Understanding Different Contracting Methods for Marketing Grain

The Difference between "Storage & Price Later"

You deliver grain to the elevator, but a price is not established until a later date.

Storage or Ware-House Receipt

- Price grain using the current cash price OR you can use a forward contract.
- The grain CAN be under loan.
- When the grain is priced, you will need to come in and personally sign the warehouse receipt to get a check.
- Usually costs 4 cents per month.
- You retain title and ownership of grain.

Price Later or Delayed Pricing

- Only can price grain using the current cash price.
- The grain CANNOT be under loan.
- When the grain is priced, you can come in and get your check or we can mail it to you.
- Usually costs 3 cents per month, is typically FREE in the spring/summer.
- Title is transferred upon dumping, this is a voluntary extension of credit.
- You will receive a Delayed Pricing Contract in the mail to sign and send the yellow copy back to the office.

Sign and Return your Contracts!

When you receive a contract in the mail, sign and return the yellow copy. If there is a problem or question on a contract you receive, call the office immediately.

Forward Contract

Futures + Basis = **Forward Cash Price**

Using a forward Contract enables you to lock in a price for a month in the future.

Example: Lets say its May 15th and we have the following prices.

May	June	July	Aug
$2.20	$2.22	$2.25	$2.26

Using a forward contract you lock in the July price and then delivery the grain in July and you will receive $2.25.

(This is the most common contract used)

Offer Contract

"If Corn gets to $2.50 in July, sell me 5,000 bushels". This contract sets a target to price grain. We watch it for you. If we hit the target, then a Forward Contract is written.

Example: Say corn is $2.20 and we write an offer contract for $2.30. If corn goes higher and hits $2.30, you get $2.30 locked in with a forward contract. Corn opens at $2.28 and trades through $2.30, closing at $2.35, you get $2.30. You may receive a better fill if the market opens higher than your target. Offer Contracts can be used for locking in Basis and Futures as well.

The above four methods are the most commons ways of pricing grain other than just selling the grain across the scale upon delivery.

Many producers use Forward Contracts to capture a better price in the future, especially for pricing new crop grain out of the field. Normally during the fall, prices trend lower because we are bombarded with grain from harvest and most people don't have enough storage for the grain. During the fall, the cash price of grain is usually low, so the only other option is to put the grain on Delayed Pricing. This costs normally 3 cents per month and most people wait for prices to rally in the spring. By then, charges for Delayed Pricing have added up towards (21-27) cents/bushel. By forward contracting, sometimes a year in advance, better than average prices can be achieved compared to just selling the grain as cash in the fall.

Hedge to Arrive or Futures Fixed Contract

Futures + Basis = Cash Price

2.50 + (-28) = $2.22

With this contract you lock in the futures and leave the basis open until later on.

Example: Say we have the following:

MAY	JUL	SEP	DEC	MAR
263	265	255	250	257

It is April and you lock in Futures for October delivery using the December futures. You use a market order and receive 250 Dec Futures for a fill. You are now locked in at 250 Dec futures. Next you will have to set the basis using the October basis being that is the month you will deliver the grain. You will need to set the basis before delivery or before 1st notice day of the December contract. When you set your basis, this is then added to your futures price of 250 to arrive at a final cash price for your grain.

When locking in futures you need to specify a market or limit order.
A market order fills immediately and your fill may vary.
A limit order is a set price and may not fill right away.

(See below for more on filling orders)

Basis Fix Contract

Futures + Basis = Cash Price

2.50 + (-28) = $2.22

Lock in the Basis for a month in the future. You then lock in the futures sometime before 1st notice day of that month. The grain is delivery during the month you locked the Basis in.

Example: Say we have the following:

Apr	May	June	July	Aug
(-25)	(-25)	(-20)	(-19)	(-20)

It is April and you lock in Basis for July delivery. You now have a contract for July with a basis of (-19) locked in. This is under the July Futures month. You now watch the July Futures contract on the CBOT and will need to lock in a Futures price before June 28th. This is 1st notice day for the July Futures contract. You need to do this when the futures are trading and use a market or limit order. The futures price you lock in plus your Basis of (-19) gives you your final cash price.

If in July the Basis is (-24) you still get (-19) so you made 5 cents on the Basis.
If in July the Basis is (-14) you still get (-19) so you lost 5 cents on the Basis.

When you lock in futures consider the following important points.

* Futures can be locked in using 5,000 or 1,000 bushel increments.
* Two ways to lock in futures:

1) "Selling at the market"
Your order is filled right away; the price may vary.
(If Dec futures are currently trading at 250,
you may get 250, 250 ½, or 249 ½).

2) Using a limit order
Use this if you absolutely want 250 for the futures price. This order may not get filled right away, it may take some time, but you will get 250 if the market trades at or above that level.

Limit orders are good because you can put an order in ahead of an anticipated price level you desire to lock in. This means if futures are currently 241 and you would like 250, you can put a limit order in saying if futures trade higher and get to 250, lock me in for 250. This order can be made just for a day or can be made "good till cancel". Sometimes, futures can trade up to a certain level during the day, but close lower. A limit order can be a good way to lock in desired futures pricing levels.

Using a Marketing Plan to achieve better than average prices.

You put time into planning your finances.
You put time into planning what crops to plant in your fields.
You put time into planning what inputs to use (Seed, Fertilizer & Chemical).
You put time into planting, growing and harvesting your crops.
But how much time do you actually put into marketing your grain?

Grain marketing is difficult, but having a grain marketing plan in writing can make things easier and help you reinforce the marketing decisions you will make.
Points to Consider when making your plan in writing:

1) **Figure out your break-even price**. You need to know where you start making money in your operation. This will also help you identify where costs could be cut.
2) **Identify how much storage you have** and when percent of the grain will need to go to the elevator at harvest. Try to have these bushels priced before harvest to avoid lower prices during harvest and putting grain on Delayed Pricing.
3) Track all of your sales you make during the year and **figure out the average price** you are receiving for the grain. By figuring out your average, this can be used as a level whether or not to sell more grain.
   (If prices are above your average, good idea to sell some more to raise your average.)
   (If prices are below your average, maybe want to wait for higher prices).
   Also, use past year's averages as levels and attempt price grain above these levels.
4) **When do you need the money**. Identify when bills, land payments and rent, equipment payments are due. Have large payments in March, target sales for then.