Contracting Options and Examples:

Below are some examples of various contracting options. These examples are presented for informational purposes only. Please contact the marketing department to discuss what options may be right for you.

Forward Contract:

Forward contracting allows the seller to secure a cash price and delivery period in advance. Forward contracting is the most common form of contracting.

Advantages:

- ♦ Contracts can be made in any size.
- ♦ Secure a cash price that cannot decline even if the market does.

Disadvantages:

- ♦ Cash prices could go higher.

Example:

You finish delivering your wheat on August 9th. There is a record wheat crop, and as a result the current cash price of wheat is down to $4.05. You fill your 2800 bushel contract and receive $4.55.

Hedge-To-Arrive Contract

HTA Contracts provide the opportunity to lock in a futures price, and take advantage of future basis improvements. Basis can be set anytime prior to the delivery period, but must be set 15 days prior to the delivery month.

Advantages:

- ♦ Allows basis to possibly strengthen over time.
- ♦ No margin calls.

Disadvantages:

- ♦ Futures prices could go higher.
- ♦ Basis could weaken, causing a lower cash price.
- ♦ Contracts require a minimum of 1000 bushels.

Example:

On May 9th, the November soybean futures price is 9.75 on the CBOT. Your local elevator has a current basis of –75¢. You decide to lock in futures at this price, which <u>must</u> be done <u>during trading hours</u> at the CBOT.

May 9th

November futures	$9.75
November basis	$-.75
Forward contract price	$9.00

As time passes, basis levels improve. On September 7th, your elevator has a basis of –55¢ (a 20 cent improvement from May). You lock in this basis, securing a final cash price of $9.20.

September 7th

November futures	$9.75
November basis	$-.55
Forward contract price	$9.20

Basis Contract

Basis contracts allow growers to contract by locking in the basis portion of the price. This allows for improvement in the futures price.

Advantages:

- ♦ Ability to lock in favorable basis levels.

♦ Can take advantage of an upward movement in futures prices.

♦ Receive a cash advance after delivery to the Co-op (up to 80% of net value).

♦ No cost to growers.

♦ Stops storage costs on grain already delivered.

♦ **Contracts can be rolled one time from the contracted basis month to the futures month that immediately follows. There will be a fee to roll the contract, which will be established by Cooperative Elevator Co. at the time of the roll to be reflective of the current market.**

Disadvantages:

♦ Futures prices could go lower

♦ Contracts require a minimum of 1000 bushels.

Example:

On April 16th, the December corn futures price is $4.25 on the CBOT. Your local elevator has a current basis of –35¢, resulting in a cash price of $3.90 You feel basis is acceptable, but you believe futures price will increase. You enter a basis contract for 5000 bushels of corn at a basis of –35¢ under the December futures.

April 16th

December futures		$4.25
December basis	$-.35	
Cash price	$3.90	

On October 16th the December corn futures price is $4.50, a futures price must be locked in during trading hours at the CBOT.

October 16th

December futures		$4.50
December basis	$-.35	
Cash price	$4.15	

Special Pricing Contract Options

Insight Program

Accumulator Contracts

Flex-Floor Contracts

Due to the complex nature of these two contracts, limited information is presented here. Please contact Marketing for a more in depth explanation of these pricing options.