

Wheat Waiting Game — An Update

By Diana Klemme

The world remains awash in wheat. USDA projects record high global ending wheat stocks again in 2017, despite record world disappearance. The good

news is that U.S. wheat exports are forecast to rebound slightly to 875M bushels in 2016 crop from their 40+ year low set this season at 780 million bushels.

My April/May article titled

"Wheat Waiting Game" reassured elevator managers who were worried about how to manage their large carry-over of '15 wheat stocks, and have room for new-crop wheat, that this is a good problem right now. The conclusion was to hold onto that old-crop wheat ownership plus new-crop volume. Wide futures carries in KC wheat futures made longer-term holding an attractive proposition — and still do. The article suggested locking in the futures carry that was trading even then at far above "cost of carry." The KC July16/July17 wheat spread was around 61¢ at the time the article was written, which made holding wheat the best use of space.

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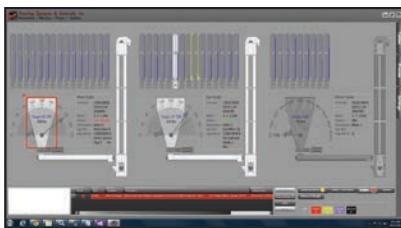
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■ April Showers Boost HRW Yields ■

Since then, April showers have sharply raised production prospects for 2016 crop hard red wheat, despite nearly 2 million fewer acres this season. This HRW crop could be more than 80M bushels larger than earlier expected. The challenges facing Western Corn Belt and Plains elevators just got even larger. The good news, however, is that the wheat futures carries have widened as the crop has increased, with KC July16/July17 trading at 73¢ to 75¢ carry during May. The interest cost for a country elevator to hold wheat for a year at 5% is barely 22¢/bushel. The futures spread will now pay elevators 50+¢ above interest to hold hedged HRW for a year! Assuming a merchandiser already set the 12-month futures carry on some bushels at 60¢ to 65¢ and sets more now at 75¢, the elevator could average close to 50¢ net

MARKET BRIEF

of interest. That won't build a bin these days, but it certainly looks like the best use of your existing space. Move corn to make space, move soybeans to make space, but keep the bins for wheat.

Big crops call for big measures. Consider adding temporary storage space for wheat, and using grain bags is an economical way to expand holding capacity. (Managers who have stored corn and wheat in bags say they work especially well for wheat.)

The May article recognized that big carry-overs can hang over the market and depress basis. That is definitely a risk; when you commit to holding inventory longer-term you need to have the money to meet potential margin calls and not be forced into selling the wheat when basis is cheap.



Futures carries on soft red wheat (CBOT futures) are wide but not as generous as on KC wheat. CBOT July16/July17 is now trading around 58¢, which is still a sizable return over interest and is well worth protecting. The CBOT

"Variable Storage Rate" program may allow the SRW spreads to widen further, but don't wait and risk it. Have a sizable portion of any current or potential long-term SRW ownership hedged into forward months. ■

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