

Crop Marketing Terms

Actuals – The physical commodities that are being traded.

Arbitrage – The simultaneous purchase of commodities in one market and the sale of commodities in the same or different market. Arbitrage is profiting from a discrepancy in prices.

Basis – The difference between the futures price for a commodity and its cash price at a specific location. The nearby futures delivery month is usually used.

- **Basis risk** – Risk of change or variation in the basis over time.
- **Even basis** – A condition that exists when the local cash price is equal to the futures price.
- **Over basis** – A condition that exists when the local cash price is greater than the futures price. Also called *positive basis*.
- **Under basis** – A condition that exists when the local cash price is less than the futures prices. Also called *negative basis*.
- **Weakening basis** – Basis movement over time that occurs when the cash price is declining relative to the futures price.
- **Strengthening basis** – Basis movement over time that occurs when the cash price is rising relative to the futures price.

Breakeven selling price – The price a producer must receive for a commodity in order to recover all of the costs associated with producing and with storing the commodity.

- **Cash flow breakeven selling price** – The price needed to recover the cash expenditures associated with producing the commodity.
- **Accounting cost breakeven selling price** – The price needed to recover all costs except the opportunity costs associated with producing the commodity.

- **Economic cost breakeven selling price** – The price needed to recover all costs including the opportunity costs associated with producing the commodity.

Broker – One who executes futures trading orders for customers. The broker may be an employee in a local office of a brokerage firm or an employee of a crop merchandiser such as a cooperative, ethanol plant, or feed mill.

- **Brokerage** – The fee charged by brokerage firms for the execution of a transaction. Also called *commission*. This fee may vary from firm to firm.
- **Brokerage house** – An organization that buys and sells for the accounts of customers. Also called *Commission House* or *Wire House*. Today, individuals can also trade futures through web based investment firms that serve as brokerage houses.

Cash market – The market in which physical commodities are bought and sold. Refers not only to elevator companies and processors buying products but also to the organized cash sales at commodity exchanges and over-the-counter cash trading.

Charting – A part of technical analysis for forecasting price movements which analyze past price behavior through the use of charts and graphs.

- **Bar chart** – A graph showing the high, low, and settlement prices for each trading period over time.
- **Moving average** – An arithmetic average (often closing prices) over a given period of time (e.g. five days). The period is constantly moving forward in time so the average reflects only the most recent prices.
- **Linearly weighted moving average** – The more recent prices are given more weight in computing the average.

Coarse grains – Corn, barley, oats, grain sorghum, and rye. Millet is also included in the statistics of some foreign countries. These are generally considered feed grains.

Commodity – Any physical product traded on a futures exchange. A fungible product (each unit is the same).

Consignment – Crops shipped to a third party for sale by the third party.

- **On consignment crop** – Crop shipped to a broker for sale in the cash market.

Corner – To secure control of a commodity so that its price can be manipulated.

Delivery – The transfer of the physical commodity in satisfaction of a futures contract.

- **Deliverable grades** – Commodity grades that can be delivered to satisfy a futures contract.
- **Delivery month** – The month in which a futures contract matures and delivery may be made or contract settlement made.
- **Delivery notice** – A notice of the intent to deliver or a request to receive delivery of a commodity under the terms of a futures contract.
- **Delivery points** – The locations at which commodities may be delivered to satisfy a futures contract.
- **Quality premium** – The additional payment an exchange specifies for delivery of a commodity of higher than required quality against a futures contract.
- **Tender** – Delivery against a futures position.

Elevator cash contracts – Contracts for the purchase of a crop, usually from producers.

- **Basis contract** – An agreement in which the crop is delivered and legal title passes to the elevator. The agreement establishes the basis but not the futures price. The producer later selects the day on which they wish to establish the futures price. At that time, the producer will receive the futures price minus the previously agreed upon basis.

- **Delayed payment contract** – An agreement in which the price is established and the crop is delivered but payment is postponed until later. It is typically used to shift taxable income into the following year.
- **Forward contract** – An agreement requiring the producer to deliver a specific quantity and quality of a crop to the elevator at a specified time and location for a previously agreed on price.
- **Hedge-to-arrive contract** – An agreement where a producer chooses a future contract month and establishes the futures price for the crop they intend to sell. The basis is established later at the discretion of the producer. The producer's price is the futures price less the basis. Hedge-to-arrive contracts can often be rolled forward to another futures contract month. The elevator performs the hedging transaction.
- **Minimum price contract** – An agreement in which a minimum sale price is established. The producer is guaranteed either the current cash price or the minimum sale price, whichever is greater. In exchange for the minimum price guarantee, the producer must pay a fee similar in size to an option premium.
- **Offer contracts** – A producer signs a contract with an elevator indicating their desire to sell a specific number of bushels of a crop any time the cash price reaches a designated price.
- **Price-later (delayed price) contract** – An agreement in which a crop is delivered and legal title passes to the elevator but price is established later at the discretion of the producer. The price to the producer on any given day is the elevator cash price less a service charge.

