



This is the first in a series of articles on 2007 Grain Market Outlook and Grain Marketing Strategies sponsored by the Idaho Barley Commission. Look for additional information and market analysis in the spring/summer issue of the Idaho Barley Report (IBC's semiannual newsletter) and on our website at [www.idahobarley.org](http://www.idahobarley.org).

Since 2001, the IBC has received more than \$60,000 in USDA/CSREES grant funding through the Western Center for Risk Management Education at Washington State University to conduct grain producer risk management education. This year we have delivered Winning the Game: Pre-Harvest Grain Marketing Workshops in three locations in North Idaho (Craigmont, Genesee and Bonners Ferry); we have collaborated with the RightRisk Project to develop a computerized grain marketing simulation game geared to Idaho production situations (barley, wheat and cattle) which will be widely available in the fall; and we are planning more grain marketing workshops in several southern and eastern Idaho locations in November 2007.

We appreciate the generous support of this risk management education project from the Western Center for Risk Management Education, the USDA CSREES, University of Idaho Cooperative Extension, Idaho Wheat Commission and numerous Idaho grain companies and financial institutions.



The Western Center for Risk Management Education  
Washington State University Pullman



# Are You Willing to Consider Pre-Harvest Marketing of Your Idaho Grain Crop?

By Ed Usset, University of Minnesota

Higher prices are creating some great early season pricing opportunities for the 2007 crop. But pricing grain before harvest is never easy. "You can't sell what you don't have" is a common attitude among producers, but I think new revenue insurance products should free you to market more aggressively before harvest. The exciting market rally of the last year has offered producers many opportunities to price their 2007 soft white and hard red spring wheat at prices well above production costs. Since January, new crop September spring wheat futures have traded in a 60 cent range, from \$4.80 to \$5.40 per bushel. These figures translate into cash prices of \$4.50 to \$5.10 per bushel in southern Idaho. New crop bids for white wheat in Portland are trading near the \$5.00 mark, or cash prices of about \$4.50 per bushel in the Lewiston area. Should Idaho producers be pricing new crop soft white and hard red spring wheat? To answer this question, it helps to review patterns in prices before harvest.

Springtime has proved to be the preferred time to make pre-harvest sales in all major grains, including wheat. For example, since 1990 the price of September futures at harvest (August 1) was less than the price on May 1 in 10 of the last 17 years. The same is true for Portland white wheat bids – the price in early August was lower than early May in 60% of the years. I sense that my 60% odds for all years may leave you a little underwhelmed. I think we can agree that our current situation of \$5 wheat is not a typical year. Would it help our odds if we focused our attention on high priced years?

The following tables pay special attention to years when new crop pricing opportunities

were higher than average on May 1. "Higher than average" is defined two different ways: September spring wheat futures or Portland new crop bids higher than \$3.50 per bushel, and higher than \$4.00 per bushel.



**September HRS Futures Prices, 1990-2007**  
**Years when September Futures > \$3.50 on May 1 (\$ per bushel)**

Year	May 1	Aug. 1	Change
1990	3.61	2.81	(0.80)
1992	3.55	3.06	(0.49)
1995	3.65	4.73	1.08
1996	5.93	4.70	(1.23)
1997	4.39	3.92	(0.48)
1998	3.61	3.08	(0.53)
2004	4.24	3.53	(0.71)
2006	4.28	4.69	0.40
2007	5.00?		
<b>&gt; \$3.50 Average (all 8 years)</b>	<b>4.16</b>	<b>3.81</b>	<b>(0.34)</b>
<b>&gt; \$4.00 Average (4 years)</b>	<b>4.71</b>	<b>4.21</b>	<b>(0.50)</b>

Data Source: Minneapolis Grain Exchange



As the first table shows, September spring wheat futures on May 1 were above the \$3.50 mark in 8 years since 1990 (this year will be the 9th year). In these years, September wheat futures traded lower into harvest in 6 of the 8 years, or 75% of the time. When we raise the bar to \$4 on May 1, we are left with just four years, including last

year. The average decline into harvest was 50 cents per bushel in these years. The odds of decline stayed the same at 75%, but the magnitude increased.



