

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

What is Non-Convergence?

by

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Non-Convergence Issue

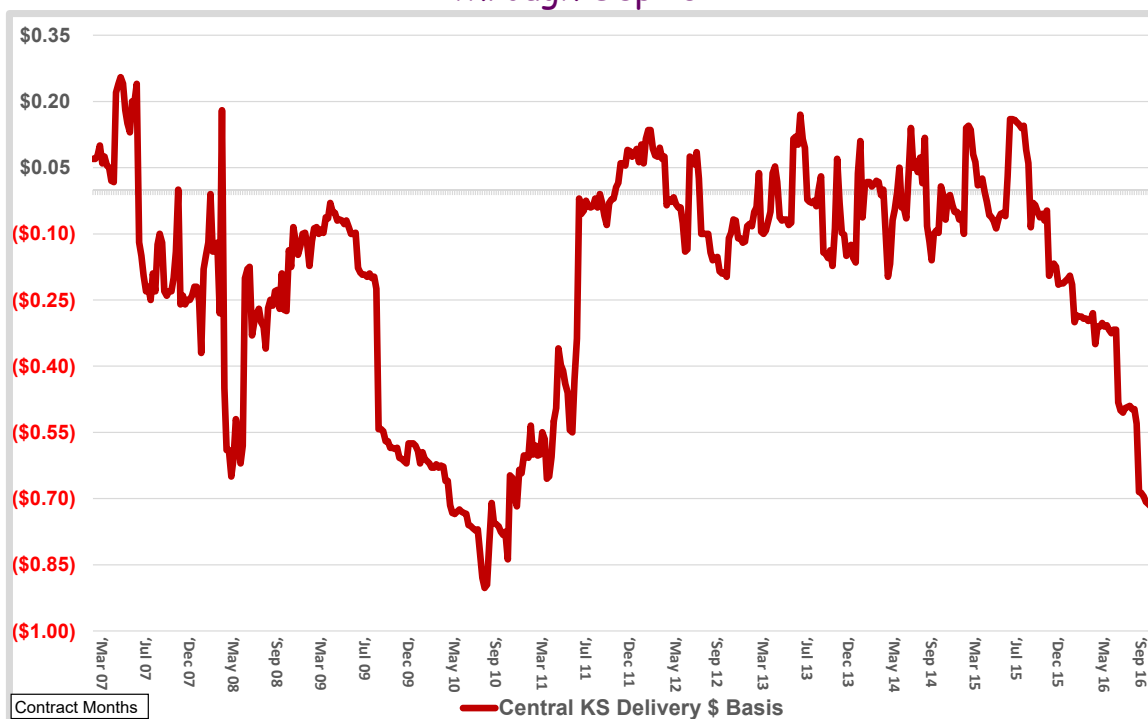
1. Non-Convergence in the 2016 Hard Red Winter (HRW) futures contract issue is being presented in a series of 3 videos that include the following topics:
 - a. **What is Non-Convergence?**
 - b. Alternative policies and consequences for addressing non-convergence.
 - c. How does non-convergence affect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

Big Wheat Crop Exceeds Storage Causing Non-Convergence

1. Non-convergence occurs when futures and cash don't converge to the same price during delivery.
2. HRW wheat central KS delivery points include Wichita, Salina/Abilene, Hutchinson, plus Kansas City.
3. Non-convergence causes a wide basis and reduces effective price protection from a short hedge.
4. The September 2016 HRW wheat contract non-convergence was about 70-80 cents under.
5. Cash price is the real market vs. futures.



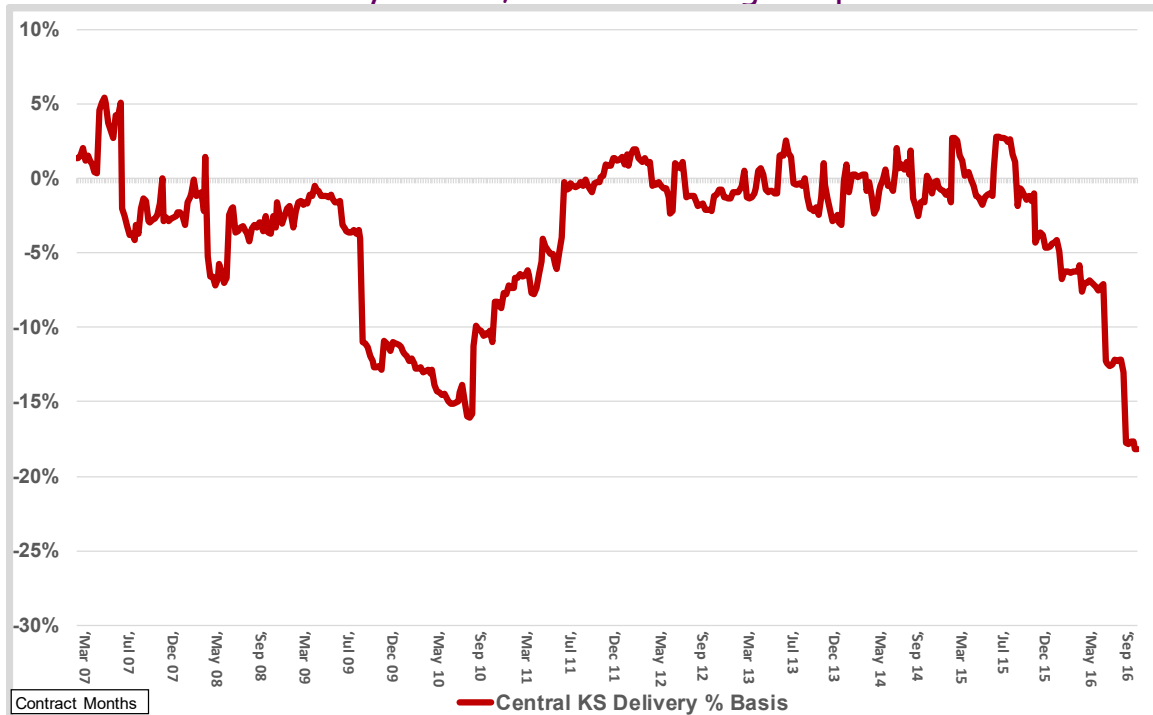
Central KS HRW Basis in Dollars During the Delivery Periods, Mar 07 through Sep 16*



*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>



Central KS HRW Basis Expressed in Percent Difference During the Delivery Period, 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>

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Big Wheat Crop Exceeds Storage Causing Non-Convergence

1. Cash price is "correct" because of a large crop exceeding storage limits, and convergence would require futures prices to decline.
2. Farmers can't deliver real grain on futures. What is delivered is a CME approved warehouse receipt/shipping certificate issued by multi-national grain companies.
3. HRW winter wheat market is not trading wheat. Market is trading a CME approved warehouse receipt, that currently has more value than wheat.



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Thank You

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