

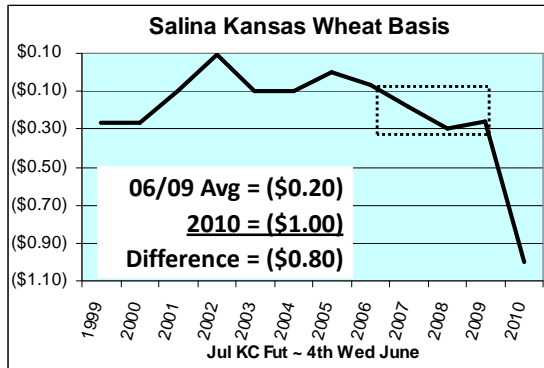
Grain Basis and Wheat Convergence Update

KFB Ag Advisory Committees - February 17, 2011

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www.kfb.org



Wheat Basis: 2010

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Two Key Grain Marketing Components

- a) Futures Prices (market determined)
- b) Cash/Basis Bids (a market determined relationship to futures through basis)

Setting Local Cash Bids



Futures Price

+ Basis =



Cash Bid

Basis = cash bid - futures

Wheat Basis: 2010

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Futures markets represent the big picture

Futures Contract

- A binding commitment to deliver (sell) or receive (buy) at a set, standard location.
- A standardized amount (i.e. 5,000 bu.)
- Of a standardized quality (i.e. #2 HRW)
- During a standardized delivery month (for wheat; Jul, Sep, Dec, Mar or May).
- With price determined by open outcry.
 - Or more likely, Electronic Trading Technology

- ✓ The place where all market participants are represented, world and underlying commodity data is shared, debated, and **price is discovered**.
- ✓ A secondary function is providing a **venue for the management of price risk**.

Wheat Basis: 2010

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Cash/Basis Bids represent the local view

- ✓ It's where your grain goes and you are paid for the amount & quality delivered.
- ✓ Cash/Basis bids can be affected by local:
 - a) Supply & demand
 - b) Transportation
 - c) Storage
 - d) Quality
 - e) Market volatility

Wheat Basis: 2010

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Calculating Basis

Date = June 25th,

Cash Bid = \$5.15

July Futures = \$5.65 Nearby Basis = (\$0.50)
 (nearest futures contract to expiration)

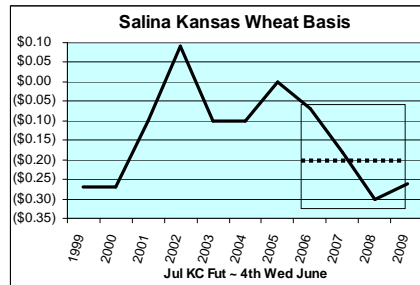
<u>Deferred Futures</u>	<u>Deferred Basis</u>
Sep Futures = \$5.70	Basis = (\$0.55)
Dec Futures = \$5.95	Basis = (\$0.80)
Mar Futures = \$6.05	Basis = (\$0.90)
May Futures = \$6.10	Basis = (\$0.95)

Wheat Basis: 2010

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“An Expected Basis”
 Is normally calculated as an average of the past few years, and is then used as a reference.



Wheat Basis Salina KS 4th Wednesday of June
 Cash July

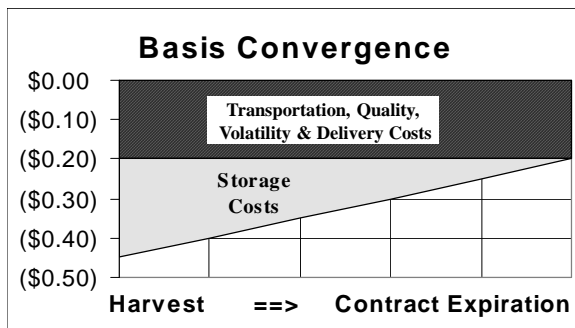
	<u>Price</u>	-	<u>Futures</u>	=	<u>Basis</u>
2006	\$4.87		- \$4.94	=	(\$0.07)
2007	\$5.10		- \$5.28	=	(\$0.18)
2008	\$9.08		- \$9.38	=	(\$0.30)
2009	\$5.72		- \$5.98	=	(\$0.26)
Average				=	(\$0.20)

Wheat Basis: 2010

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Understanding Grain Basis



"Strong Basis": cash bids are **greater**, relative to futures **than average**

- ✓ Supplies are scarce
- ✓ Buyers want grain

"Weak Basis": cash bids are **less**, relative to futures **than average**

- ✓ Excessive supplies
- ✓ Buyers don't want your grain
- ✓ Market volatility (& cost) is greater

For a given futures contract month
 Widest/Weakest at harvest when supplies are high, strengthening later as supplies are "bid" out of storage.
 ✓ Less variable near expiration

Wheat Basis: 2010

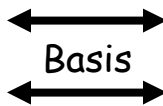
7



Why is Basis so Important?

Consistent and predictable basis levels are essential in order to:

- 1) Successfully use the futures market as a price risk management tool.
- 2) Effectively communicate market fundamentals from the futures market to local cash markets.



Wheat Basis: 2010

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Consistent and predictable basis levels are essential for successful use the futures market as a price risk management tool. It allows you to calculate an "expected" local price before hedging.

Expected Net Selling Price (ENSP)

\$7.00		Today's Futures Price
(\$0.50)	plus	Expected Delivery Basis
	less	Commissions (ignored)
\$6.50	equals	Expected Net Selling Price

This also represents the starting point for evaluating Cash Forward Contract Bids.