**Portland Soft White Wheat Bids for August Delivery, 1990-2007**  
**Years when Portland new crop bid > \$3.50 on May 1 (\$ per bushel)**

Year	May 1	Aug. 1	Change
1990	3.58	3.27	(0.32)
1992	4.21*	4.03	(0.18)
1993	3.52*	3.42	(0.10)
1994	3.60	3.44	(0.16)
1995	4.04	4.84	0.80
1996	5.50	4.76	(0.74)
1997	4.50	4.06	(0.44)
2004	4.21	3.92	(0.29)
2005	3.70	3.60	(0.10)
2006	3.64	3.90	0.26
2007	5.00?		
<b>&gt; \$3.50 Average (all 10 years)</b>	<b>4.05</b>	<b>3.92</b>	<b>(0.13)</b>
<b>&gt; \$4.00 Average (5 years)</b>	<b>4.49</b>	<b>4.32</b>	<b>(0.17)</b>

Data Source: USDA Grain Market News

\*Estimated bids based on Chicago wheat futures.



Let's look at similar tendencies in the soft white wheat market. As the figures above show, Portland white wheat bids for August delivery on May 1 were above the \$3.50 mark in 10 of the last 17 years (2007 will be the 11th year). Soft white wheat values traded lower into harvest in 8 of 10 years, or 80% of the time. The average decline from May to August was 13 cents per bushel. When we raise the bar to \$4 on May 1, we have five years to consider. The odds of decline remained at 80%, but the magnitude increased from 13 to 17 cents.

If 60% odds were less than impressive, will you sit up and pay attention to 75-80%

odds? We should temper this information with that well-worn caveat, "past performance is no guarantee of future results." But average price declines of 50 cents in spring wheat and 17 cents in white wheat are too large not to grab our attention. By themselves, seasonal tendencies offer a compelling reason to consider pre-harvest marketing, but it is not the only reason I like pre-harvest pricing. Allow me to share one more reason to consider pricing early. This reason requires you to look at your own operation and at production costs in your area to identify a profitable selling price.

Nearly ten years ago, early in my career as a Grain Marketing Specialist with the University of Minnesota, I spoke to a group of producers on the topic of pre-harvest pricing. It was February and new crop cash soybean prices were trading just over the \$6.00 mark. I asked 40 producers, "How many of you can make money on \$6.00 soybeans?" I saw 40 heads bob up and down, a clear indication that \$6.00 beans were profitable. I asked a follow-up question, "How many of you have priced a portion of your new crop soybeans?" After unanimous agreement that \$6.00 beans were profitable, I was dismayed to learn that not one producer had taken the initiative to lock-in a new crop price.

What are the costs of producing soft white and hard red spring wheat in Idaho? No single topic can lead to more arguments. Agreement is difficult to reach because production costs can be measured in so many different ways. I'll never tell a farmer how to measure his or her costs. But I will recommend that each producer focus on the local cost environment and not their costs. I've heard it too many times, "My costs are \$1 per bushel higher than estimates from the University!" If this is the case on your farm, then I respectfully submit that you have a production cost problem that may be too large for the best of marketing efforts to overcome.

For an estimate of hard red spring and soft white wheat production costs we can look at recent estimates from the University of Idaho ([www.ag.uidaho.edu/aers/](http://www.ag.uidaho.edu/aers/)). Click on "resources" and "crops". You can select the region of interest to you. For example,

the estimated production costs for soft white winter wheat in Northern Idaho are \$280 per acre. Assuming a yield of 75 bushels per acre puts costs at \$3.73 per bushel. For hard red spring wheat in Eastern Idaho, the University estimates total production costs at \$403 per acre. Assuming a yield of 100 bushels per acre and your average per bushel cost is \$4.03.

These reports are very handy. Not only does the University offer detailed estimates for each item of operating costs and fixed costs, they leave a blank at the end of each line where you can fill in your costs. Take a few minutes and examine the cost assumptions for land and fertilizer, etc. Also look at yield assumptions. Plug in your own estimates for 2007 and you have a quick estimate of your own costs. Keep in mind these reports take a full cost approach – they even include a management fee because your efforts are valuable. But they do not consider direct or counter-cyclical payments. Government payments can be seen as "buying down" your production costs.

Once you have a sense of your production costs, we can argue about how much to sell at a profitable price (and today's prices are profitable prices). Should you price 10% or 35% or all of your insured bushels? We can argue bushel amounts but there should be no argument about the need to get something sold when a good opportunity arises. Knowing your cost of production and seeing a profitable price is reason alone to act.

Take one more look at the comparison of May and August prices. There are just too many examples of price declines of 50 cents or more to ignore. High and profitable wheat prices at harvest are not guaranteed.

