



Using Crop Contracts



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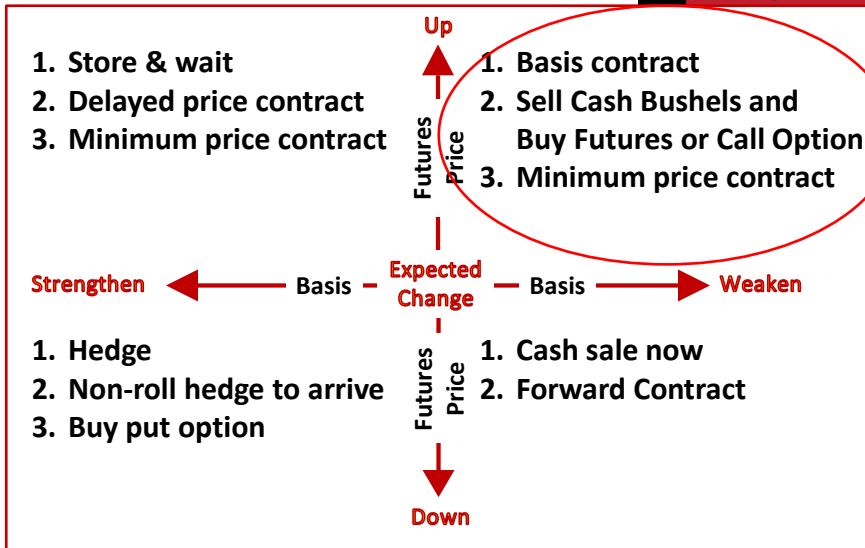
Using Various Crop Contracts



- Important to understand contracts
 - What they are designed to do
 - What they are not designed to do
- Separate the basis and price decision
- Using various crop contracts over a period of time offers risk management diversity.



Crop Marketing Matrix



Look for this Matrix in the Marketing Tools Workbook



Let's talk about a Basis Contract



Advantages:

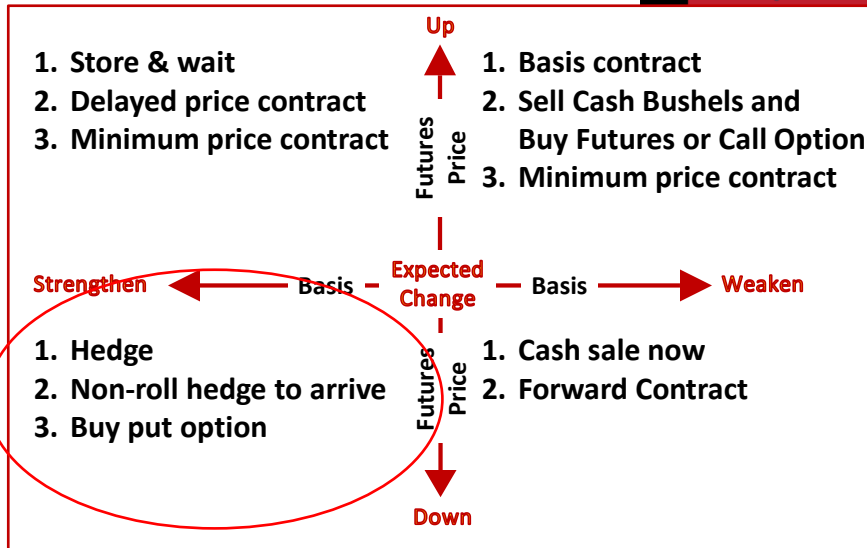
1. Open to higher prices
2. Basis set and won't deteriorate
3. May reduce storage costs
4. Convenient contract quantities
5. Perhaps partial payment in advance

Disadvantages:

1. Price risk until the crop price is set
2. No basis improvement
3. May need to pay back advance
4. Unsecured creditor to buyer
5. Market knowledge needed (price and basis)



Crop Marketing Matrix



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Let's talk about a Hedge-To-Arrive (HTA) Contract



Advantages:

1. Futures price is set
2. Basis can improve
3. Probably higher fees than selling futures
4. Seller may not have margin calls, but check the contract
5. May move protection forward within same marketing year

Disadvantages:

1. Basis risk is still present
2. Delivery is required
3. Must be done in specific contract size (5,000 bu.)
5. Will not get a higher futures price
6. Market knowledge needed (price and basis)



Key points:



- Read and Understand all the contracts you use.
- Use the right contract for the right, current conditions
- Separate the basis and price decision
- Vary the crop contracts over a period of time – not all your “eggs in one basket”.



Thanks for joining the

