Marketing Basics

Cash Sale, Forward Contracts, Put Options

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Introduction to Grain Marketing

Forward Contracts, Options & Futures

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Types of Grain Marketing Tools

- Cash Grain Sales
- Forward Contracts
- Basis Contracts
- Hedge-to-Arrive (HTA) Contracts
- Minimum Price Contracts
- Average $ Contracts
- Marketing Loans (FSA)
- Short Futures Hedges
- Buying Put Options
- Forward Contract & Buying Call Options
- Combinations of Buying Puts & Calls
- Price Later Contracts
- Over-the-Counter (OTC) Contracts

Types of Forward Contracts

Commitment for Future Sale & Delivery of Grain

- **Forward Cash Contracts**
  - Cash Price, quantity (bu.) & delivery date are set
    - *BOTH futures selling price & local cash basis are determined*
- **Basis Contract**
  - Local Basis, quantity (bu.) & delivery date are set
- **Hedge-to-Arrive (HTA) Contract**
  - Futures Price, quantity (bu.) & delivery date are set
- **Minimum Price Contract**
  - Minimum Cash $, quantity (bu.) & delivery date are set

2011 U.S. National Average Loan Rates

- Wheat (HRW) $2.94 /bu
- Corn $1.95 /bu
- Grain Sorghum $3.48 /cwt ($1.95 /bu)
- Soybeans $5.00 /bu
- Sunflower-Oil Type $10.09 /cwt
- Canola $10.09 /cwt
- Upland Cotton $0.52 /lb

2011 Grain Marketing Loan Rates for Saline County, Kansas

- Wheat (HRW) $3.18 /bu
- Corn $2.03 /bu
- Grain Sorghum $3.43 /cwt ($1.92 /bu)
- Soybeans $5.00 /bu
- Sunflower-Oil Type $10.55 /cwt
- Canola $8.86 /cwt

Marketing Assistance Loans (USDA-FSA)

- **Grain Sale Cash Flow Coverage**
  - Provides grain producers with interim financing to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows
- **Marketing Loans are "Non-Recourse"**
  - The grain is pledged as loan collateral
  - Producers have the option of delivering the grain to the Commodity Credit Corporation (CCC) as full payment for the loan at maturity
  - Under some circumstances, producers may repay marketing loans at less than principal plus accrued interest and other charges
- **Alternative: Loan Deficiency Payment (LDP)**
  - In lieu of a marketing assistance loan, grain producers may be eligible for an LDP

Hedging Prices by "Selling" Futures

- **"Short Hedges" Lock in Grain Futures $s**
  - Removing futures price variation as a source of risk
    - Are taking a "short" or "sell" position in grain futures
      - *"Selling" KCBT July 2012 Wheat or CBOT DEC 2012 Corn*
    - Subject to "margin calls" to maintain equity or dollar value of the futures margin account
- **"Hedging" versus "Speculating" in Futures**
  - Hedges work if enough grain is produced & sold in the cash market to cover the futures market position
    - However, producers would be in a speculative position **IF** crop production < futures contract position

Hedging With Futures

- **"Pricing" Hedges on Grain Production**
  1) ***(Prehedge)*** **Analyze hedging opportunity**
     - ***Futures*** *less* ***Basis*** *less* ***Brokers' fees***
  2) ***(Placing the Hedge)*** **Sell futures contract(s)** nearest to the grain delivery period
     - In a **"Short"** or "sell" futures position
  3) ***(Closing Out the Hedge Position)***
     - Buy back futures contract(s)
     - Sell cash grain (optional)

Wheat Hedge Example (Cash Basis: $0.40 under)$_1$

	Falling Wheat Futures (⇩ $1 /bu)			Rising Wheat Futures (⇧ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
Bu. Sold	10,000			10,000		
Bu. Bought						
Gain (Loss) /bu						
Total Gain (Loss)						
Harvest Sales						
Price @ Harvest						
Bu. Delivered						
Harvest Sales						
Total Revenue						

Wheat Hedge Example (Cash Basis: $0.40 under)$_2$

	Falling Wheat Futures (⇩ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇩	
Futures Price	$5.00	$4.00	
Bu. Sold	10,000		
Bu. Bought		10,000	
Gain (Loss) /bu		+$1.00	
Total Gain (Loss)		+$10,000	+$10,000
Harvest Sales			
Price @ Harvest			
Bu. Delivered			
Harvest Sales			
Total Revenue			

Wheat Hedge Example (Cash Basis: $0.40 under)$_3$

	Falling Wheat Futures (⇩ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇩	
Futures Price	$5.00	$4.00	
Bu. Sold	10,000		
Bu. Bought		10,000	
Gain (Loss) /bu		+$1.00	
Total Gain (Loss)		+$10,000	+$10,000
Harvest Sales			
Price @ Harvest		$3.60	
Bu. Delivered		10,000	
Harvest Sales		+$36,000	+$36,000
Total Revenue			**$46,000**