Wheat Basis: 2010

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Example 1a: Short Hedge, Prices Down

	Cash Market	Futures Market	Basis
<i>Initiation</i>	Jan 15		
	Sell July Futures	\$7.00	(\$0.50) Expected at Harvest
<i>Exit</i>	Jun 25		
	Buy July Futures	\$5.00	(\$0.50)
	Sell Wheat \$4.50	"Prices Down"	Cash - Futures
<i>Evaluation</i>	\$4.50	\$2.00	
Net = \$6.50			

Wheat Basis: 2010

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Example 1b: Short Hedge, Prices Up

Cash Market		Futures Market	Basis
<i>Initiation</i>	Jan 15		
	Sell July Futures	\$7.00	(\$0.50) Expected
<i>Exit</i>	Jun 25		
	Buy July Futures	\$9.00	(\$0.50)
	Sell Wheat \$8.50	"Prices Up"	Cash - Futures
<i>Evaluation</i>			
	\$8.50	(\$2.00)	
Net = \$6.50			

Wheat Basis: 2010

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Example 1c: Short Hedge, Prices Up, Weak Basis

Cash Market		Futures Market	Basis
<i>Initiation</i>	Jan 15		
	Sell July Futures	\$7.00	(\$0.50) Expected
<i>Exit</i>	Jun 25		
	Buy July Futures	\$9.00	(\$1.50)
	Sell Wheat \$7.50	"Prices Up"	Cash - Futures
<i>Evaluation</i>			
	\$7.50	(\$2.00)	
Net = \$5.50			

Wheat Basis: 2010

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Example 1d: Short Hedge, Prices Down, Weak Basis

Cash Market		Futures Market	Basis
<i>Initiation</i>	Jan 15		
	Sell July Futures	\$7.00	(\$0.50) Expected at Harvest
<i>Exit</i>	Jun 25		
	Buy July Futures	\$5.00	(\$1.50)
	Sell Wheat \$3.50	"Prices Down"	Cash - Futures
<i>Evaluation</i>			
	\$3.50	\$2.00	
Net = \$5.50			

Wheat Basis: 2010

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Example 1e: Short Hedge, Prices Down, Strong Basis

Cash Market		Futures Market	Basis
<i>Initiation</i>	Jan 15		
	Sell July Futures	\$7.00	(\$0.50) Expected at Harvest
<i>Exit</i>	Jun 25		
	Buy July Futures	\$5.00	(\$0.00)
	Sell Wheat \$5.00	"Prices Down"	Cash - Futures
<i>Evaluation</i>			
	\$5.00	\$2.00	
Net = \$7.00			

Wheat Basis: 2010

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Implications of Inconsistent, Unpredictable Basis

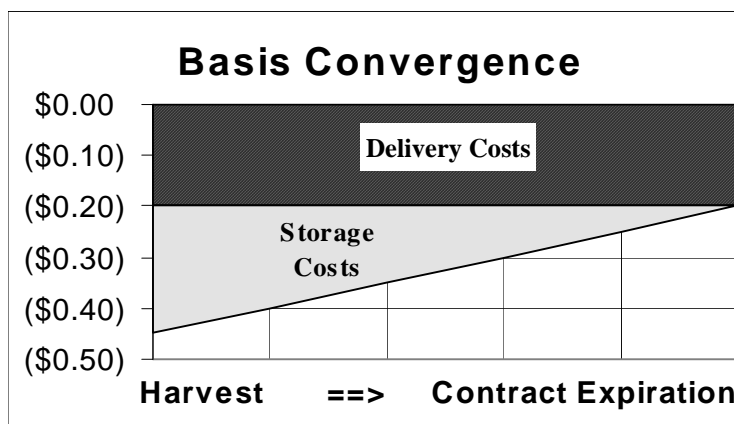
- a) The futures market is less (no longer) useful as a price risk management tool.
- b) Futures prices are less (no longer) useful as a proxy for price in crop revenue insurance.
- c) Futures markets are less (no longer) reflective of commodity fundamentals.



Wheat Basis: 2010

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Basis Stability Hinges on Convergence

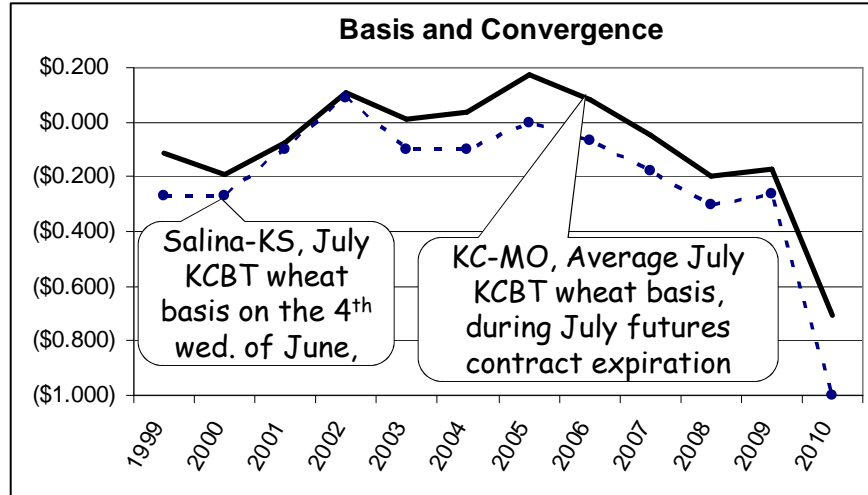


The concept that cash bids and futures prices will converge (i.e. basis will become nearly zero) at the delivery point during contract expiration.