Exercise – Action taken when the buyer of a call (put) option converts the option to the purchase (sale) of the underlying futures contract.

- **Exercise price** – The price (strike price) at which an option can be exercised.
- **Expiration** – The date on which an option can no longer be exercised.

Exchange rate – The number of units of one currency that can be exchanged for one unit of another currency. A decline (increase) in the value of the US dollar reduces (increases) the price of US commodities for foreign buyers.

- **Devaluation** – An official reduction of the exchange rate of a nation's currency.
- **Fixed exchange rate** – The relative values of currencies are established and maintained by government intervention.
- **Flexible exchange rate** – The value of a country's currency varies and is determined by the supply and demand for the currencies.

Exports – Domestically produced commodities that are sold abroad.

- **Export tax** – A fee paid on exports to the government of the originating country.
- **Export subsidies** – Special incentives such as cash payments, tax exemptions, preferential exchange rates and special contracts extended by governments to encourage increased foreign sales.
- **Export license** – A government document authorizing exports of special goods in specific quantities to a particular destination.

Fundamentals – One of two major sets of factors in analyzing prices. Fundamentals are supply and demand factors that influence prices of commodities. Technical analysis (chart patterns) is the other major set of factors affecting prices.

- **Marketing year** – The twelve month period during which a crop normally is marketed. For example, the marketing year for the current corn crop is from Sept. 1 of the current year to Aug. 31 of next year. The marketing year begins at harvest and continues until just before harvest of the following year.
- **Carryover** – The quantity of a commodity remaining at the end of marketing year.
- **Free supply** – The amount of a crop available to the market. It excludes government held crops.

- **Pipeline stocks** – The minimum quantity of a commodity needed to carry on the normal processing and marketing operations. Tends to be relatively constant from year to year.
- **Buffer carryover stocks** – Carryover stocks in excess of pipeline stocks that are carried over for use in the next marketing year. Buffer stocks fluctuate substantially from year to year.

Futures contract – A contract traded on a futures exchange that calls for delivery of a standardized amount and quality of a commodity during a specific month. The contract price (per unit of commodity) is established through competitive trading at the organized exchange.

- **First notice day** – The first day on which notice intentions can be made or received to deliver actual commodities against futures contracts. It usually precedes the beginning of the delivery period.
- **Futures contract months** – The delivery months in which futures contracts are traded.
- **Futures premium** – The amount that prices for one futures contract month exceed those of another futures contract month.
- **Last trading day** – The last day of trading in a particular futures or options contract month. Unsettled contracts at the end of the last trading day must be fulfilled by delivery of the physical product or closed through cash settlement procedures if the contract does not permit delivery.
- **Life of contract** – The time period during which a specific contract month has been trading.
- **Maturity** – The period when a futures contract can be settled by delivery of the actual commodity or through cash settlement if that is an alternative to delivery.
- **Nearby delivery month** – The futures contract month closest to maturity.
- **Open contracts** – Contracts that are outstanding. Futures transaction which have not been completed by an offsetting trade, or by delivery or receipt of the commodity.

Futures market – A centralized market where traders buy and sell futures contracts.

- **Clearing house** – A separate agency for the collection and dispersion of margin money and the financial settlement of futures contracts.
 - **Commission houses** – Brokerage firms which buy and sell futures contracts for customers. Their earnings come from commissions charged on trades.
 - **Floor trader** – An exchange member who personally executes trades on the floor (trading pits) of the trading exchange.
 - **Licensed warehouse** – An exchange designated delivery warehouse (elevator) where a commodity must be delivered on a futures contract.
 - **Thin market** – A market characterized by few potential traders and few or infrequent trades.
 - **Overbought** – A condition in which prices are thought to have increased too much or too rapidly. Can be measured by the *Relative Strength Index*.
 - **Oversold** – A condition in which prices are believed to have declined too far or too rapidly. Can be measured by the *Relative Strength Index*.
 - **Pit** – The location on the trading floor where traders and brokers buy and sell futures or options contracts.
 - **Liquidity** – The amount of trading in a particular contract on a given day.
 - **Open interest** – The number of outstanding futures contracts for a commodity that have not been offset by opposite future transactions or fulfilled by delivery of the commodity.
 - **Volume of trading** – The total number of futures transactions made in one trading session. Because purchases equal sales, only one side of the trade is counted.
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Futures price – The value of a commodity at a point in time. It is determined through open negotiation and competition among buyers and sellers on a trading floor of the exchange.

