Grain Contracts offered at Ag Valley Cooperative (AVC)

Including Descriptions, Advantages & Disadvantages

- Storage Contract (aka Open Storage)
- Warehouse Receipt
- Offer Contract
- Cash Contract
- Forward Contract (aka Future Delivery)
- Futures Only Contract (aka Hedge-to-Arrive or HTA)
- Basis Only Contract
- Minimum Price Contract
- Deferred Payment Contract
- Delayed Price (DP) Contract (aka Price Later or No Price Established)
- Various Over-the-counter (OTC) Contracts

Storage Contract – After delivering grain to **AVC**, it can be stored or priced during normal business hours (see Grain Buying Policies). After a grace period of free storage, usually 15 days, grain that has not been sold will begin to accrue storage (See Storage Rates) from the original day of delivery on a load by load basis.

Advantages:

1. Easy to execute
2. Pricing flexibility

Disadvantages:

1. Open to both futures and basis risk
2. Storage and interest costs continue to accrue until grain is priced (sold)
3. Commercial space is limited at time

Warehouse Receipt (WR) – This is the safest way to store grain commercially. WR's are often used when prices are low, basis is wide, cash is needed or there is little hope of immediate improved markets. WR's are also required prior to putting grain under loan.

Advantages:

1. Loan prices are supported by the United States Government
2. Still allow flat price improvement since the grain is not sold

Disadvantages:

1. Are losing transactions in a down market
2. Will always have a monthly storage and handling fees (in/out charges)
3. Nine months of storage charges and in/out charges must be paid in advance.
    a. Unused storage charges are refundable

Offer Contract – A free, no obligation contract where we at **AVC** watch and make grain sales for our customers. The commodity, quantity and price of grain to be sold are agreed to by both parties when this contract is initiated (written up). The delivery period and location are also key elements of this contract established up front**.** **AVC** then monitors the offer and makes the sale for the producer when the market reaches the needed level to execute the order. See Grain Offer Policies for further explanation.

Advantages:
1. Marketing is done for producer while he/she's otherwise busy and unable to watch markets
2. Can be changed or cancelled if done before the contract has been executed by **AVC**
3. In fast moving markets, better fills are always given to the producer
4. It's a FREE service

Disadvantages:
1. Upon execution, no further price improvement can be realized if the markets continue higher
2. Delivery is required

Cash Contract – This is the most commonly used grain transaction. Grain is priced against the current day's market price. Delivery is nearby, usually within 30 days, or has already been made.

Advantages:
1. Easy to execute
2. Eliminates all downside price risk
3. Used in an inverted futures market (prices in the future are lower)
4. Seller receives payment immediately
5. Storage charges stop

Disadvantages:
1. Futures and basis are both locked
2. Unable to participate in any future market rally
3. Delivery is required, if not already stored at **AVC**

Forward Contract – This is another very common contract where a sale is made for future delivery. This contract gives the producer the ability to sell months in advance of when he/she actually delivers the grain.

Advantages:
1. Easy to execute
2. Eliminates all downside price risk
3. Used to lock in a carry in the futures market
4. Helps the seller plan delivery logistics

Disadvantages:
1. Futures and basis are both locked
2. Unable to participate in any future market rally
3. Delivery is required
4. Payment is not received until delivery is complete
5. For grain already in storage at AVC, storage charges will not stop until the first day of the delivery period

Futures Only Contract (HTA) – This contract prices only the futures portion of a cash contract. It is used when a good futures level is available and is recognized by the seller. The basis portion of the contract is left open and must be set by a predetermined date. This contract will become a cash or forward contract after the basis has been set.

Advantages:

1. Eliminates risk of a lower futures price
2. Leaves flexibility of pricing basis
3. Additional fees are typically charged for this contract
4. Seller is not subject to any margin calls (are covered through above mentioned fees)
5. Can be rolled forward one time within the same marketing year for a small additional fee paid by the producer

Disadvantages:

1. Open to basis risk
2. Delivery is required
3. Must be done in contract size (5,000 bushels)
4. Additional fees for MINI sized contracts (1,000 bushels) for eligible commodities
5. Unable to participate in any futures market rally
6. Requires knowledge of futures and basis history
7. For grain in storage at AVC, storage charges will continue to accrue until the basis has been set

Basis Only Contract – This contract prices only the basis portion of a cash contract. It is used when a good basis level is available and is recognized by the seller. The futures portion of this contract is left open and must be set by a predetermined date. This contract will become a cash or forward contract after the futures price has been locked it.

Advantages:

1. Eliminates risk of widening (weaker) basis
2. Leaves flexibility of pricing futures
3. Storage costs cease (ownership transfers to **AVC**)

Disadvantages:

1. Open to futures risk
2. Delivery is required
3. Unable to capture any further basis improvements
4. Title of grain transfers to **AVC**
5. Full payment is not received until the contract has been priced (futures locked in)
6. Requires knowledge of futures and basis history

Minimum Price Contract – This contract deducts the cost of a call option from the cash price of grain sold, less minimal transaction fees (usually 2 to 3 cents), to arrive at the Minimum Price. This contract stops storage, gives the producer a floor (minimum) price and allows for upside price improvement if the market rallies.

Advantages:

1. Easy to execute
2. Eliminates all downside price risk
3. Seller receives payment immediately
4. Storage stops

Disadvantages:

1. Unable to capture any future basis improvement
2. Must be done in contract size (5,000 bushels)
3. A 2 to 3 cent service fee is charged
4. An additional 2 cent fee is charged each time the contact is rolled forward (within the same marketing year)

Deferred Payment Contract – After the producer has sold the grain, payment is delayed to a later date, usually the next calendar year or after a producer's year-end due to tax implications. A premium is sometimes paid based on the term and current interest rates available

Advantages:

1. Taxable income flexibility
2. Interest premiums sometimes paid

Disadvantage:

1. Once payment for grain has been deferred, earlier payment is not allowed

Delayed Price (DP) Contract – Under this agreement, the producer signs beneficial interest of his or her grain over to **AVC** in exchange for a period of free or reduced storage costs. The producer retains the right to sell all or portions of these bushels as he chooses, like he would if still in open storage.

Advantages:

1. Storage charges are either free or at a reduced rate for the term of this contract
2. Producer retains complete marketing control of this grain
3. Producer maintains opportunity for price improvement
4. May still be converted to a Basis, HTA or Minimum Price Contract

Disadvantages:

1. Ownership is transferred to **AVC**
2. Producer is not protected if the markets move lower before the grain is sold
3. The grain becomes an unsecured asset of the producer