While I am an avid supporter of pre-harvest pricing, let me add one cautionary thought on new crop pricing. I am not interested in pre-harvest pricing of new crop grain at prices that are below local production costs (notice the emphasis on local costs and not my costs). I repeatedly challenge producers to look at local production costs as their minimum pricing objective. With this minimum price in mind, I want to avoid strategies that offer the risk of getting less than production

costs. If prices are below production costs, I suggest patience (I hear it's a virtue). Not stubbornness but patience. Pre-harvest pricing opportunities are only half the battle in marketing. Storage and pricing opportunities after harvest give us another chance at better pricing opportunities.

I have outlined here two strong reasons for pre-harvest pricing. One argument rests on the strength of some well-established seasonal price tendencies in the market. The other argument asks you to know your local cost of production and to define a profitable new crop sale. Finally, I added a cautionary note about the perils of new crop pricing below your local production costs. I'm pleased to witness a growing number of producers willing to be proactive and set a price on a

portion of their expected production before harvest. There is a risk in pre-harvest pricing. I hope you now understand the risk not taking action.

The odds look good but nothing is 100% - it still takes courage to price new crop wheat. I think it's helpful to remind ourselves that today's high prices are not led by wheat but corn, where rapidly growing ethanol production is propelling corn prices upward. The carryout figures in wheat remain tight but new crop prospects in 2007 are great. Yes, there is still a lot of bullish news in the market. Here's my question for those of you in awe of today's price levels: Did you think we would rally nearly \$2 per bushel in wheat and corn on no news? This is a great pricing opportunity but I don't recommend pricing more bushels

than you have insured against loss. It makes good sense to lock-in these higher prices on the insured portion of your new crop.

**About the author:** Edward Usset serves as a Grain Marketing Specialist for the Center for Farm Financial Management at the University of Minnesota, the developers of FINPACK and MARKETEEER software. Working with his colleagues at CFFM and in Extension, Ed has helped develop the award winning "Winning the Game" series of workshops. He also leads the "Minnesota Master Marketer Program", a six-day program of intensive marketing training for grain producers. Ed has also taught several courses at the University including "Grain Marketing Economics" and "Futures and Options Markets". You can reach him at [usset001@umn.edu](mailto:usset001@umn.edu). ♦



## Barley Short Takes

By Kelly Olson, Administrator, Idaho Barley Commission

### IBC sets 2007-08 budgets for barley research

On March 8, the Idaho Barley Commission adopted a preliminary research budget for the new Fiscal Year 2008, which begins July 1. Approved research projects include:

UI - Education for Barley Production / Extension Nurseries (Dr. Juliet Windes, Dr. Brad Brown, Dr. Stephen Guy)	\$13,000
Support Scientist Funding – Education for Idaho Barley Production / North ID Extension Nurseries (Dr. Stephen Guy)	\$4,900
Herbicide Soil Persistence and Herbicide Resistant Weeds Prevention Expert System (Dr. Donn Thill)	\$3,051
Cereal Leaf Beetle Control in Barley (Dr. Juan Alvarez)	\$9,000
<b>New – Mealybug and root rot seed treatment trial (Dr. Juliet Windes and Dr. Juan Alvarez)</b>	\$7,700
ARS-Aberdeen - Barley Enhancement - Development and Testing of Improved Malt and Feed Barley Varieties (Dr. Don Obert)	\$16,476
Oregon State Univ. – Barley Breeding - Winter Barley / Food Barley (Dr. Patrick Hayes)	\$3,000
<b>TOTAL</b>	<b>\$57,127</b>

### UI scientists offer updated technical information on ways to save energy input costs and optimize crop water use

University of Idaho scientists have developed new publications that will help Idaho grain producers implement best management practices for saving on energy and fertilizer costs, as well as optimizing their water use. With rising energy costs squeezing profits, it is critical to streamline production practices to maximize fuel and fertilizer efficiency and to better control input costs. Consider these ideas:

- You can manage only what you measure.
- Fertilize for realistic yield goals, not for overly optimistic targets.
- Soil testing may be your best investment. Why guess on N, P, and K needs when fertilizer prices are spiking higher?

You can find the complete list of recommended **Best Management Practices for Saving on Energy and Fertilizer Costs** in a new CIS extension bulletin available on-line at <http://info.ag.uidaho.edu/pdf/CIS/CIS1127.pdf> or can obtain a copy by calling the Idaho Barley Commission at 208-334-2090.

The UI also has published new **localized crop water use information** from researchers Richard Allen and Clarence Robison of the UI Kimberly Research and Extension Center, which will assist producers in the design and management of irrigation systems, water rights management and consumptive water rights transfers and calculating complete-year water balances. This information can be found on-line at [www.kimberly.uidaho.edu/ETIdaho](http://www.kimberly.uidaho.edu/ETIdaho).