CHS Average Price Contract

Average Price Contract Marketing Objective

The Average Price Contract prices out a certain quantity of bushels for a set delivery period. This is done on a daily basis to achieve an average Chicago Board of Trade (CBOT) futures price for a specific time period in the marketing year.

How does it work?

This contract has an established sign-up period for pooled cash market corn, as well as a specific timeframe when the crop is priced and when the crop is delivered. Actual pricing is determined at the close of every CBOT business day during the specified time period. There is a service fee of $0.05 per bushel, which is deducted from the basis, and a 5,000-bushel minimum. The following example illustrates how the Average Price Contract calculates an average price for the identified time period. Note: Basis is priced prior to delivery.

Example: Average Price Contract – Four-Month Pricing Period

March 1	Contract sign-up period for specific quantity and delivery
March 30	Contract sign-up period is closed and bushels are pooled
April 2	Pricing begins on collected bushels and continues daily for four months
July 31	Pricing ends on collected bushels; average is calculated for final futures pricing

Contact your local co-op or CHS representative for the most current information on pool prices and shipment periods.

Potential Outcomes Under the Average Price Contract

There is only one outcome under the Average Price Contract, which is the average futures price, minus the basis and the service fee, for the time period established at the beginning of the contract. Using the example above, if the futures price averaged $5.00 from April 2 to July 31, the cash price the producer receives would equal $5.00 less basis and service fees for the number of bushels signed under the Average Price Contract.

Advantages of the Average Price Contract

- Bushels are automatically priced each day.
- The average price strategy avoids pricing at the low point in the time period.
- Basis can be priced any time prior to delivery.
- This type of contract typically takes the emotion out of marketing grain for producers.
- Service fees are deducted from the contract price, not paid up front.

Key Issues and Risks Under the Average Price Contract

- Producers forfeit their options to market grain at the highest price of the pricing period.
- The contract requires a 5,000-bushel minimum at sign up.
- **THERE IS A POTENTIAL FOR A PRODUCER'S AVERAGE PRICE COMING IN BELOW LOAN.**

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