

Non-Convergence in Hard Red Winter (HRW) Wheat Futures

Alternative policies and consequences for addressing non-convergence

by

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Non-Convergence Issue

1. Non-Convergence in the 2016 Hard Red Winter (HRW) futures contract issue is being presented in a series of 3 videos that include the following topics:
 - a. What is Non-Convergence?
 - b. Alternative policies and consequences for addressing non-convergence.
 - c. How does non-convergence affect crop insurance?

Possible reasons for non-convergence

1. Low protein
2. Limited storage due to big wheat crop
3. Low interest rates



Truck Bids for HRW Wheat at Delivery Points (8/26/16)

1. KC MO @ 55 under (current bid 80 cents under 10/21/16)
2. Wichita @ 85 cents under
3. Hutchinson @ 80 cents under
4. Salina/Abilene @ 85 cents under



Policy Alternatives to Address Non-Convergence

1. Expand who can deliver

2. Cash Settle HRW Wheat Futures Contract



Who's Cash Price, AMS-USDA or Other and is the Price Correct?

Notice AMS's cash price is jumping all over the board and is the same price on many days. Is that price correct? Were there no cash sales that day so AMS put in a number? Computer error?

06/12/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
06/13/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
06/16/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.88	5.91	Terminal Elevators	Cash
06/17/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
06/18/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.97	5.97	Terminal Elevators	Cash
06/19/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	6.03	6.03	Terminal Elevators	Cash
06/20/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.98	5.98	Terminal Elevators	Cash
06/23/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.99	5.99	Terminal Elevators	Cash
06/24/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
06/25/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.95	6.00	Terminal Elevators	Cash
06/26/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	6.07	6.07	Terminal Elevators	Cash
06/27/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
06/30/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
07/01/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
07/02/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
07/07/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
07/08/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
07/09/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	7.17	7.26	Terminal Elevators	Cash
	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.35	5.41	Terminal Elevators	Cash



Who's Cash Price, AMS-USDA or Other and is the Cash Price Correct?

1. AMS-USDA archived data replaced with daily AMS-USDA price reports

07/01/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.87	6.02	Daily Report	Cash
07/02/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.78	6.05	Daily Report	Cash
07/03/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.90	6.09	Daily Report	Cash
07/07/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.67	5.81	Daily Report	Cash
07/08/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.69	5.71	Daily Report	Cash
07/09/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.56	5.63	Daily Report	Cash
07/10/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.57	5.63	Daily Report	Cash
07/11/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.35	5.41	Daily Report	Cash
07/14/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	5.46	5.52	Daily Report	Cash
09/02/14	St. Louis, MO	SOFT RED WINTER	US NO 2	Bushel	Truck	4.95	4.95	Daily Report	Cash

