CHS Futures Fixed Contract

Futures Fixed Contract Marketing Objective

The Futures Fixed Contract locks in a favorable futures price level while maintaining the opportunity for basis appreciation.

How does it work?

Under this contract, a producer agrees to deliver a certain quantity and quality of corn during a set period of time. The producer chooses the futures price level, but the basis remains open until set by the producer prior to delivery. Fees for Futures Fixed Contracts vary crop year to crop year.

Potential Outcome Under the Futures Fixed Contract

Under our sample situation, December futures are trading at $5.70 on March 1 and the basis level is 70 under the December option for October delivery; basis appreciation, however, is anticipated. A producer locks in the $5.70 futures level under the Futures Fixed Contract. By October 15, December futures have dropped to $5.00 and basis has narrowed to 50 under the December option, equating to a cash bid of $4.50/bushel. Using this contract, the producer gains a $0.70 premium over a regular forward cash contract as follows:

Example: Futures Fixed Contract

March 1	December Futures Locked	$5.70
October 15	Basis Locked	-0.50
October Delivery	Net Cash Price	$5.20

Advantages of the Futures Fixed Contract

- There is the ability to lock in only the futures carry, leaving the basis open to take advantage of possible appreciation.
- The producer can establish basis any time prior to delivery.
- Service fees are deducted from the cash settlement, not paid up front.

Key Issues and Risks Under the Futures Fixed Contract

- The contract provides no opportunity to take advantage of higher futures prices.
- Basis must be locked in before grain is delivered.
- The contract is equally subject to basis levels that drop or remain steady.

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