



Forward Cash Contracts

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Forward Cash Contract

- Defined: An agreement between a buyer and seller covering a quantity and quality of bushels to be delivered at a specified location and time in exchange for a specific price.
- Example: 5,000 bushel of #2 yellow corn delivered to Local Co-op the last half of February
- The cash price at delivery will be $-\$0.30$ under the March corn futures contract that closed at $\$4.00/\text{bu}$.



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Forward Cash Contract



- A Forward Cash Contract is a binding transaction between the seller and buyer for a later delivery date. Conditions are set including the quantity of bushels, the quality, delivery time and cash price.

Quantity	Quality	Delivery	Location	Cash Price
5,000 bu.	#2 Yellow Corn	Last Half February	Local Co-op	\$3.70/bu.



Forward Cash Contract



- Forward Cash Contracts often used and
 - Sets the cash price and delivery terms
 - Are available both before and after harvest
 - Don't require margin deposits or premiums
 - You're working with your grain merchandiser.



Forward Cash Contract



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- Advantages
 - No margin deposit required
 - Lock in price and delivery terms
 - Cash price can't go lower
- Disadvantages
 - Penalties if you cannot deliver the contracted bushels
 - Cash price can't go higher
 - Might not receive the best basis.



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Hedge-to-Arrive Contract



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- Hedge-to-Arrive (HTA) Contracts are similar to Forward Cash Contracts. The binding transaction sets the:
 - Delivery Date and Location
 - Amount of Bushels to Deliver
 - Quality of those Bushels
 - Basis is typically not set when the transaction is initiated, however the Futures Price is established.



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Hedge-to-Arrive Contract

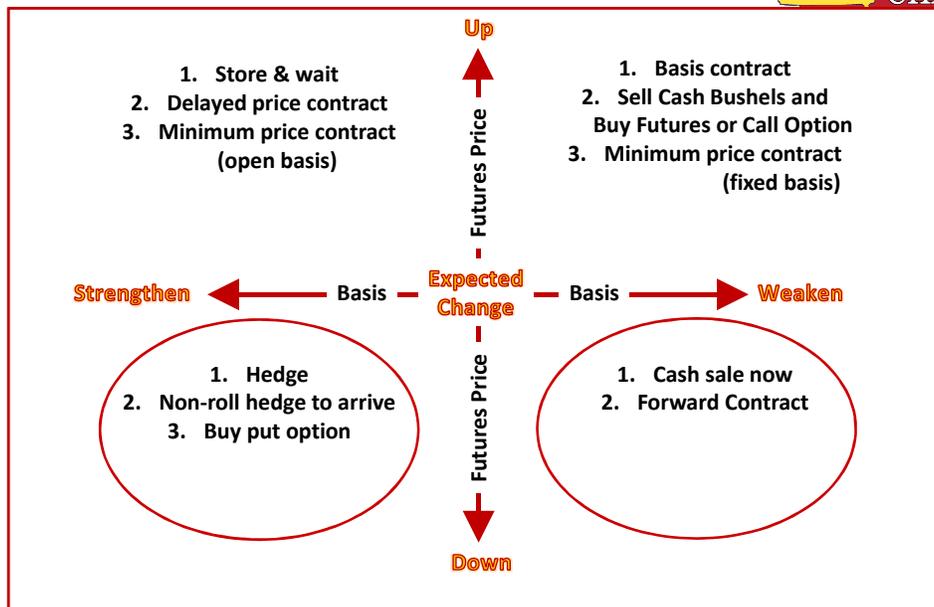


- Similar to a Forward Cash Contract, but an HTA typically doesn't have the Basis set when the contract is initiated. The Seller usually sets the Basis prior to Delivery of the grain.

Quantity	Quality	Delivery	Location	Cash Price
5,000 bu.	#2 Yellow Corn	Last Half February	Local Co-op	?



Crop Marketing Matrix



Key points:

Forward Cash Contracts



- Forward Cash and Hedge-to-Arrive (HTA) Contracts are between the seller and buyer for a later delivery date of grain.
- The primary difference is that the basis is typically not set on an HTA when the contract is initiated. The Seller usually sets the Basis prior to Delivery of the grain.