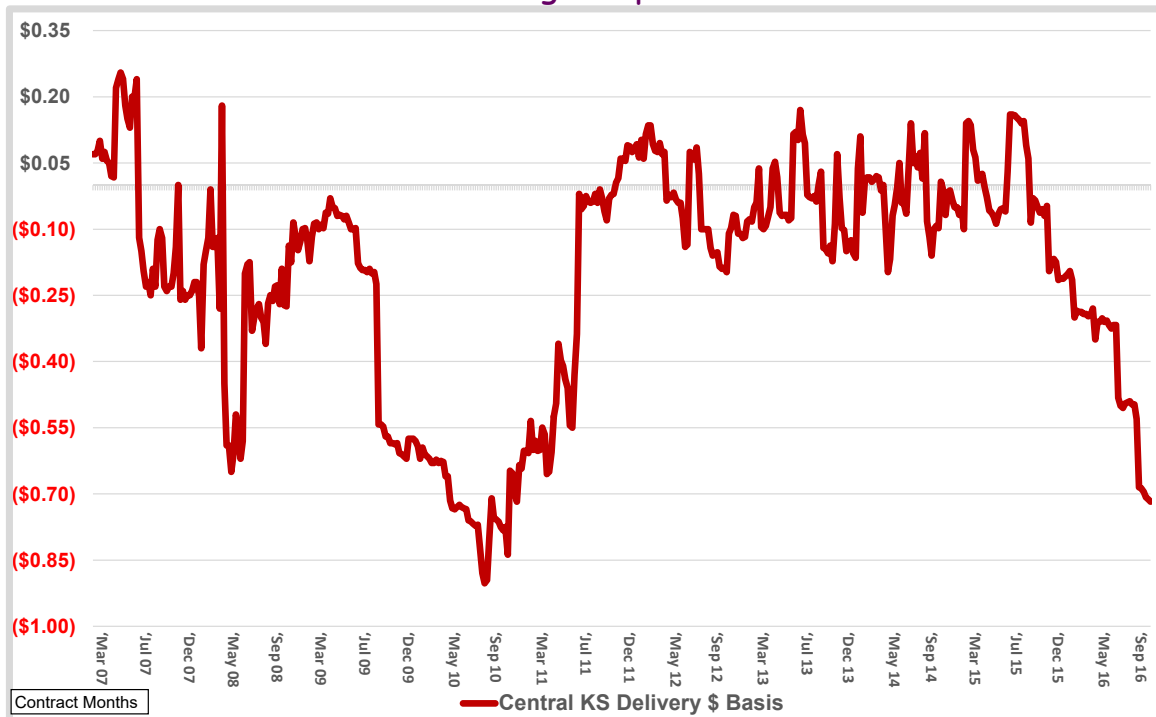


Policy Alternatives to Address Non-Convergence

1. Expand who can deliver
2. Cash Settle HRW Wheat Futures Contract
3. Double the Fixed Storage Rate in Current HRW Wheat Futures Contract
4. Rail Car track Delivery
5. Variable Storage Rate (VSR)



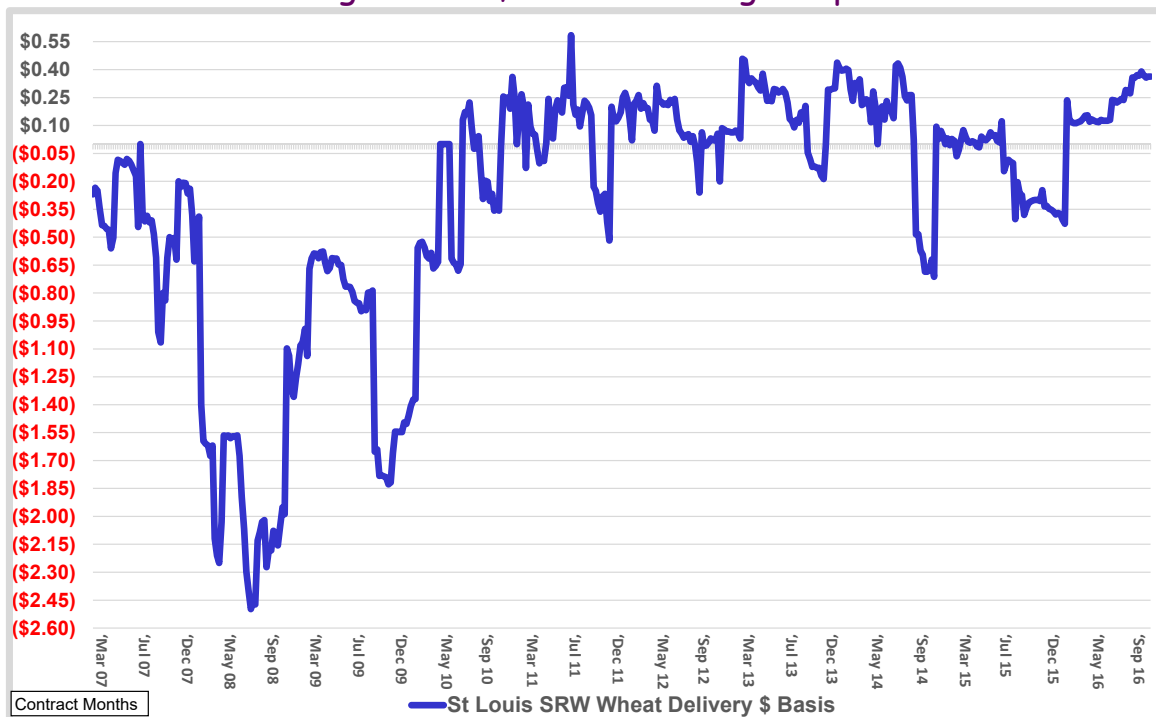
Central KS HRW Basis in Dollars During the Delivery Periods, Mar 07 through Sep 16*