Wheat Basis: 2010

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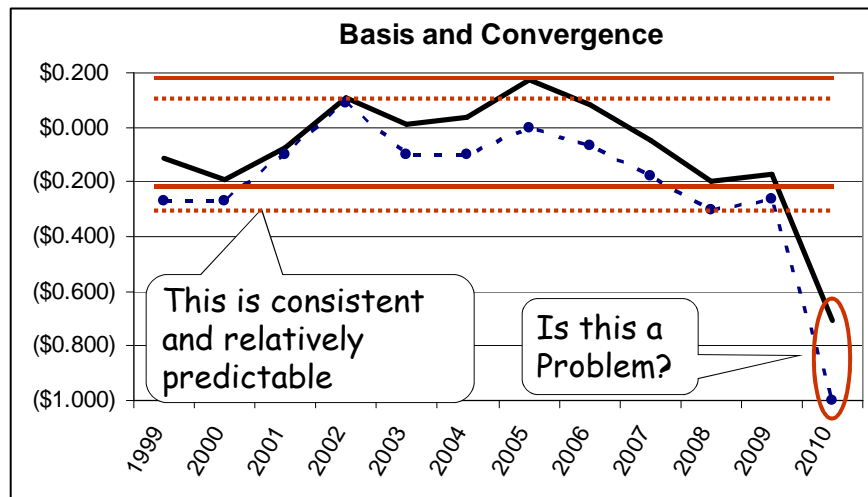
Wheat Basis and Convergence



Wheat Basis: 2010



Wheat Basis and Convergence



Wheat Basis: 2010



Wheat Basis and Convergence

SUMMER GRAIN SITUATION

	Basis KC @ Jul Exp	Salina 4th Wed Jun	Salina - KC Basis
1999	(\$0.113)	(\$0.270)	(\$0.157)
2000	(\$0.189)	(\$0.270)	(\$0.081)
2001	(\$0.074)	(\$0.100)	(\$0.026)
2002	\$0.108	\$0.090	(\$0.018)
2003	\$0.014	(\$0.100)	(\$0.114)
2004	\$0.040	(\$0.100)	(\$0.140)
2005	\$0.176	\$0.000	(\$0.176)
2006	\$0.080	(\$0.070)	(\$0.150)
2007	(\$0.050)	(\$0.180)	(\$0.130)
2008	(\$0.199)	(\$0.300)	(\$0.101)
2009	(\$0.174)	(\$0.260)	(\$0.086)
2010	(\$0.705)	(\$1.000)	(\$0.295)
2011			
99/09	(\$0.035)	(\$0.142)	(\$0.107)

- Avg. Weak Basis in KC-MO was (\$0.145)
- Avg. Weak Basis in Salina was (\$0.256)
- Avg. Weak Difference, Salina - KC was \$0.111
- 2010 Salina basis was \$0.74 weaker than the avg. of the weak years.
 - Salina was \$0.18
 - KC was \$0.56 or 75%

Weaker
Stronger

Wheat Basis: 2010

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Is Convergence a/the Problem?

Contract	99/09	2008	2009	2010
July	(\$0.03)	(\$0.20)	(\$0.17)	(\$0.71)
September	(\$0.09)	(\$0.31)	(\$0.39)	(\$0.82)
December	(\$0.12)	(\$0.37)	(\$0.57)	(\$0.76)
March	(\$0.16)	(\$0.29)	(\$0.60)	
May	(\$0.17)	(\$0.15)	(\$0.62)	

The average of **cash truck bids**, KC, MO, less the price of the expiring KCBT wheat futures contract, during delivery.

Wheat Basis: 2010

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Some would argue that Basis and Convergence is NOT a Problem

- "2009/10 Were years of weak world demand and excess supplies of wheat."
- "There was an abnormally high amount of low quality, low protein wheat in 2007 & 2009."
- "In today's markets, basis is something we all need to learn to 'trade.'"



Wheat Basis: 2010

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Basis/Cash Bids are Not Concrete Numbers

Calculating Basis in KC, MO

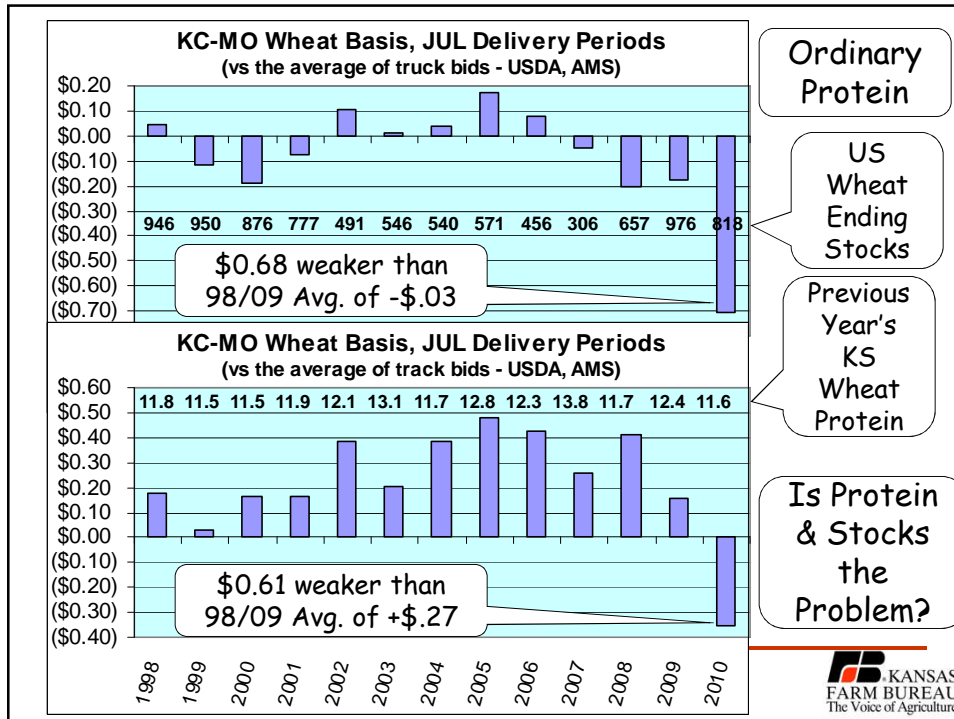
Thursday July 1, 2010

July KCBT Futures	\$5.01	vs July
September KCBT Futures	\$5.10	+ .09
AMS KC Truck Bids \$4.35-\$4.40	\$4.375	-.635
AMS KC Track Bids \$4.70-\$4.93	\$4.815	-.195
KCBTR "KC Truck Bids"	\$4.32	-.69
KCBTR "KC,MO Reg.Truck Bids"	\$4.31	-.70
KCBTR "Ordinary Protein"	\$4.775	-.235
KCBTR "11% Protein"	\$4.775	-.235
KCBTR "12% Protein"	\$4.925	-.085
KCBTR "13% Protein"	\$5.345	+.335

