GERALD
GRAIN CENTER INC.

As fall is approaching and the cash prices are where they are, we wanted to get out some options you have across the scale this fall outside of Cash Sale and Delayed Price (DP). Not all these options are for everyone but it is important that you know they are available and know how they work before you act on one.

Basis Contract – This is where you lock in the basis number based on a futures exchange month on the Chicago board of trade (CBOT), with the idea that markets will get better or you believe the basis will get wider. You will have to lock in the CBOT futures market price at a later time to establish your cash price. Remember that cash price is CBOT futures plus or minus your basis.

Example: Today our cash price on corn is around $3.25. How this price is established is that the December CBOT futures price is $3.55 and our basis is $.30 under the December equaling the $3.25 cash price. What a basis contract does is lock in the $.30 basis under the December but you have not established your cash price because you have not locked in futures.

PROS:
1.) There is no charge for this contract.
2.) Avoid Delayed Price charges.
3.) You can get an advanced check for 80% of the current value of your commodity.
4.) Gives you time to price your grain when you want to, not when you have too.
5.) You can put any number of bushels towards this contract (250 bushels or 25,000 bushels).

CONS:
1.) There is no down side protection. If the futures go down so will your final price (this is why you can only get up to an 80% advancement on this contract).
2.) You are not done, you still must establish the future price (suggest getting open orders in when you sign the basis contract).
3.) If you do not establish the future price before the future month expires, you can have large monthly spreads to cover.
In our example, the futures month that was chosen was the December 17, this month expires on November 30th known as final notice day (FND). If you do not establish the futures price by this date we have to roll your basis contract to equate to the CBOT March 18 futures. Currently the spread between the December to the March is around $.13. This will change your basis contract from $.30 under the December to $.43 under the March CBOT futures. Just be careful, the farther you delay establishing the futures price, the more your basis can widen to compensate for the futures spread.

Minimum Price Contract – This is where you sell cash grain and purchase a call option feature with the choice of time, strike price, and cost. This contract locks in the lowest price that you will receive with the ownership of a call option feature that keeps you in the market if a rally occurs. If a rally does not occur or you do not sell your call feature the call will expire with no additional costs.

Example # 1: Today our cash price on corn is around $3.25 and a March 18 $4.00 Out-Of-The-Money strike price (a strike price above the current March futures price) call costs around $.05. You would sell your corn for $3.25 less the $.05 call price and less the $.02 put through cost to get a minimum price for your corn of $3.18. The March $4.00 call will allow you to stay involved in the market until February 23rd (Expiration Date) and you can sell the call at any time before the expiration date.

Example #2: Today our cash price on corn is around $3.25 and a July $3.80 At-The-Money strike price (a strike price at the current July futures price) call cost around $.24. You would sell your corn for $3.25 less the $.24 call price and less the $.02 put through cost to get a minimum price for your corn of $2.99. The July $3.80 call will allow you to stay involved in the market until June 23rd (Expiration Date). The closer strike price you choose to its current value the higher the cost. You are also buying time, so the later months will cost more than the nearby months.

PROS:
1.) Avoid Delayed Price charges and protects you if the market goes lower.
2.) Gives you a check for the full value of commodity less the purchase of the call.
3.) Allows you to stay in the market to take advantage of a rally with minimal risk.
4.) Can sell call at any time before expiration date.
5.) The cost of purchasing a call is at one of its all-time lows.

CONS:
1.) This is a minimum 5000-bushel contract that increases in 5000-bushel intervals.
2.) The purchase price of the call. The less expensive the call is, the less likely the call has value later (paying for time, the time elapse the value of the call goes down).
3.) The value of the call will not move the same as the futures market. These values are valued on open interest and do not move penny for penny with the futures market.

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OTC (Over The Counter) Contracts – These are the accumulator and averaging contracts that use multiple call and put options that help set floors, ceiling, or averaging ranges with a upfront fee or a new crop bushel obligation or double up. These contracts can be designed to your needs, I will not get into too much detail with these but will provide a couple examples of some current offers. If you have interest in anything like this, please let your branch manager know and we will fit them to your needs.

Example #1: **December 17 Corn Weekly Flex-Floored Advantage –** This is a 10-week averaging contract that prices 10% of the bushels dedicated to this contract each week. A December 17 CBOT price of $3.50 is established as a floor, if the December 17 CBOT goes below $3.50 then that week's 10% of bushels are priced at $3.50. If the December 17 CBOT is above the $3.50, then you get the current price for the 10% that week. This contract cost $.12 or you can option to obligate (double up) next year's bushels with only a $.02 cost. The bushels would only be obligated and priced if the December 18 CBOT price is on or above $4.58 on 10/5/18.

Example #2: **March 18 Corn Accumulator with December 18 Double Up –** This is a 23-week accumulator contract that prices 4.3% of the bushels dedicated to this contract each week. This has an accumulator price of March 18 CBOT $3.87, a guaranteed price of March 18 CBOT $3.65 (current price), and a knock out March 18 CBOT $3.45. If the March 18 CBOT price is above $3.45 (knock out price) then that week's 4.3% of bushels are priced out at $3.87 (accumulator price). If at any time during the 23 weeks the March 18 CBOT drops below the $3.45 then the contract is done and the remaining weeks will be priced out at $3.63 (guaranteed price). If the contract is not knocked out and the December 18 cbt is on or above $4.00 on 10/5/18 then the same number of bushels will be priced for new crop 18 bushels at the December 18 $4.00.

These are just a few examples, if you are interested in any of these products, prices and levels you will need confirmed quote before writing up a contract. As always, with any OTC Contract, basis will need to be attached before delivery.

All of these contracts have a place and a time to use them. The most important part is that you understand the ins and outs before you put ink to paper. If you have interest or questions, please feel free to call your local branch and we will be happy to answer your questions.

Thanks
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