*Cash price defined highest price in USDA, Agricultural Marketing Service's (AMS) range of cash prices for number 1 grade Hard Red Winter (HRW) wheat in Central KS. Source: Agricultural Marketing Service, "Historical Cash Prices", published on AMS Webpage at: <https://www.marketnews.usda.gov/mnp/lr-report-config?category=Grain>



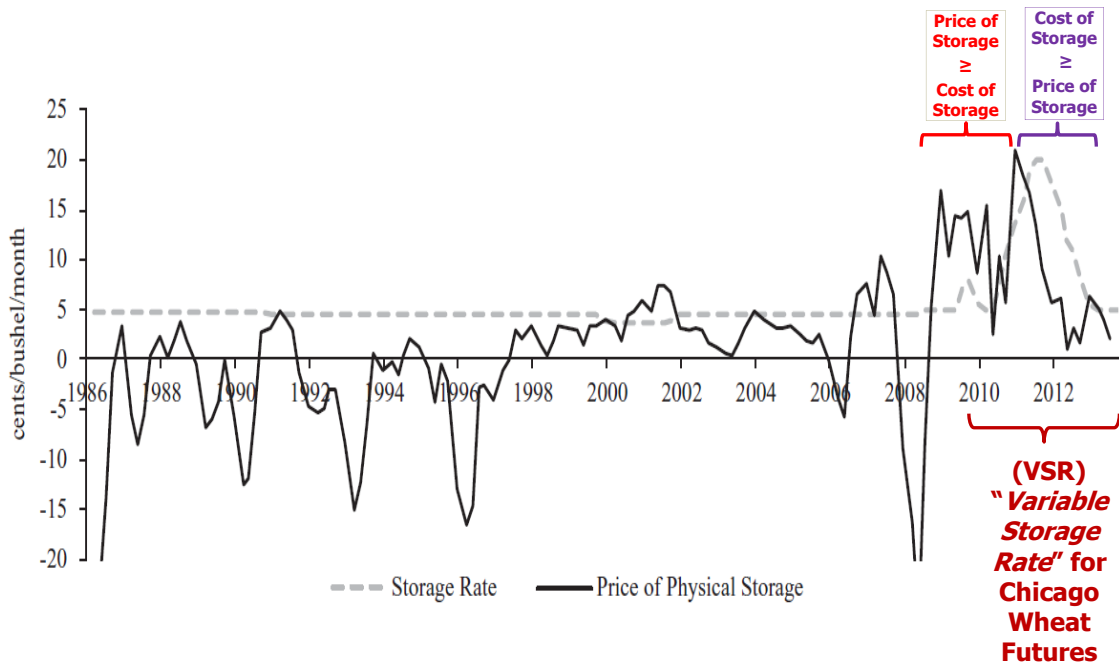
St. Louis SRW Wheat Basis in Dollars During the Delivery Periods for Chicago Wheat, Mar 07 through Sep 16*



*Cash price defined highest price in USDA, Agricultural Marketing Service's (AMS) range of cash prices for number 2 grade Soft Red Winter (HRW) wheat in St. Louis, truck bid. Source: Agricultural Marketing Service, "Historical Cash Prices", published on AMS Webpage at: <https://www.marketnews.usda.gov/mnp/lr-report-config?category=Grain>



Toledo "Price of Physical Storage" vs "Storage Rate": 1986-2013
 "Futures Market Failure?" Garcia, Irwin, Smith (AJAE January 2015)



Policy Alternatives to Address Non-Convergence

6. Status Quo
7. Would HRW wheat contract benefit by changing from a warehouse receipt to a shipping certificate (St. Louis, KC & Tulsa)?



How do Farmers Manage Risk assuming NO Change in Futures Contract

1. On farm storage, allows for improved basis after harvest, protein premiums, or specialty wheat with a higher price.
2. At times, a Chicago wheat hedge may perform better than KC.
3. Chicago wheat has the VSR storage rate.
4. Delivery of Chicago wheat is with a shipping certificate and includes all wheat classes.



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Crop Basis Maps

Basis Levels for Soybeans, Corn, Wheat, and Grain Sorghum

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