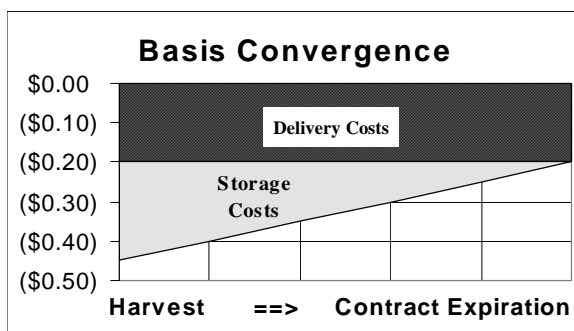
Wheat Basis: 2010

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Understanding Convergence



The concept that cash bids and futures prices will converge (i.e. basis will become nearly zero) at the delivery point during contract expiration.

Enforcing Market Performance (i.e. convergence)

- Arbitrage
- The Delivery Mechanism
- Knowledge and goals of market participants

Wheat Basis: 2010

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Enforcing Market Performance

Arbitrage (works well if Cash > Futures)

- Arbitrage: the simultaneous purchase and sale of the same commodity in different markets to profit from unequal prices.
- "Buyers" delay cash purchases and BUY deferred futures, and
- "Owners" of wheat SELL their wheat.

Wheat Basis: 2010

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Enforcing Market Performance

Arbitrage (Doesn't Work so Well if Futures > Cash)

- Arbitrage: the simultaneous purchase and sale of the same commodity in different markets to profit from unequal prices.
- "Buyers" of wheat, BUY wheat on the cash market, and
- "Owners" of wheat STORE their wheat and SELL deferred futures. *But Do they?*

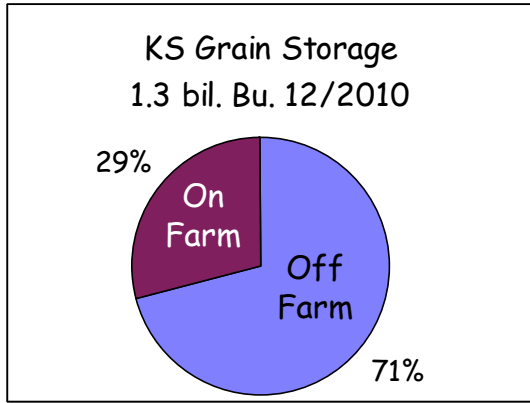
Wheat Basis: 2010

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Enforcing Market Performance

Arbitrage (Doesn't Work so Well if Futures > Cash)



Can We Store Enough?

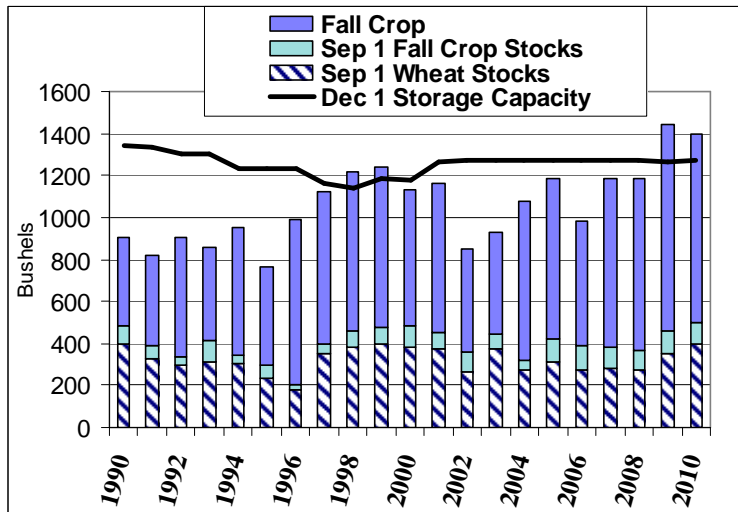
- a) Storage is limited
- b) The crop mix is changing in Kansas
- c) Can't afford to hold grain long enough to force convergence.

Wheat Basis: 2010

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Kansas Storage Challenges



Wheat Basis: 2010



Enforcing Market Performance

Contract Delivery (Can be Short-Circuited)

The linkage mechanism between the futures and cash markets; the delivery by futures "shorts," of a warehouse receipt representing wheat bushels in a delivery elevator, to futures "longs."

Delivery Warehouse Receipt (5,000 bushels)

- o Can be re-delivered to another long.
- o Can be held indefinitely by the long.
- o Storage cost of 4.5 cents/bu. per month

Wheat Basis: 2010

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Short-Circuiting Contract Delivery

- a) "Delivery Elevators" can choose to not provide warehouse receipts to futures market shorts.
- b) At times, there is an incentive for longs to "hold" warehouse receipts and not accept delivery of the cash grain.

Both of these typically occur when supply is great, storage is tight and futures prices are much greater than cash prices.

Wheat Basis: 2010

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Short-Circuiting Contract Delivery by "holding" the warehouse receipt

March 1, 2010

March Futures = \$4.99
 July Futures = \$5.21
 Cash Wheat, KC = \$4.39

Normally, if a "long" is forced to take delivery of the overpriced March Futures contract, they would "sell" March Futures and then immediately re-deliver the warehouse receipt to another "long" and make nothing.

