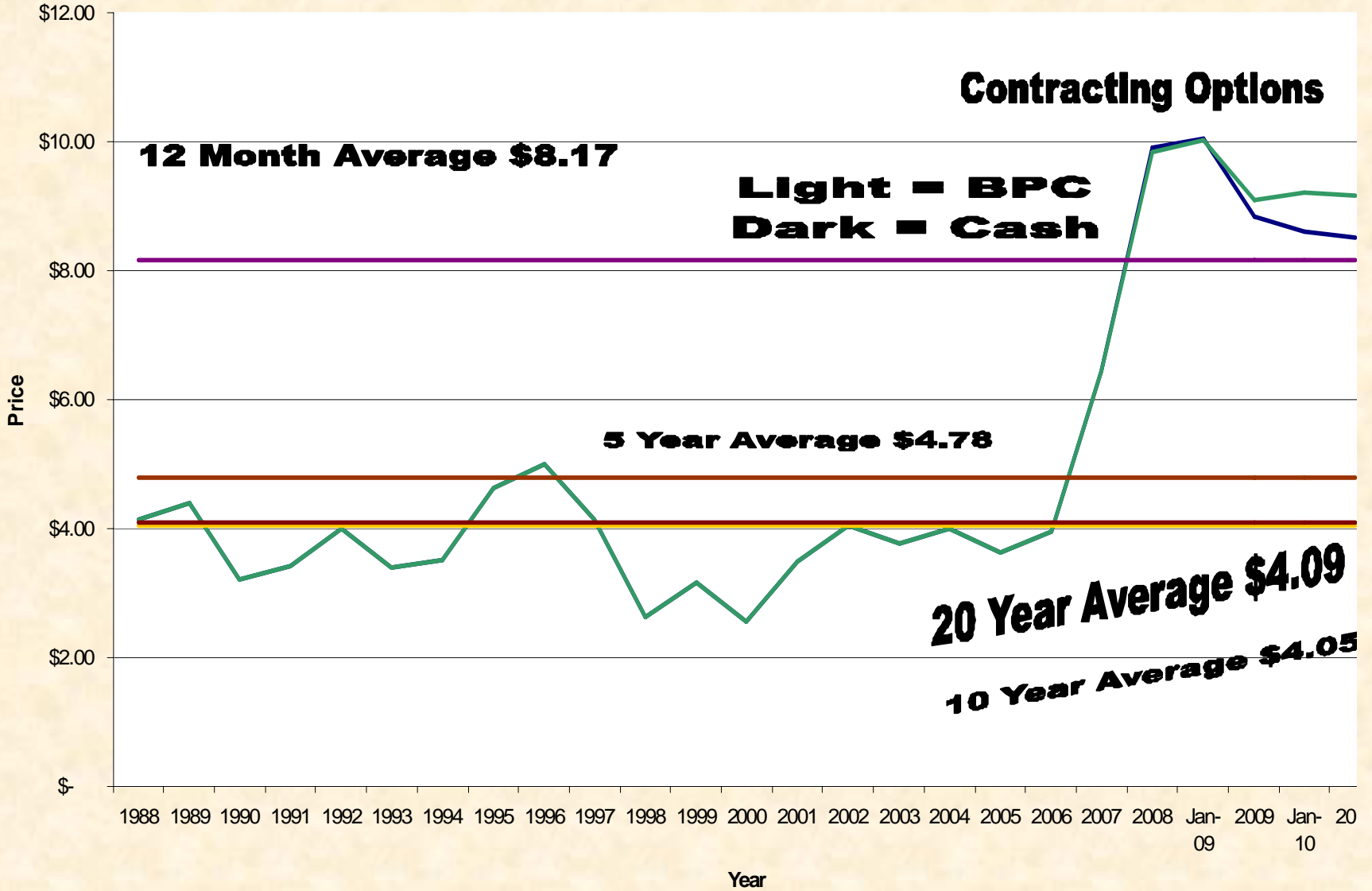
**2007 price is 1/23/08 Portland bid**

**2008, 2009 and 2010 Prices are Chicago July Futures**

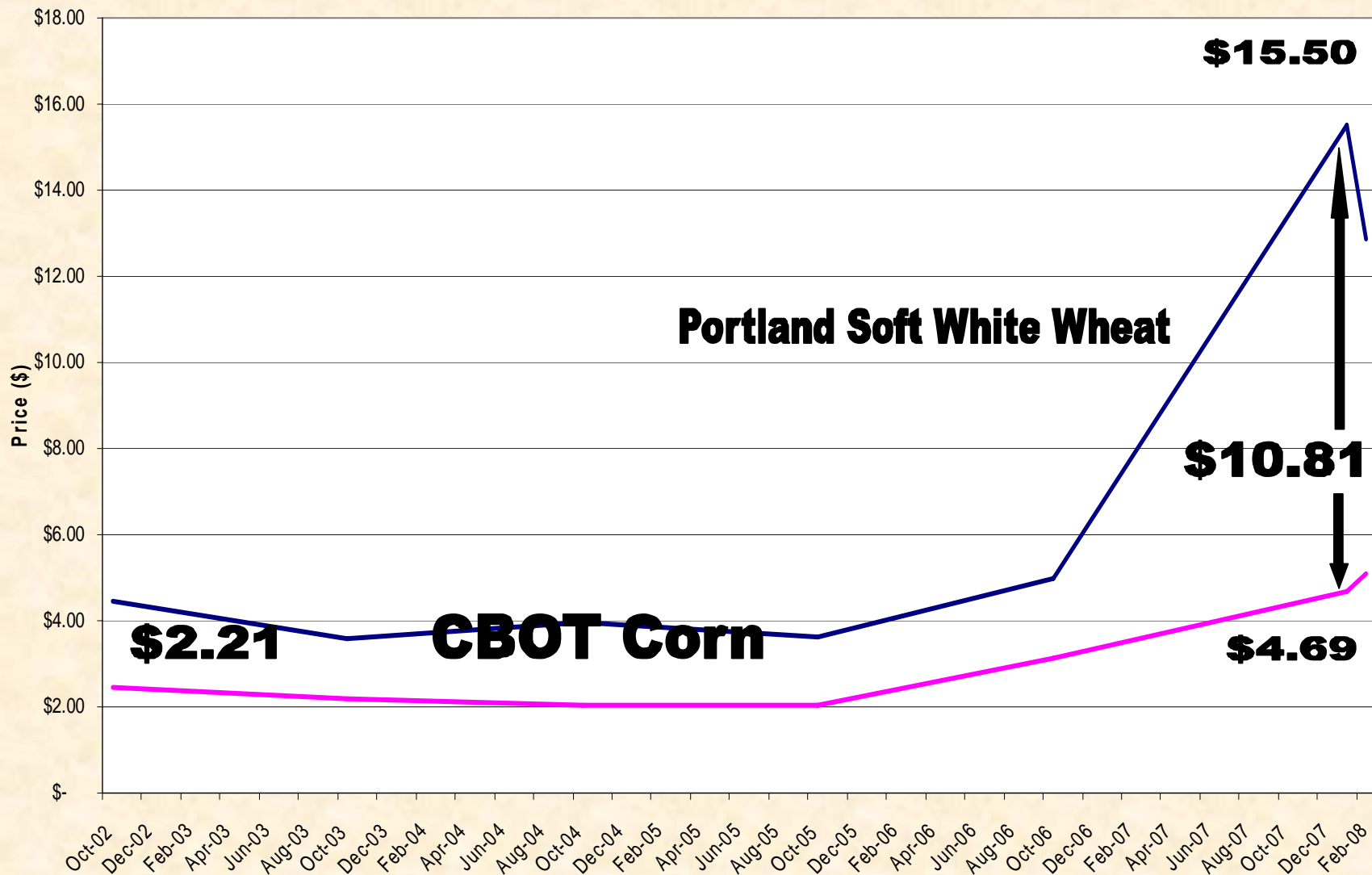
**Ten year average price of \$4.05**



# Harvest Price



Relative Value (SWW to Corn)



Today's wheat prices are created  
by supply and demand.

All prices beyond today are  
created by speculation and  
speculative value of time.

# Current Prices (03/07/08)

3/7/08 2:20 PM	SOFT WHITE		BASIS COMPARISON	
MONTH	Portland Price	CBOT WHEAT	BASIS	
March-08	\$10.6500	\$10.9250	-\$0.2750	
April-08	\$10.7000	\$11.0500	-\$0.3500	
May-08	\$11.0000	\$11.0500	-\$0.0500	
June-08	\$11.0000	\$10.6850	\$0.3150	
July-08	\$9.7850	\$10.6850	-\$0.9000	
August-08	\$9.8350	\$10.7850	-\$0.9500	
September-08	\$9.8850	\$10.7850	-\$0.9000	
October-08	\$10.0000	\$10.8500	-\$0.8500	
November-08	\$10.1000	\$10.8500	-\$0.7500	
December-08	\$10.1500	\$10.8500	-\$0.7000	
January-09	\$10.2000	\$10.8000	-\$0.6000	
February-09	\$10.0000	\$10.8000	-\$0.8000	
March-09	\$9.5500	\$10.8000	-\$1.2500	
August-09	\$8.5700	\$9.8200	-\$1.2500	
December-09	\$8.8700	\$10.1200	-\$1.2500	
August-10	\$8.3500	\$9.8500	-\$1.5000	
December-10	\$8.3500	\$9.8500	-\$1.5000	

