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**Abstract SPAA-07**

**Wheat Futures Contracts Performance and Hedging Effectiveness**

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At the end of 2011, the government signed into law a bill which changed the Canadian Wheat Board's (CWB) role of sole buyer of wheat to a voluntary marketing option for Canadian wheat producers. We investigate wheat hedging strategies using available future contracts.

Wheat futures contracts trade in various exchanges worldwide, most noticeable, in the Minneapolis Grain Exchange (MGEX), the Kansas City Board of Trade (KCBT), and the Chicago Mercantile Exchange Group (CME). These futures contracts provide producers and other market participants a marketing tool which can be used to hedge their production and help manage their price risk. However, the relative performance of these contracts and their hedging effectiveness for Canadian market participants has not been fully explored. Because of their higher liquidity and longer history, U.S. wheat futures contracts are attractive for Canadian hedgers. However, they are also priced in U.S. dollars, which introduces an additional source of risk—currency risk. The objective of the research is to examine existing U.S. futures contracts performance and their usefulness as a hedging tool, focusing on basis behavior and management of basis and currency risk. Basis behavior is analyzed in terms of the magnitude and variability near expiration. We also examine ex-ante basis risk in terms of forecastability. Finally, different hedging strategies are developed to assess hedging effectiveness of all three wheat futures contracts.

In response to the change in the CWB's role, the Intercontinental Exchange (ICE) Futures Canada has launched two wheat futures contracts, however the focus is on U.S. wheat futures contracts because ICE contracts have been launched only recently and very little data (with low trading volumes) is currently available.

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