Cash Grain Marketing Contracts

		Fee	Example
Basis A basis contract is completed in two separate steps. The initial contract specifies the bushel quantity, the delivery period and the basis relative to a specific futures contract month. The second step of the basis contract is to set the futures price. Basis contracts must be priced before the CBOT delivery month begins.	**Advantages** ● CBOT futures market rallies ● Receive 80% advance on value ● Downside basis risk eliminated **Disadvantages** ● Risk lower price on CBOT futures ● If contract reaches 95% of market value, margin calls due ● Missed basis improvement	$0.00 per bushel Roll Fee $0.02 per bushel	On October 2nd, a customer sets a basis of -0.25 cents under the CBOT DEC19 corn futures on 20,000 bushels of corn that was delivered at harvest. At this time, a customer can receive an 80% cash advance on the contract. On November 25th, the customer prices the CBOT DEC19 futures at $3.75. His contract price becomes $3.50 ($3.75 CZ19, -0.25 basis = $3.50 flat price).
Minimum Price A minimum price contract establishes a guaranteed base price protecting you against lower prices but permits the opportunity to participate in any positive higher moves in market prices. The delivery period, quantity and minimum price are established in the contract. Minimum price contracts are based on the value of a call option and subtracting the cost of the call option from the cash price.	**Advantages** ● Eliminated risk of a price decline ● Minimum price is guaranteed ● Premium based on CBOT options **Disadvantages** ● Dependent upon option prices ● Missed basis improvement	$0.02 per bushel	A customer sells 5,000 bushels of corn at a cash price of $2.80. A $3.50 March 2019 call premium is $0.12. Thus, the minimum price contract would be ($2.80 - $0.12 - $0.02 = $2.66). At a future date, the call option is now trading at 25 cents per bushel. Customer calls in and prices the option, and is paid 25 cents per bushel on the 5,000 bushels.
Hedge-to-Arrive An HTA contract allows the farmer to set the CBOT futures price now and establish the basis at a later date. To determine the final cash price, the basis must be set by the last trading day of the futures month prior to the first notice day or if bushels will be applied to the contract from a delivery sheet. Contracts cannot be rolled from an old crop into new crop futures month.	**Advantages** ● Eliminate CBOT futures price risk ● Potentially capture basis improvement **Disadvantages** ● Risk of weakening basis ● Eliminate increase in CBOT futures	YC $0.07 YSB $0.10 per bu. 2nd New Crop $0.15 per bu. Roll Fee $0.03 per bu.	In the spring a customer locks in DEC corn futures at $3.75 for harvest delivery to the elevator and the CBOT futures price is established at this time. In August 2019, DEC futures are now trading at $3.00 and the elevator's basis is -0.25 DEC. Seeing that basis has improved, the producer contacts the elevator and sets the basis on his contract. His cash price is established at $3.50 ($3.75 – 0.25 basis). The producer is paid when the grain is delivered.
Delayed Price (DP) A DP contract is one which transfers the title of the grain from the farmer to the elevator, with the price to be determined later. Pricing may take place at any time, subject to a new minimum service charge if not sold by the end of the contract period.	**Advantages** ● Can deliver grain at any time ● Can sell anytime, any bushel amount **Disadvantages** ● Basis and CBOT futures price risk ● No payment until contract is priced ● Title of grain passes to the buyer	$0.00 per bushel	Farmer delivers 5,000 bushels of soybeans off the farm to the elevator and has stated he would like them to be put on a Delayed Price contract. He then signs and returns his DP contract. Two months later, he calls and sells his bushels and lets the elevator know whether he wants immediate or deferred payment.

Cash Contract The Cash grain contract is the most commonly used contract. A producer contracts to sell grain at the nearby bid or cash market. The seller may choose to receive payment for their grain immediately or may defer payment until a later date.	**Advantages** ● Quantity & price is fixed, no further risk ● Money available at time of sale **Disadvantages** ● Eliminate opportunity for price increase	$0.00 per bushel	Farmer delivers 5,000 bushel to the elevator and upon finishing delivery walks into the elevator to price all bushels at the current cash bid of $3.50. A check is printed and the transaction is complete.
Forward Contract A forward contract is used to lock in a price for grain to be delivered at a future date. The delivery period, quantity of bushels and price are established in the contract.	**Advantages** ● Establish selling price for new crop grain ● Able to set price when grain not available for delivery **Disadvantages** ● Grain must be delivered as stipulated ● Eliminate opportunity for price increase ● Payment is not received until grain is delivered	$0.00 per bushel	In March, a farmer calls and sells 5,000 bushels of corn, to be delivered in October to Prairie Central at $3.50 per bushel. A forward contract is made and a confirmation is sent to sign and return. Later that year in October, the corn his harvested and delivered to the elevator and applied to the contract. The farmer is paid $3.50 per bushel regardless of the cash market at the time.
Offer Contract An offer made by the seller to sell at a set amount of bushels at a specific price if and when the elevator's price reaches the desired level for the delivery period. This offer can be for any delivery period for which there is a bid and can be left as a good-until-cancel offer or for a specific length of time until it is either filled or the offer expires	**Advantages** ● Capture higher prices without monitoring ● Helps capture price goals in short rallies ● Any price or quantity can be offered ● Can price cash, stored, or new crop grain ● Can cancel at any time **Disadvantages** ● Grain is priced at offer price ● If market rallies above offer, price not captured	$0.00 per bushel	Farmer calls in and offers 5,000 bushels of corn that are in Open Storage and keeps the offer for 30 days. If and when the offer price hits, Prairie Central gets in touch with the farmer and advises him the offer price was filled.

"Act of God" Cash Contracts

For Cash, Basis, HTA, and Minimum Price contracts, $0.10 per bushel, plus the cash price difference at the time contract is bought back.

Note: Prairie Central is not a futures broker, and any grain transactions must be tied to the sale or purchase of physical grain, including options. We can only release producers from contracts in case of crop failure, otherwise the transaction would be viewed as an off-exchange futures transaction, which is illegal.

Cash grain contracts cannot be rolled from one crop year to the next.

Call us for more information, **(815) 945-7866**