Grain Contracts Glossary

Cash Grain Contract

Grain is sold at the nearby cash bid (cash market) for immediate delivery. Cash price, basis, quantity and delivery period are all specified in the contract. Payment is made upon delivery.

Advantages

- Cash price is now fixed, no further price risk
- Payment is made as soon as grain is delivered

Disadvantages

- Can no longer take advantage of future price or basis increases

Forward Cash Grain Contract

Similar to a cash grain contract, except for grain is sold for a future delivery period. Cash price, basis, quantity and delivery period are all specified in the contract. Payment is made upon delivery.

Advantages

- Cash price is now fixed, no further price risk
- Able to take advantage of any carries in the market

Disadvantages

- Can no longer take advantage of future price or basis increases
- Will not receive payment until future delivery period

Extended Pricing Contract

Contract that allows the producer to receive an advance on a quantity delivered while still being able to take advantage of future price increases. Quantity, "base price", and CBOT July futures price are all established in the contract. The final cash price will be the "base price" plus or minus any July futures gain or loss realized at the pricing date.

For example, Producer A delivers corn to the elevator at harvest. He puts 1,000 bu on an extended pricing contact. The current cash price (base price) is $2.00 and the July CBOT futures price is $2.50. The producer receives an advance of 75% of the base price, which in this case would be $1.50 (75% of $2.00). Four months later in February, the July CBOT futures price rises to $2.75. Producer A decides to price his contract. Because the July CBOT futures price rose from $2.50 to $2.75, this $.25 is added to his base price for a final settlement price of $2.25 per bu. A check for $.75 per bu is then issued, which represents the final settlement price minus what the producer already received in the form of an advance.

Advantages

- Able to take advantage of any futures price rally
- Receive an advance for 75% of the base price for grain delivered
- Avoids storage and price later charges

Disadvantages

- Remain subject to futures downside risk until contract is priced.
- Unable to take advantage of future basis improvements

Offer Contracts

Producer makes an agreement to sell a specific amount of bushels if the current or future cash price reaches a predetermined level. The quantity, cash price, delivery period, and period the offer is valid are all established in the contract.

Advantages

- Price targets can be reached without having to constantly monitor the market
- Fast moving, short-lived rallies can be taken advantage of
- Offer can be for near by or future delivery
- Offer can be canceled at anytime prior to the offer being filled
- A basic marketing plan can be easily implemented

Disadvantages

- Grain will be priced at the offer, any market movement past the offer will not be realized

Price Later Contracts

Allows the producer to move grain without establishing a cash price. Considered a credit sale contract so ownership passes to the buyer at the time the contract is issued. Grain is subject to charges that vary with market conditions

Advantages

- Able to take advantage of futures and basis improvements
- Free price later allows the producer to move grain when convenient for them and sell at a later date
- Corn is shrunk to 15% moisture as compared to 14% on storage

Disadvantages

- Subject to downside market risk
- No payment until grain is priced
- Can no longer LDP or put grain under loan once on price later
- Can only sell grain at current cash bid, cannot sell into the deferred months
- With loss of ownership the producer looses the ability to keep grain off the market

Hedge to Arrive Contracts

Also referred to as No Basis Established Contracts. Allows the producer to lock in an attractive futures price without establishing the basis. Futures price, delivery period and quantity are all specified in the contract. All hedge to arrive contracts are written in the Fort Dodge office.

Advantages

- Futures price is locked in
- Able to take advantage of improving basis

Disadvantages

- Subject to basis risk
- Payment will not take place until delivery period
- Basis must be set prior to delivery or first notice day, whichever comes first

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