

# Durum Wheat Pricing Methodology

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Durum wheat is not a traded commodity on any futures exchange. With the design of the 2011 Common Crop Insurance Policy Basic Provisions (Basic Provisions) it is necessary to calculate a price in real time based on a commodity futures exchange. Risk Management Agency's (RMA) authority to derive this factor is found in the Commodity Exchange Price Provisions (CEPP) which utilizes an exchange price multiplied by a factor "as determined by RMA" to establish the durum prices. This paper is to inform stakeholders regarding the methodology used to derive this factor.

The methodology is determined by RMA with guidance from industry sources, and statistical analysis. Data used to derive the durum factor is gathered from the National Agricultural Statistics Service (NASS) and Barchart.com. The three plans of insurance (Yield Protection, Revenue Protection and Revenue Protection with HPE) associated with the Basic Provisions use the same factor and it is applied to both the projected price and harvest price as applicable.

NASS publishes state durum wheat prices and production by crop year. Using this NASS data, RMA develops a 10-year regional durum production weighted price series for the Montana, North Dakota, and South Dakota (MNS) region and for the Arizona, and California (AC) region.

Durum wheat prices and the Minneapolis Grain Exchange (MGE) hard red spring wheat futures are highly correlated; thus, each year's regional durum price is compared with the MGE hard red spring wheat futures prices to compute an annual ratio. By region, these ratios are averaged over the most recent 10 year period to arrive at the factor.

The MGE contract month and period used to compute the factor differs depending on the durum region. The MNS region uses MGE September futures price (MWU contract) during the month of February to compute the ratio whereas the AC region uses the MGE July futures price (MWN contract) for September 15 to October 14.

The regional durum factor is applied to the discovered MGE wheat futures prices as described in the CEPP.