Wheat Basis: 2010

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Short-Circuiting Contract Delivery by "holding" the warehouse receipt

March 1, 2010

March Futures = \$4.99
 July Futures = \$5.21
 Cash Wheat, KC = \$4.39

Take delivery on March Futures at	- \$4.99
Sell July Wheat Futures for	+ \$5.21
Pay Storage (\$0.045/mo.) on elevator	- \$0.18
PROFIT	= \$0.04

2.3% Return

Wheat Basis: 2010

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Short-Circuiting Contract Delivery by "holding" the warehouse receipt

July 1, 2010

July Futures = \$5.01

December Futures = \$5.27

Cash Wheat, KC = \$4.31

Take delivery on July Futures at - \$5.01

Sell December Futures for + \$5.27

Pay Storage (\$0.045/mo.) to elevator - \$0.23

PROFIT = \$0.03

1.6% Return

Wheat Basis: 2010

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Short-Circuiting Contract Delivery by "holding" the warehouse receipt

September 1, 2010

September Futures = \$7.12

December Futures = \$7.27

Cash Wheat, KC = \$6.47

Take delivery on July Futures at - \$7.12

Sell December Futures for + \$7.27

Pay Storage (\$0.045/mo.) to elevator - \$0.14

PROFIT = \$0.01

0.8% Return

Wheat Basis: 2010

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Short-Circuiting Contract Delivery by "holding" the warehouse receipt

December 1, 2010

December Futures = \$7.80 3/4

May Futures = \$8.04

Cash Wheat, KC = \$7.11

Take delivery on Dec Futures at - \$7.808

Sell May Futures for + \$8.040

Pay Storage (\$0.045/mo) to elevator - \$0.225

PROFIT = \$0.007

0.22% Return

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Solutions?

Conventional solutions
largely fall into one of
two categories:

- a) Make the holding of
warehouse receipts
less profitable.
- b) Provide additional
delivery options.



Wheat Basis: 2010

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Solutions?

- a) Make the holding of warehouse receipts less profitable.
 - ✓ Limit the term of warehouse receipts (expiration dates, non-transferability, devaluation over time)
 - o *Will this address elevator willingness to provide warehouse receipts when storage capacity is maxed?*
 - o *Could it hinder the efficient movement of grain?*

Wheat Basis: 2010

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Solutions?

- a) Make the holding of warehouse receipts less profitable.
 - ✓ Increase the storage fees (i.e. **seasonal** or variable storage rates)
 - o **KCBT Solution:** Will take effect in September of 2011. Approved 11/30/10
 - 1) Increased rate from \$0.045 to \$0.06
 - 2) Seasonal increase from Jul-Nov of \$0.03 for a total of \$0.09/month
 - 3) Added a protein spec of 11%
 - 4) Decreased vomitoxin spec to 2 ppm

Wheat Basis: 2010

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Solutions?

- a) Make the holding of warehouse receipts less profitable.
- ✓ Increase the storage fees (i.e. **seasonal** or variable storage rates)
 - o *Might futures carry increase to the point that holding the warehouse receipt is still profitable?*
 - o *Does this address elevator willingness to provide warehouse receipts when storage capacity is maxed?*

Wheat Basis: 2010

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Solutions?

- b) Provide additional delivery options.
- ✓ Utilize "shipping receipts" instead of warehouse receipts
 - o *Potentially mitigates "storage" issues associated with warehouse receipts but can still be held by longs and not used to force price convergence.*

Wheat Basis: 2010

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Solutions?

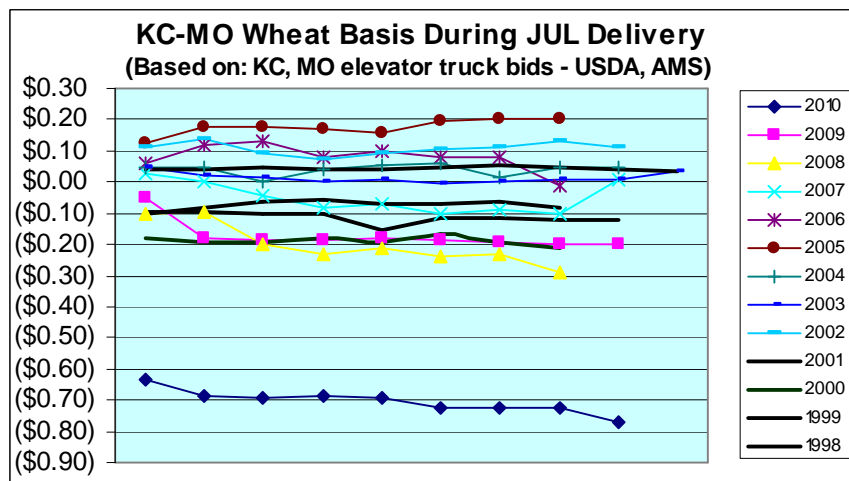
- b) Provide additional delivery options.
 - ✓ Track/rail delivery
 - o *Could this negatively impact the efficient movement of grain?*
 - o *Would this be readily available to individual farmers & smaller traders?*
 - ✓ Additional delivery points/elevators
 - o *Could this negatively impact the efficient movement of grain?*

Wheat Basis: 2010

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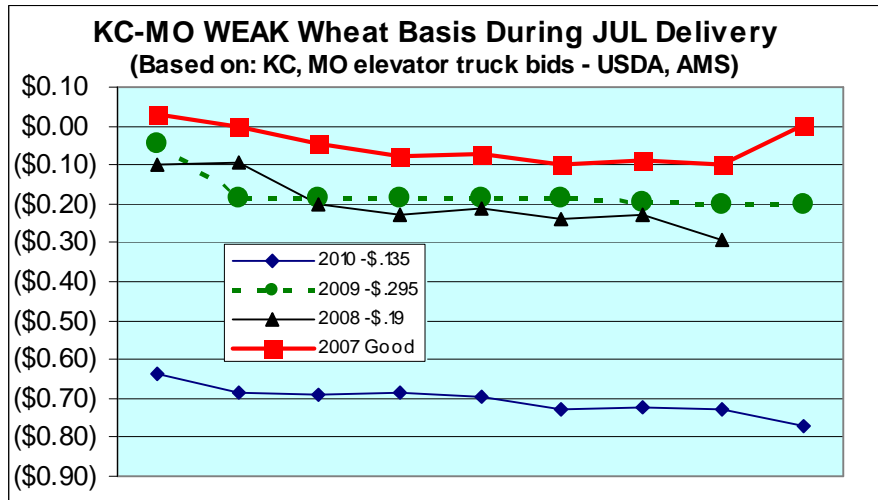
Has Delivery Ever Worked?