- **Opening price** – The first price occurring at the beginning of the trading day.
 - **Close** – The period during which all trades on a given day are officially declared as having been executed *at the close*. The closing range is the range of prices during this designated period.
 - **Settlement price** – The midpoint of the closing price range.
 - **Range** – The difference between the high and low prices recorded during a trading session or any given period. The range is used in technical analysis to identify chart formations.
 - **Limit price move** – The maximum permitted price increase or decrease from the previous day's closing price.
 - **Quotations** – The price of cash transactions or futures contracts for a commodity at a specific time.
 - **Nominal price** – The estimated futures price quotation for a period when no actual trading took place.
 - **Point** – The minimum price fluctuation (1/8 of one cent) in US crop futures and options trading.
 - **Volatility** – The amount by which futures prices fluctuate or are expected to fluctuate in a given period of time.
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Futures trading – A market activity to buy, sell, or both.

- **Bid** – A willingness to buy a commodity at a specified price.
 - **Offer** – A willingness to sell a commodity at a specified price. Also called asking price.
 - **Long** – Purchased futures contracts that have not been offset by sold contracts or delivery.
 - **Short** – Sold futures contracts that have not been offset by purchased contracts or delivery.
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- **Position** – Describes the position of a trader as a buyer (long position), a seller (short position), or a spread trader (long and short).
- **Position limit** – The maximum futures market position speculators are legally permitted to own or control.
- **Net position** – The difference between the long open contracts and the short open contracts of a commodity for a specific trader or type of trader.
- **Liquidation** – Offsetting an existing position by selling (buying) a futures or option contract that was previously purchased (sold). Also called *offset* or *covering*.
- **Opening transaction** – A trade that establishes a new position.
- **Round turn** – A complete buy and sell transaction for futures or option contracts.

Grain bank – Accepting grain on deposit from a livestock producer for redelivery to them as a feed product at a future date.

Hedging – The buying or selling of futures contracts as substitutes for later cash transactions to insure against price change.

- **Short hedge** – Selling futures contracts to protect against possible downward trending prices of commodities that will be sold in the future. Also known as *selling hedge*.
- **Long hedge** – Buying futures contracts to protect against possible upward trending prices of commodities that will be purchased in the future. Also known as *buying hedge*.

Imports – The quantity or value of commodities legally entering a country.

- **Import barriers** – Quotas, tariffs and embargoes used by a country to restrict the quantity or value of a commodity that may enter that country.
- **Import quota** – The maximum quantity or value of a commodity allowed to enter a country during a specific period of time.

- **Import substitution** – A strategy that emphasizes replacing imports with domestically produced goods.
- **Competitive imports** – Imported products that are also produced domestically.

Margin – An amount of money deposited to guarantee the performance of a futures contract. It is required of both buyers and sellers of futures contracts and writers of options.

- **Initial margin** – The amount of money that must be deposited at the time a futures position is entered into. Also called *original margin*.
- **Maintenance margin** – A special minimum amount of margin money that must be maintained.
- **Margin call** – A call from a brokerage firm to a customer to bring margin deposits up to the required minimum after a loss has occurred in futures trading.

Market trend – The general direction of prices, either up or down.

- **Bear market** – A market where a large supply and/or small demand results in a price decline.
 - **Bull market** – A market where a small supply and/or large demand results in a price rise.
 - **Break** – A sudden sharp price decline.
 - **Bulge** – A sudden sharp price advance.
 - **Heavy** – A large number of sell orders hanging over the market without a corresponding number of buy orders.
 - **Rally** – A quick advance in prices.
 - **Recovery** – Advance in prices following a decline.
 - **Short covering rally** – A short-lived rise in prices caused by traders buying back previously established short positions.
 - **Soften** – Slowly declining market prices.
 - **Sell-off** – Downward price trend after an advance caused by traders selling previously established long positions.
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- **Technical rally (or decline)** – A price change led by technical market signals rather than supply and demand conditions.
- **Seller's market** – A market where a crop is in short supply and sellers can obtain higher prices.
- **Buyer's market** – A market where a crop is in surplus supply and buyers can obtain lower prices.

