

Price Risk Management – 2015 harvest strategies

Crop Area

250ha of virtual feed wheat is being grown in the East Midlands region (equally as first and second wheat).

Wheat yields and production

The yields that are being used in this demonstration are based on wheat yields published by Defra for the East Midlands. The 2015 forecast has been considered using regional yields from the past five years, from which an average has been calculated.

The forecast yield will be overwritten with the official yield in October 2015, when Defra publishes the official yield estimates for harvest 2015.

Harvest year	Average wheat yield for the East Midlands
2010	7.85
2011	7.98
2012	6.37
2013	7.65
2014	8.64
2010-2014 average	7.70

Based on the crop area and yield forecast, the farm being used in this risk management demonstration has a forecast of 1925/t of feed wheat to market from the 2015 harvest, which translates to just over 66 lorry loads (29t per load). Although this forecast has been appropriately calculated it could be seen as rather prudent due to the 'abnormal' low yield achieved in 2012, however it could also provide a form of safety net if yields in 2015 are not as substantial as 2014.

Important note

It is important to remember that the information used here is for demonstration purposes only and for individual purposes it is essential to use relevant yield, and cash flow information as even at regional level there can be a high degree of variation.

Pricing

Ex-farm feed wheat (72kg/hl) prices will be calculated from daily futures closing prices for each stated day when the sale takes place.

The following assumptions are made by converting UK futures prices to indicative ex-farm values:

Physical movement month	Ex-farm relationship to futures
Aug-15	£10/t under Nov-15
Sep-15	£8/t under Nov-15
Oct-15	£7/t under Nov-15
Nov-15	£6/t under Nov-15
Dec-15	£7/ t under Jan-16
Jan-16	£6/t under Jan-16

Feb-16	£7/t under Mar-16
Mar-16	£6/t under Mar-16
Apr-16	£7/t under May-16
May-16	£6/t under May-16
June-16	£7/t under Jul-16

Important note

The ex-farm/futures price relationship is for demonstration purposes only. In reality, the relationship is likely to be different and determined by location.

Movement

In order to mimic the reality of an arable business each strategy is required to market at least 10 loads at harvest in order provide a cash flow boost and simulate possible storage restraints.

Unless otherwise stated pre-harvest sales are made for November movement or to meet harvest movement obligations as above with post-harvest sales made for spot delivery.