

# Durum Wheat Pricing Methodology

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

RMA developed this methodology with guidance from industry sources and through utilization of statistical analysis. The data used to derive the durum factor is gathered from the National Agricultural Statistics Service (NASS) and the online service, Barchart.com. The nine plans of insurance (Yield Protection, Area Yield Protection, Supplemental Coverage Option – Yield Protection, Revenue Protection, Area Revenue Protection, Supplemental Coverage Option – Revenue Protection, Revenue Protection with Harvest Price Exclusion [HPE], Area Revenue Protection – HPE, and Supplemental Coverage Option – Revenue Protection with HPE) associated with the Basic Provisions use the same factor; this factor 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 separate 10-year production-weighted durum 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 future prices are highly correlated; thus, each year's regional durum price is compared with MGE hard red spring wheat futures prices (see below) to compute an annual ratio. By region, these ratios are averaged over the most recent 10-year period to derive the factor.

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

The regional durum factor is applied to the discovered MGE wheat futures prices, as described in the CEPP, to derive the durum projected price and harvest price, as applicable.