Marketing plan – A plan of when and how a farmer will sell a crop.

Marketing price objective – The price a producer sets as an acceptable price for selling or buying crops.

Option – The right (but not the obligation) to buy or sell a particular futures contract at a specific price during the life of the option.

- **Call option** – An option contract giving the buyer the right, but not the obligation, to buy a futures contract at a specific price during a specific time period. The call option seller is obliged to sell futures to the call option buyer if the buyer exercises the option.
- **Put option** – An option contract giving the buyer the right, but not the obligation, to sell a futures contract at a specific price during a specific time period. The put option seller is obligated to buy futures from the put option buyer if the buyer exercises the option.
- **Naked writing** – Writing a call or a put option in which the writer has no opposite cash or futures market position. This is also known as uncovered writing.
- **Holder** – The option buyer who pays a premium in return for the right to exercise the option.
- **Writer** – The option seller who receives the premium but is obligated to perform if the option is exercised.
- **Strike price** – The price at which the buyer of a put or call option has the right to exercise the option. Each option has several strike prices to choose from. Each strike price has a different premium.
- **Series** – All options of the same class which share a common strike price.

- **Underlying futures contract** – The specific futures contract that may be bought or sold by exercising an option.
- **At-the-money** – An option with a strike price equal to the current price of the underlying futures contract.
- **In-the-money** – An option with intrinsic (exercise) value. A *put* option with a strike price *above* the current price of the underlying futures contract. A *call* option with a strike price *below* the current price of the underlying futures contract.
- **Out-of-the-money** – An option which has no intrinsic (exercise) value. A *call* option with a strike price *below* the current price of the underlying contract. A *put* option with a strike price *above* the current price of the underlying futures contract.

Option premium – The price of an option. The amount the option buyer pays to an option seller (writer) for the right to buy or sell a futures contract at a specific price during the life of the option. Premiums are determined through trading on an organized and regulated exchange.

- **Delta factor** – A ratio of the change in the option premium due to a one unit change in futures price. For example, a delta of .5 means that the premium will change by 1/2 cent for every one cent change in futures price.
- **Extrinsic value** – An amount by which an option premium exceeds the option's intrinsic value. If an option has no intrinsic value, its premium is entirely extrinsic value. Also known as *time value*.
- **Intrinsic value** – The amount which would be realized if the option were exercised. Also known as *exercise value*.

Option spread – Involves the purchase and sale of two options of the same type (call or put). It is used to take advantage of a bullish or bearish market while restricting risk to a predefined level.

- **Vertical option spread** – The options vary with respect to strike price but not maturity.

- **Horizontal option spread** – The options vary with respect to maturity but not strike price. Also called a calendar spread.

Option straddle – Involves the purchase or sale of both a put and a call option.

- **Option straddle purchase** – Involves the purchase of a put and a call option. It is designed to take advantage of a volatile market.
- **Option straddle sale** – Involves the sale of a put and a call option. It is designed to take advantage of a stable market.

Public elevators – Licensed and regulated bulk storage facilities where crops are stored for a rental fee. The elevators may also be approved for delivery on commodity futures exchanges.

Pyramiding – Using profits from an existing position to expand the size of that position.

Short the basis – A position in which a person sells a cash commodity and buys futures thus locking in the basis. This seller retains ownership by buying futures, hoping to share in rising prices but vulnerable to declining prices.

Speculator – A person who uses the futures or options market to make a profit while risking a loss. Speculative trades are not coordinated with cash market transactions.

- **Scalper** – A trader who attempts to buy at a bid price and sell at an asking price. A scalper will buy and sell on minimum price fluctuations and trade in and out of thousands of crop bushels a day.
- **Day trader** – A trader who is content to take profits on fractional gains and usually prefers to be even at the end of the day.
- **Position trader** – A trader who carries long or short positions from one day to another. Short-term position traders carry positions as short as one week. Long-term position traders may take positions extending over a year.

Spread – The difference in price between two futures contracts with different contract delivery months. A positive spread means that the distant month price (e.g. March) is higher than the nearby month (e.g. December). Spread can also be the difference in contract price between different commodities (e.g. corn and soybeans) or between exchanges (e.g. Chicago & Kansas City) and the same commodity.

