

## June 28, 2011 CoMark Grain Marketing Newsletter

Wheat harvest has come and gone. Harvest was much better than expected in both quantity and quality. Overall, CGM took 90% of an average wheat crop. Expectations were around 65% of normal. The quality of the crop was also very good. The average test weight was 61.8 and the average protein was around 12.6%. Milling yield of the wheat was not as good as last years. The poor flour yield has to do with the small size of the berries in this year's crop.

What a difference a year makes. Last year wheat basis was record wide, and this year it got to levels much closer to normal. We had many things working for us on the basis side going into and during wheat harvest this year. Basis is driven by local supply and demand. On the supply side, we had lower than normal supply. The demand side is where things really got hot. We had a good quality crop that buyers want. Terminals had space that they wanted to fill. The futures market is paying good carry from July forward so everyone wants to fill space to capture that carry. So less supply and more demand equals stronger basis, while last year we had adequate supply and weak demand.

While we are talking about the strong basis during harvest it is a good time to bring up one marketing option that allows you to take advantage of strong basis. Basis contracts allow you to lock in basis and apply futures at a later date. For example if basis goes to -20 KC September you could lock that basis in and price the futures before the KC September first notice day (August 30). For now, basis values seem to be inverted (future basis wider than nearby basis), but since there is carry in the futures market it is about a wash on the cash price. For example: KC September is \$7.50 and -30 Sep Basis = \$7.20 Cash, and KC Dec is 7.75 and -55 Dec Basis = \$7.20 cash. Basis contracts are the opposite of HTA contracts. HTA contracts give you the opportunity to lock in a favorable futures price while you wait for a basis to be offered or basis improvement at a later date.

Hopefully by the time you receive this newsletter we will have received rain. Corn in our area is either struggling or in some cases already burned up. Beans seem to be hanging on, but are not looking good, and milo is also struggling or not coming up because of lack of moisture. I have heard several people say that they have seen it this dry, but never this early. Hopefully Mother Nature gets us caught up on moisture soon.

Ryan McCoy