Wheat Basis: 2010



Has Delivery Ever Worked?



Wheat Basis: 2010



Enforcing Market Performance

Participant Knowledge and Goals (are differing today)

- a) Hedgers (commercials), own/manage or will own/manage the commodity and use the futures market to manage price risk.
- b) Speculators (non-commercials), accept price risk by buying and/or selling futures contracts in order to profit in the changes in price.
- c) Hedge and Investment funds, and Commodity Price Indices - *Arguably DO NOT have the same knowledge and goals as hedgers and speculators.*

Wheat Basis: 2010

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Problems with Conventional Solutions

- 1) No single solution addresses delivery short-circuiting by elevators not issuing or "longs" holding onto warehouse receipts.
- 2) Don't address the ability of owners of grain to store long enough to force convergence.
- 3) Don't address the differing knowledge and goals of today's new investors and products.
- 4) They're attempts to fix a delivery mechanism that arguably has never worked effectively.

Wheat Basis: 2010

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Should We Consider Cash Settlement?

A Relatively Simple Concept

- a) USDA-AMS would collect and post the cash/basis bids from the 20 "regular" elevators located in KC, Salina/Abilene, Hutchinson & Wichita.
- b) The KCBT would maintain the majority of their current "delivery" rules; except that
- c) Any participant choosing to settle would contact the KCBT and both the participant and the longest "opposite" position would settle at the AMS calculated average price.

Wheat Basis: 2010

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The Case for Cash Settlement

Advantages

- 1) *Guaranteed Convergence* with the average of wheat prices in the Kansas City, Salina/Abilene, Hutchinson & Wichita region of the HRW belt.
- 2) *Transparency* - The KCBT Cash Wheat price would always be available & known to the market.
- 3) *Simple* - No more headaches about warehouse receipts, storage rates, delivery costs, etc., etc.
- 4) *Inclusive* - Available to any and ALL futures market participants.
- 5) *Arguably more efficient* in that "delivery" would no longer impact the efficient movement of grain.

Wheat Basis: 2010

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Thanks!

Questions?

Wheat Basis: 2010

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Wheat Basis and Convergence

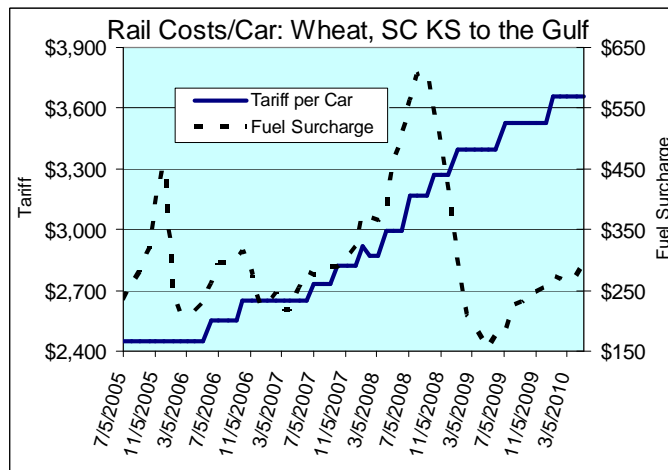
	SUMMER GRAIN SITUATION			----- Estimated -----			US Wht ES/USE
	Basis KC @ Jul Exp	Salina 4th Wed Jun	Salina - KC Basis	% of Stor June 1st	% of Stor Pst WtH	% of Stor Pst FallH	
1999	(\$0.113)	(\$0.270)	(\$0.157)	26.7%	63.2%	127.5%	39.8%
2000	(\$0.189)	(\$0.270)	(\$0.081)	28.0%	59.4%	106.9%	36.6%
2001	(\$0.074)	(\$0.100)	(\$0.026)	25.2%	51.2%	106.7%	36.1%
2002	\$0.108	\$0.090	(\$0.018)	23.4%	44.7%	83.7%	25.0%
2003	\$0.014	(\$0.100)	(\$0.114)	14.5%	52.3%	90.7%	23.2%
2004	\$0.040	(\$0.100)	(\$0.140)	16.0%	40.7%	100.9%	24.2%
2005	\$0.176	\$0.000	(\$0.176)	22.3%	52.3%	112.6%	26.5%
2006	\$0.080	(\$0.070)	(\$0.150)	24.7%	47.6%	93.9%	22.3%
2007	(\$0.050)	(\$0.180)	(\$0.130)	19.1%	41.5%	104.7%	13.2%
2008	(\$0.199)	(\$0.300)	(\$0.101)	20.8%	48.8%	113.9%	28.9%
2009	(\$0.174)	(\$0.260)	(\$0.086)	25.7%	55.2%	131.9%	48.4%
2010	(\$0.705)	(\$1.000)	(\$0.295)	31.1%	59.9%	128.1%	47.3%
2011							
99/09	(\$0.035)	(\$0.142)	(\$0.107)	22.4%	50.6%	106.7%	29.5%

Wheat Basis: 2010



Increasing Transportation Costs

From 2005 to 2010, rail tariffs and fuel surcharges have added \$0.40/bu. to the cost of transporting wheat to the Gulf.



