Fosston Tri-Coop Grain Policy

Established 2.26.2020

Soybean Crop Year is from November option month through the next September option month. (January, March, May, July, August, September, and November)

Spring Wheat & Oats Crop Year is from September option month through the next July option month. (March, May, July, September, and December)

Corn Crop Year is from December option month through the next September option month. (March, May, July, September, and December)

Grain Delivery

- Please provide accurate information to the scale operating concerning owner, split percentages and disposition (open storage, contracted, price)
- If no disposition is provided, the bushels will be automatically placed on Open Storage if no cash or basis contract is available to apply. It will remain here until settled to a cash or basis contract. You have a 10-day grace period of free storage. After that, storage is than prorated at a daily rate of .2333% (7-cents a month), going back to the first day of delivery.
- All discounts and shrink are applied per load.
- It is illegal to deliver Treated Grain. When delivering grain, producers have the responsibility to make sure all delivery equipment is not contaminated.
- Direct ship grain to processors are subject to processors scale of discount and are excluded from Fosston Tri-Coop patronage.

Grain Contracts & Fees

All contracts will be mailed, if not printed and signed immediately, and require a signature within 10 days, otherwise contract is null and void. The Co-op will offer three types of contracts, Cash, Basis and Futures. All contracts are described below with advantages and disadvantages.

Cash Contract

Most used type of contract. Producer call the elevator and is quoted a cash price for a specific delivery period. If producer decides to sell, you have locked in both Futures price and the Basis, transferring all risk and ownership to the Co-op. Delivery is usually the "Co-op's Call" and payment will be made in full upon delivery.

Advantages

- Easy, no complications
- Cash price, quantity and estimated delivery time is known
- Risk of price decrease is eliminated
- No service or storage fees
- All proceeds available upon delivery
- Income can be deferred

Disadvantages

- Can't participate in a market rally
- Payment not received until grain is delivered
- Penalty for cancellation

Basis Fix Contract

The producer locks in a favorable basis with the elevator, leaving the futures price to be set later. Basis contracts are used successfully when the basis is at historically high levels and market conditions lead you to believe there is room for improvement in future prices. The delivery date and quantity set at the time of contract. Discounts and premiums are usually set at the time the basis is established, unless the sale is for new crop delivery. If the deadline comes when you must lock in the futures price, but you want to leave the option open and allow for further possible futures price increase, you may roll the basis contract into a deferred futures month for a 2 cent fee. If the deferred futures market has a carry built into it (the deferred price is higher than the nearby price) your basis contract will be reduced by the amount of that carry. If the deferred market is inverse (the price is lower than the nearby month), the amount of the inverse will be added to your basis contract.

Advantages

- Eliminates downside basis risk
- Can take advantage of potential futures price increase
- Can collect an advance of 80% of delivered grain without locking in the final price
- No storage fees
- By "rolling the basis" contract can remain unpriced for extended period of time

Disadvantages

- Risk of future price decrease (If futures prices drop below the level used to calculate your advance, if taken, you would have to pay back a portion of the advance.)
- Required to deliver grain as stated in contract
- Must track the futures and market trends to lock in a favorable futures price
- Full payment is not made until the futures price is locked in

- Fee for rolling the basis is 2 cents
- Ownership of the grain is transferred to the Co-op at the time of delivery
- Contract is not covered by any grain buyer's bond

Example 1: On December 15, 2019 the producer enters into a Basis Fixed contract for 5,000 bushels of soybeans to be delivered at the elevator at $-1.25 March 2020 futures. The week of Christmas the producer hauls in the 5000 bushels of soybeans. January 3, 2020 the producer receives an advance of 80% on contract. (March futures were at $9.35-1.25 basis=$8.10 x 80% = $6.48 5000 x$6.48=$32,400) On February 14, 2020 the producer prices Basis Fixed contract by establishing a futures using that day's posted bid. The Contract is priced as follows:

March 2020 Futures	$9.42
Basis Fixed Contract	$-1.25
Cash Price	$8.17
Minus Advance	-$6.48

Example 2: On December 15, 2019 the producer enters into a Basis Fixed contract for 5,000 bushels of soybeans to be delivered at the elevator at $-1.25 March 2020 futures. The week of Christmas the producer hauls in the 5000 bushels of soybeans. January 3, 2020 the producer receives an advance of 80% on contract. (March futures were at $9.35-1.25 basis=$8.10 x 80% = $6.48 5000 x$6.48=$32,400) On February 14, 2020 the producer decides to roll the basis to the May. The current futures were $9.35 and the May futures were $9.48. The producer is accepting the 2-cent fee and the 13-cent spread applied to the basis. April the producer prices the futures at $9.50. The Contract is priced as follows:

May 2020 Futures	$9.50
Basis Fixed Contract	$-1.40 (1.25 basis+.02 fee +.13 spread)
Cash Price	$8.10
Minus Advance	-$6.48

Futures Fixed Contract

A future fixed contract allows the producer to lock in a futures price with the elevator, leaving the basis to be set at a later time. The elevator will establish a hedge in the futures on their behalf in exchange for delivery of the cash commodity at a specific time. (If grain is hauled in prior to basis being set, storage will apply until basis is fixed.) This contract is useful if futures prices are relatively high and market conditions lead you to believe that they will weaken and/or you think there is room for improvement in the basis levels. A future fixed contract is written for delivery of a specific amount of grain, a specific shipment period, and the set futures price. This contract will be complete when the producer sets the basis, which will determine the cash price. The basis can be set at anytime but must be set prior to delivery and while the contracted futures month is still being used by traders to calculate cash price. (usually the 15th day of the month preceding contract date). Producers will be allowed to roll contract forward one time within the same marketing year for a fee of two cents. There are additional fees associated with these contracts. These fees are deducted off the futures price at contract creation.

Advantages

- No risk in futures market dropping
- Can take advantage of basis improvement
- No margin requirements to the farmer, since the elevator is carrying the position
- May be allowed to roll the contract to a later month in the same crop year for a fee
- Grain delivery for an estimated delivery window
- Open storage bushels can be applied, storage will continue until basis are locked

Disadvantages

- Can't participate in futures rally
- Risk of basis levels widening
- Must monitor basis levels closely to lock them in when high
- If grain is delivered prior to pricing basis, there are storage fees to be applied

Example: On January 13, 2020 the producer enters into a Future fixed contract for 5,000 bushels of new crop corn at $4.04 December 2020 futures. Contract is written for Dec 2020 Corn FF at $3.98 On July 29, 2020 the producer prices the contract by establishing a basis using that day's posted new crop basis level. The contract is priced as follows:

NC FF Contract	$3.98
Local basis	-0.75
Cash Price	$3.23

<u>Future Fixed Fee Schedule</u>

Futures within 2 trading months (current trading and next month)	No Fee
Anything over 2 months	2 cents per month

Fosston Tri-Coop reserves the right to change Grain policies and fees without notice.