- **Intra-crop spreads** – Intra-crop spreads are the differences in price between futures contracts with delivery in the same marketing year (e.g. Sept. 1 – Aug. 31 for corn and soybeans).
- **Inter-crop spreads** – Inter-crop spreads are the differences in price between futures contracts with delivery in different marketing years.
- **Inverted market** – A futures market in which the price for the nearby trading month contracts are higher than those for later months.
- **Carry** – The price spread between nearby and more distant futures contracts. This can be viewed as the amount the market is currently paying for storage.
- **Carrying charges** – The cost of storage and interest.
- **Full carrying charge** – An unusual situation in the futures market in which the price difference between delivery months reflects the full fixed and variable costs of storing crops for the specified period at delivery-point elevators. Delivery-point elevators are higher cost than country elevators.

Spread trading – The simultaneous purchase of one futures contract and sale of another. The purpose is to exploit price disparities and profit from a change in the price relationship.

- **Calendar spread** – The simultaneous purchase of futures in one delivery month and sale of futures in another delivery month.
 - **Bull spread** – Usually refers to the simultaneous purchase of the nearby contract month and sale of the distant contract month.
 - **Bear spread** – Usually refers to the simultaneous sale of the nearby contract month and purchase of the distant contract month.
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- **Intermarket spread** – The simultaneous purchase of futures in one exchange and sale of futures with the same commodity delivery month in another exchange.
- **Intercommodity spread** – The simultaneous purchase of futures in one commodity and sale of futures in another commodity.

Technical analysis – Price forecasting that uses historical price and trading volume information in chart or graph formations.

- **Technical factors** – Factors used in price forecasting such as open interest, volume of trading, degree of recent price movement, price chart formations and the approach of the first delivery notice day.

Terms of trade – The relationship over time between the price of a country's exports to the price of its imports.

Trade barriers – Means of preventing or slowing the import or export of commodities by imposing restrictions that reduce their flow.

- **Customs** – A country's governmental agency authorized to collect tariffs on imported and exported goods.
- **Embargo** – A government ordered prohibition of trade with another country restricting trade on all trade or only on selected goods and services.
- **Tariff** – A tax on imports. Also called *duty*.
- **Specific tariff** – A tariff expressed as a fixed amount per unit.
- **Ad valorem tariff** – A tariff expressed as a percentage of the value of the goods cleared through customs.
- **Tariff schedule** – A list of the rate of duty to be paid to the government for their importation.
- **Variable levy** – A tariff or import tax subject to change as world market prices change. The purpose is to assure that the import price after payment of duty will equal a predetermined set price.

- **Countervailing duty** – An additional levy imposed on imported goods to offset export subsidies provided by the exporting country.
- **Import quota** – The maximum quantity or value of a commodity allowed to enter a country during a specified time period.
- **Export quota** – Controls applied by an exporting country to limit the amount of goods leaving the country.
- **Tariff quota** – Application of a higher tariff rate on imported goods after a certain quantitative limit (quota) has been reached.
- **Surcharge** – A charge levied in addition to other taxes and duties. Also called *surtax*.
- **Concessional sales** – Credit sales of a commodity in which the buyer is allowed more favorable payment terms than those in the open market.
- **Technical barrier to trade** – A specification that sets forth characteristics a product must meet in order to be imported. These characteristics include levels of quality, performance and safety.

Trading order – An order to buy or sell a futures contract

- **Market order** – A buy or sell order to obtain the best price possible when the order reaches the trading floor.
 - **Buy on close** – An order to buy a commodity within the closing price range at the end of the day's trading.
 - **Buy on opening** – An order to buy a commodity within the opening price range at the beginning of the day's trading.
 - **Cancelling order** – An order that cancels a previous order.
 - **Day orders** – An order to buy or sell at a certain price on a certain day of trading. Orders are generally considered day orders unless specified as open orders.
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- **Discretionary account** – An account where a broker does not need the owner’s consent to place individual buy and sell orders.
 - **Fill or kill order** – An order for immediate execution or cancellation.
 - **Good-till-canceled** – An order that will remain open for execution at any time in the future until the customer cancels it.
 - **Limit order** – The customer sets a limit on either the price or the time of execution.
 - **Stop order** – An order to buy or sell futures contracts when prices reach a specified level. Stop orders become market orders if the specified prices are reached.
 - **Resting order** – An order to buy (sell) at a price below (above) the current market price.
 - **Stop-loss order** – A standing order with a broker to close out a futures position if prices reach a specified level. Such an order is used to limit speculative losses or protect speculative profits.
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Warehousing agreements – A contractual agreement between the owner and the user of a warehouseman’s service.

- **Warehouse receipt** – A document showing proof that the warehouseman is in possession of the commodity.
 - **Negotiable warehouse receipt** – A document showing proof that the quantity and grade of commodity is held in storage. Ownership can be transferred by endorsing the warehouse receipt.
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