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.

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Crop Marketing Matrix

IOWA COMMODITY CHALLENGE

Strengthen ← Basis	Expected Change	Basis → Weaken
1. Store & wait 2. Delayed price contract 3. Minimum price contract	Up ↑ Futures Price	1. Basis contract 2. Sell Cash Bushels and Buy Futures or Call Option 3. Minimum price contract
1. Hedge 2. Non-roll hedge to arrive 3. Buy put option	Futures Price ↓ Down	1. Cash sale now 2. Forward Contract

Look for this Matrix in the Marketing Tools Workbook

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Let's talk about a Basis Contract

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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)

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Crop Marketing Matrix

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Up

Futures Price

1. Store & wait
2. Delayed price contract
3. Minimum price contract

1. Basis contract
2. Sell Cash Bushels and Buy Futures or Call Option
3. Minimum price contract

Strengthen — Basis — Expected Change — Basis — Weaken

1. Hedge
2. Non-roll hedge to arrive
3. Buy put option

1. Cash sale now
2. Forward Contract

Futures Price

Down

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

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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)

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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

IOWA COMMODITY CHALLENGE