<b>Soft White Wheat Supply and Demand Analysis</b>	<b>MCP EST</b>
	<b>SWW</b>
Beginning Stocks (Per USDA)	<b>38,764,000</b>
SWW Winter Production	175,044,000
SWW Spring Production	24,554,000
Total Available Supply	<b>238,362,000</b>
USDA Domestic Use Soft white wheat	81,900,000
Export Sales Soft white wheat (1/31/08)	145,825,000
Total Estimated Use	227,725,000
Remaining Stocks Available (18 Weeks Left)	<b>10,637,000</b>
Exports @ Just 800,000 Bu /Week	14,400,000
<b>Resulting Ending Stocks 6/01/08</b>	<b>-3,763,000</b>
<u>Remaining Exports at 4.6 mil bu week</u>	82,800,000
<b>Resulting Ending Stocks 6/01/08</b>	<b>-72,163,000</b>
Remaining Exports at 3 million pace	54,000,000
<b>Resulting Ending Stocks 6/01/08</b>	<b>-43,363,000</b>
Weekly Sales to Get to 0 Ending Stocks	<b>590,944</b>

# Soft white wheat pricing options

## PRICING DECISION CHART

### HIGH PRICE AND NARROW BASIS

price Basis risk remains open  
**Sell Futures or buy Puts (leave basis open)**  
 Put options ---- some protection with a cost  
 Sell or forward contract cash in increments  
 Market orders for desired price  
 Ratchet contract to protect any downside  
 Floor contracts---lock in minimum drops while riding the upswings as it is tied to the cost of puts  
  
 Minimum price contract with open basis  
 Forward contract  
 Look for opportunities to forward contract for years into future

### HIGH PRICE AND WIDE BASIS

Sell cash  
 Deferred pricing contract--- reevaluate often  
 Sell or forward contract cash in increments  
 Sell cash and buy futures or calls  
 Market orders for desired price  
  
 Floor contracts---lock in minimum drops while riding the upswings  
 Look for opportunities to forward contract for years into future  
  
 Minimum Price contract ---- There is a dilution to base price --as it is tied to the cost of calls  
 Floor contracts---lock in minimum drops while riding the upswings  
 Evaluate opportunities for next years crop while prices are rising

HIGHER

PRICE

LOWER

Basis

Basis

Weakening

Expected change from cash price and basis

Strengthening

### LOW PRICE AND NARROW BASIS

Floor contracts-- Lock in minimum drops while riding any upswings  
  
 Government Loan---best time for holding and use government programs such as loan and 697 tied to forward contracts if carry is available in market  
 Store and wait for price-- reevaluate often

### LOW PRICE AND HIGH BASIS

Basis Lock Contract---- Locked Basis but futures price remains at risk  
  
 Floor contracts---lock in minimum drops while riding the upswings  
 Sell cash and buy futures or calls  
 base price --as it is tied to the cost of calls

# What types of risk do we have?

- Production
- Price
- Basis
- Relative value
- Substitution

# Keys to successful marketing

- **You must have a vision of what you wish to accomplish over a long period of time.**
- Understand yourself. Why do think the way you do. What were your past decision making pitfalls and shortcomings. **WRITE IT DOWN. Refer to this list when making your marketing decisions .**
- Plan and write down your short and long term marketing strategies with ---if, when, and then statements. These can then put in a simple Excel spreadsheet for execution.
- **Include Government Programs and Insurance products in your marketing strategies.**

# Equip yourself with Knowledge

- How do insurance programs work ?
- What is driving short term market trend (1 month to 3 year)?
- What may happen to change long term trends ( beyond 1 year)?
- What are the current world commodity competitive force trends Country, weather, commodity mix , relative value (Corn, Barley, wheat, Soybeans, Rice)?
- What do the market experts think? (Not the Coffee Shop crowd.)
- What price will return you the percent return on investment that you want each of the next four years?
- Mark your unsold inventory to market daily. This will help you equate dollars and strategy to inventory.

# USE THE FSA PROGRAMS

- Loan
- Years of low price always use carry coupled with Govt. loan/697 buy back program tools even in forward contracts
- Understand and use Govt. backed CRC insurance product to the maximum percentage. It is about revenue guarantee not production guarantee. **This is the closest to a free Put that you will ever get!!!!**

# E-S-C-A-L-A-T-I-O-N

- Because we missed the boat doesn't mean it will come back.
- The goal should be to make a greater than average return on investment– Not to top the market.
- Write down an exposure limit
- Prepare yourself in case extreme event happens.

# GIVE YOURSELF A BREAK

- NO ONE CAN PREDICT THE TOP OR THE BOTTOM OF A MARKET
- FOCUS ON GROSS REVENUE NOT PRICE
- BE THE LOW COST PRODUCER PER BUSHEL

# HIGH PRICES

- In 78 out of the last 91 yrs. wheat price increase averaged between 10% and 15%  
HARVEST FORWARD TO HARVEST
- IN 11 OF THESE 91 YRS PRICES INCREASED 40% OR MORE.
- “UNPREDICTABLE” DRIVERS WERE WAR, POLITICS, DROUGHT, AND WETNESS

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