Wheat Basis: 2010



Increasing Transportation Costs

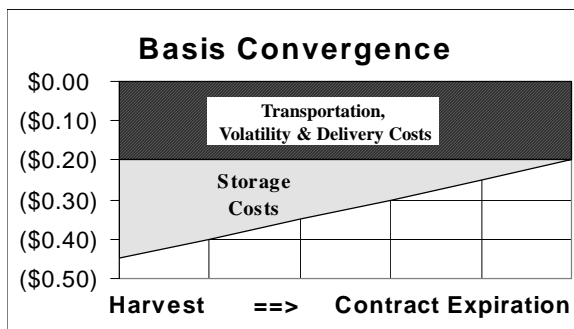
Per Bushel Rail Transportation Costs (tariff and fuel surcharges)					
2005	\$0.80	\$0.74	\$1.33	\$0.67	\$0.79
2010	\$1.21	\$0.89	\$1.76	\$0.86	\$1.18
Change	51%	21%	32%	30%	49%
Railroad	CSX	UP	BNSF	UP	BNSF
Commodity	Soybeans	Corn	Wheat	Wheat	Wheat
From	Chicago	Council Bluffs	NW Kansas	KC - MO	S. Central Kansas
To	Raleigh	Baton Rouge	Portland	Galveston	Galveston

Wheat Basis: 2010

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Understanding Grain Basis



For a given futures contract month
 Weakest/widest at harvest when supplies are high, strengthening later as supplies are “bid” out of storage.
 ✓ More variable further from expiration

“Strong Basis”: cash bids are **greater**, relative to futures **than average**

- ✓ Supplies are scarce
- ✓ Buyers want grain

“Weak Basis”: cash bids are **less**, relative to futures **than average**

- ✓ Excessive supplies
- ✓ Buyers don’t want your grain
- ✓ Market volatility (& cost) is greater

Wheat Basis: 2010

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AgManager.info: Interactive Crop Basis Tool - Windows Internet Explorer

http://www.agmanager.info/marketing/basis/tools/default.asp

AG MANAGER.INFO
Department of Agricultural Economics

Home / Crops / Marketing / Basis Report / Tools

Interactive Crop Basis Tool:

Enter the required information

1 Location: (For available locations, click [HERE](#))
 City: SALINA State: KS OR Zip: _____

2 Commodity: Select a commodity: Hard Red Winter Wheat

3 Year: Select a Year:
 *Hold Ctrl to make multiple selections
 Average of Last 3 Years
 2008
 2007
 2006
 # of Wk: Enter up to 2 custom ranges: _____ through _____

4 Generate Report: Create Chart OR Create Table

Database updated: Friday, November 07, 2008

KSU's Ag Manager

- ✓ Great source of data
- ✓ Multiple years
- ✓ Multiple locations
- ✓ Multiple commodities
- ✓ 48 week year
- ✓ "Nearby basis" (up to the "delivery month")

Department of Agricultural Economics K-State Research & Extension College of Agriculture Kansas State University

