Risk Management Marketing Tools

Marketing Contract Type	Contract Details	Advantages	Disadvantages	When Should You Use It?
Spot (Cash Marketing)	You sell cash grain at the “spot” price upon delivery. Taking the price when hauling the grain to the elevator.	Does not obligate any specific quantity of grain.	The seller is subject to changes in the market until delivery.	When you don’t know the exact quantity of grain you have and don’t want to risk selling too much.
Forward Contract	You lock in a cash price for a forward delivery period in advance.	You have the ability to lock in a profitable cash price for a specific future delivery time. Eliminates downside price risk.	Prices may improve above the contract price.	When prices for a deferred delivery period meet or exceed your profit objectives.
Basis Contract	You lock in the relationship between the cash price and the futures price for a specific delivery time and point.	Can lock in favorable basis levels. You are able to take advantage of an upward movement in futures.	Basis could strengthen above the contracted value. Futures prices may weaken.	If you have previously hedged production. If the seller feels the basis is attractive and there is upward potential in the futures market.
Delayed Pricing (DP)	Allows you to deliver grain now and have the opportunity to price it at a later date. Both basis and futures are left open and are to be established at a later date. Title passes to buyer on delivery.	Allows for movement of grain in times of limited on-farm storage. Allows for participation in price and basis improvement. Quality risk transfers to Linear Grain Inc.	Prices may decline. Storage and other fees may be charged that reflect the opportunity cost of the space for the elevator. Title passes to buyer on delivery.	If you don’t have enough space for the grain but feel there is upside potential in the cash market. If you don’t want to continue to have storage deterioration risks.
Price Floor Contract	Allows you to lock in a floor price by establishing a basis contract and utilizing the provision to establish a price floor. It allows you to participate in upside market moves and protects from downside price movement.	Can provide upside price potential while guaranteeing a floor price. Can lock in an attractive basis level.	Premium paid to establish a floor. This premium may be sacrificed if the market moves higher but not high enough to cover the premium. The basis could improve before delivery. You are not paid cash until the basis is priced.	Recommended for more seasoned marketers. When you want a guaranteed floor price and the basis is attractive but don’t need cash. Can be used with new crop contracts to offset potential buy-in costs.
Minimum Price Contract	Receive a minimum cash price for grain while being open to increases in futures prices before contract expiry.	Unlimited upside price potential. Minimum price is paid to you on delivery.	The premium paid to have the opportunity to participate in upside market may be wasted due to lower futures prices at expiry.	When you want a guaranteed price and to receive payment for the grain but feel there is a large upside potential in the market. Can be used with new crop contracts to offset potential buy-in costs.
Min/Max Price Contract	Receive a minimum cash price for grain while being open to the opportunity for prices to rise within a specific range.	Upside price potential within a specific range. This upside opportunity within the range is at a discounted premium relative to the Minimum Price Contract.	Premium paid to have opportunity to participate in upside market moves may be wasted due to lower futures prices at expiry. Upside opportunity is limited in	When you want a guaranteed price but feel there is limited upside potential in the market.

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			exchange for lower premium.	
Target Price Contract	Offer cash grain at a specific price or basis for a specific delivery period and a specific expiration date. If the market gets to that price a forward contract is automatically executed.	Great part of a disciplined profit planning process. Offer is in the market at all times markets trade.	Price offer may not get executed before expiration. Prices could increase further after target price execution.	When you know the price required to achieve profitable sales goals. It also works well when you are unable to monitor the marketplace. Highly recommended way of selling grain profitably.
Trailing Stop Basis, Target or DP Contracts	You execute a basis, target or delayed pricing contract (DP) with the buyer with an offer to price the futures portion at a fixed amount below the current market price. As the market price rises, the "stop" price (automatic futures selling price) rises by the fixed amount. When the market goes down to the trailing stop price, contract is automatically priced.	Removes some downside price risk associated with basis, target and delayed price contracts. Allows you to participate in upward moving markets with an automatic pricing if market begins to move lower.	Prices could move higher after trailing stop is executed and contract is priced. The market could push through the trailing stop order and sell lower or limit down in some situations.	When you have a basis or DP contract and the market has reached your profitable sales goals but you still feel there is upside potential but don't want to risk the downside. This option puts pricing discipline into basis and DP contracts.
Premium for Offer Contract	You get a premium for grain in exchange for a firm offer to sell the same quantity of grain at a pre-determined futures price for future delivery on a pre-determined future date. On the day the firm offer is based, if the futures settle below the firm offer futures level, there is no future cash grain obligation. On the day the futures settle at or above the pre-determined price, you are committed to a contract selling the quantity at the agreed upon futures price minus the basis.	Allows you to capture a premium on grain today. You have the flexibility to choose the firm offer futures price and delivery date for the grain quantity.	You are locked into the futures price no matter how high it goes by the pre-determined date, the cash price will be the offer futures price minus the local basis. The firm offer is not guaranteed until the futures market has closed at or above the firm offer price on the pre-determined date. The quantity of the initial contract and the firm offer must be the same. There is no downside protection if futures close below the offer price.	The firm offer should be done at a profitable sales price for the additional quantity if the market closes at or above the firm offer price on the pricing date.

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Contact us for more information regarding these risk management options at: 1-800-514-1199

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