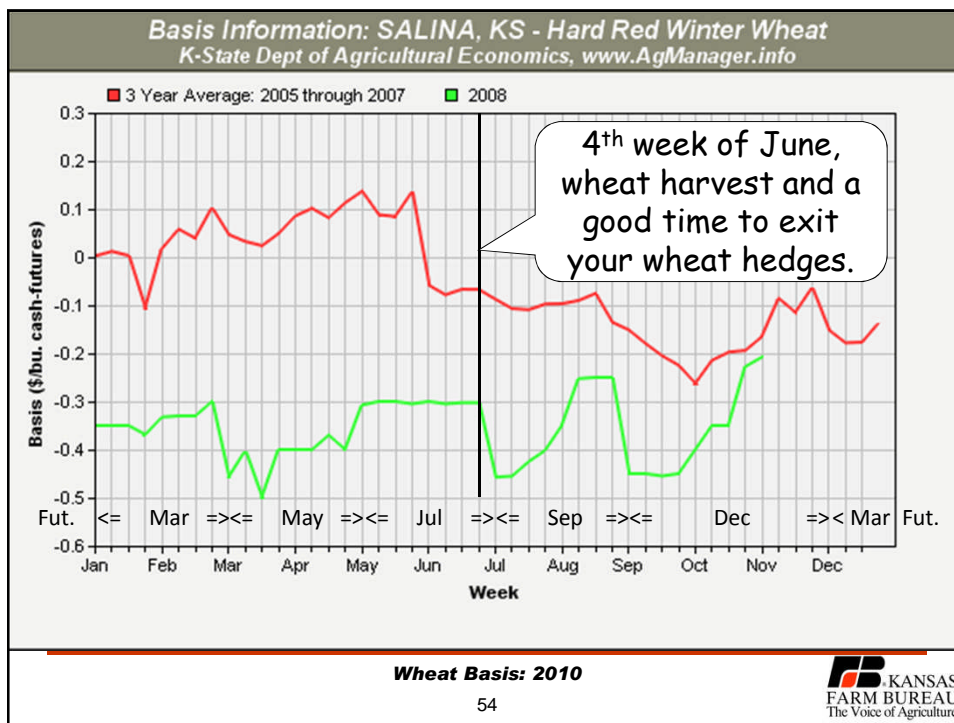
Done

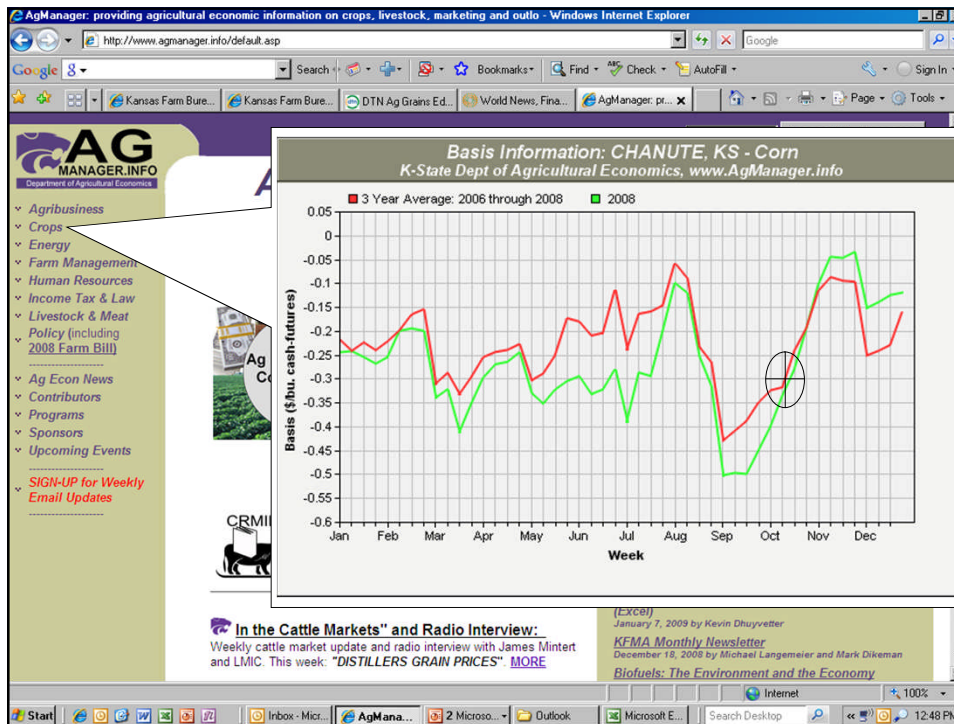
Start | Inboxes - Microsoft... | AgManager.inf... | KFB101 - Intro to... | Microsoft Word | 11:39 AM

Wheat Basis: 2010

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KANSAS FARM BUREAU
The Voice of Agriculture





Futures Contract Terminology

Month – The contract delivery month.

Last – The last price traded (after trading hours, it is the day's close or settlement).

Chg – The price change from the previous trading session's close.

Open – The price traded when the market opened.

High/Low – The highest and lowest prices traded this trading session.

Wheat & Small Grains Futures Overview >>

DAY HARD RED SPRING WHEAT (MW) [10 Minute Delay]

Month	Last	Chg	Open	High	Low	Time
May-08	1319'2s	422	12900	13350	12870	13:19
Jul-08	1129'6s	498	10940	11550	10920	13:19
Sep-08	1078'0s	560	10300	10950	10300	13:19
Dec-08	1075'0s	506	10320	11000	10320	13:18
Mar-09	1080'0s	500	---	---	---	13:18
May-09	1085'0s	400	---	---	---	13:18
Jul-09	1060'0s	500	---	---	---	13:16
Sep-09	1010'0s	500	---	---	---	13:15
Dec-09	1000'0s	600	---	---	---	13:15

DAY HARD RED WINTER WHEAT (KW) [10 Minute Delay]

Month	Last	Chg	Open	High	Low	Time
May-08	1068'4s	364	10450	11064	10440	13:25
Jul-08	1068'0s	510	10500	10900	10300	13:25
Sep-08	1073'0s	452	10460	10900	10400	13:25
Dec-08	1081'0s	454	10540	10990	10450	13:25
Mar-09	1090'0s	600	---	---	---	13:26
May-09	1015'0s	00	---	---	---	13:25
Jul-09	980'0s	500	9740	9950	9650	13:26
Sep-09	985'0s	500	---	---	---	13:26

DAY WHEAT (W) [10 Minute Delay]

Month	Last	Chg	Open	High	Low	Time
May-08	1023'0	354	9970	10620	9960	13:25
Jul-08	1020'0	334	9910	10530	9900	13:25
Sep-08	1029'0	450	10020	10610	10020	13:15
Dec-08	1040'0	460	10140	10700	10140	13:16
Mar-09	1004'0s	-80	---	---	---	13:47
May-09	994'0s	-50	---	---	---	13:47

Nearby > all others are deferred

[CLICK FOR MORE](#)

Futures Market Participants

- a) Hedgers** (commercials), entities that use the futures market to manage price risk.
- Farmers/Ranchers/Feeders (Ag producers)
 - Grain Elevators (handlers)
 - Millers (wheat processors)
 - Ethanol Plants (feedgrain processors)
 - Importing and exporting companies/countries
- b) Speculators** (non-commercials), entities that accept price risk by buying and/or selling futures contracts in order to profit in the changes in price.

Wheat Basis: 2010

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New Futures Participants and Products

- ✓ **Hedge, Pension and Investment funds** – Only 5% is invested in ag, representing \$370 billion. Source: 78th annual meeting of the American Society of Farm Managers and Rural Appraisers
- ✓ **Commodity Price Indices** – Fixed-weight or weighted averages of selected commodity futures.
 - Basically “investment” tools normally aimed at “buying and holding” commodities.
 - Example, S&P-GSCI – (Goldman Sachs Commodity Index) 24 liquid, exchange-traded futures contracts including energy, metals, crops and livestock.

Wheat Basis: 2010

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Managing price risk over time

- ✓ In 1848 the CBT, and in 1856 the KCBT, were established. Initially as “cash” markets with “standardized” forward contracts.
- ✓ In the 1860's, the first standardized “futures contracts” were developed.
- ✓ In 1919 the CME was established.
- ✓ In 1972, the first “financial” contracts were traded (i.e. futures on treasury notes, etc.).
- ✓ In 1992, the Globex, electronic trading platform was developed.
- ✓ In 2007, the CME and CBT merged to become a single entity, the CME Group