Wheat Hedge Example (Cash Basis: $0.40 under)4

	Rising Wheat Futures (⇧ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇧	
Futures Price	$5.00	$6.00	
Bu. Sold	10,000		
Bu. Bought		10,000	
Gain (Loss) /bu		($1.00)	
Total Gain (Loss)		($10,000)	($10,000)
Harvest Sales			
Price @ Harvest			
Bu. Delivered			
Harvest Sales			
Total Revenue			

Wheat Hedge Example (Cash Basis: $0.40 under)5

	Rising Wheat Futures (⇧ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇧	
Futures Price	$5.00	$6.00	
Bu. Sold	10,000		
Bu. Bought		10,000	
Gain (Loss) /bu		($1.00)	
Total Gain (Loss)		($10,000)	($10,000)
Harvest Sales			
Price @ Harvest		$5.60	
Bu. Delivered		10,000	
Harvest Sales		+$56,000	+$56,000
Total Revenue			**$46,000**

Wheat Hedge Example (Cash Basis: $0.40 under)6

	Falling Wheat Futures (⇩ $1 /bu)			Rising Wheat Futures (⇧ $1 /bu)		
Transaction	Before Harvest	At Harvest	Total Payment Received	Before Harvest	At Harvest	Total Payment Received
KCBT Futures		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
Bu. Sold	10,000			10,000		
Bu. Bought		10,000			10,000	
Gain (Loss) /bu		+$1.00			($1.00)	
Total Gain (Loss)		+$10,000	+$10,000		($10,000)	($10,000)
Harvest Sales						
Price @ Harvest		$3.60			$5.60	
Bu. Delivered		10,000			10,000	
Harvest Sales		+$36,000	+$36,000		+$56,000	+$56,000
Total Revenue			**$46,000**			**$46,000**

Forward Contract Vs Futures Hedge

- **If Basis Projection is Accurate, then..**
  - Forward Contract $ = Futures Hedge $

- **Who Carries the Futures Account?**
  - **FC:** Elevator contacts broker & pays any margin calls
  - **Hedge:** Producer works w. broker, pays margin calls
- **Delivery Commitment?**
  - **FC:** Delivery commitment of X bushels for $X price
  - **Hedge:** No delivery commitment to elevator

- **Basis Commitment?**
  - **FC: *Set*** cash basis / **Hedge: *Varying*** cash basis

Buying Grain Put Options

Setting Futures Price Floors by Buying Put Options

- **Why Buy Put Options?**
  - "Puts" provide protection from falling grain futures prices
  - If grain producer-sellers buy put options, they are protecting themselves from falling grain futures prices
    - But, they are leaving themselves the opportunity to still benefit if grain futures prices should rise
  - Similar to "Minimum Price Contracts"
- **Technical Definition of Put Options**
  - Puts provide "the right but not the obligation" to take "short" or "sell" positions in futures markets
    - Avoiding margin calls that are possible with "Short Hedges"

Mechanics of Buying Grain Put Options

- **Strike Price = Grain Futures "Insurance" Level**
  - "In-the-Money" Put Strike Price > Futures Price
  - "At-the-Money" Put Strike Price = Futures Price
  - "Out of-the-Money" Put Strike Price < Futures Price
- **Put "Premium" ⇨ Cost of Buying Put Option**
- **Futures Price Floor with Put Options**
  - Strike Price$^{(Put)}$ – Premium$^{(Put)}$ – Brokers Fee
- **"Expected" Cash Price Floor with Put Options**
  - Strike Price$^{(Put)}$ – Premium$^{(Put)}$– Brokers Fee – Basis$^{(Est.)}$

Wheat Put Option Example (Basis $0.40 under)$_1$

	Falling Wheat Futures (⇩ $1 /bu)			Rising Wheat Futures (⇧ $1 /bu)		
Transaction	Before Harvest	At Harvest	Payment Received	Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
PUT Strike Price	**$5.00**			**$5.00**		
PUT Premium $/bu	**$0.75**			**$0.75**		
Qnty. Bought (bu)	10,000			10,000		
Qnty. Sold (bu)						
Gain (Loss) /bu						
Total Gain (Loss)						
Harvest Sales						
Price @ Harvest						
Bu. Delivered						
Harvest Sales						
Total Revenue						

Wheat Put Option Example (Basis $0.40 under)$_2$

	Falling Wheat Futures (⇩ $1 /bu)		
Transaction	Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇩	
Futures Price	$5.00	$4.00	
PUT Strike Price	**$5.00**	**$5.00**	
PUT Premium $/bu	**$0.75**	**$1.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		+$0.25	
Total Gain (Loss)		+$2,500	+$2,500
Harvest Sales			
Price @ Harvest			
Bu. Delivered			
Harvest Sales			
Total Revenue			

Wheat Put Option Example (Basis $0.40 under)3

Transaction	Falling Wheat Futures (⇩ $1 /bu) Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇩	
Futures Price	$5.00	$4.00	
PUT Strike Price	**$5.00**	**$5.00**	
PUT Premium $/bu	**$0.75**	**$1.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		+$0.25	
Total Gain (Loss)		+$2,500	+$2,500
Harvest Sales			
Price @ Harvest		$3.60	
Bu. Delivered		10,000	
Harvest Sales		+$36,000	+$36,000
Total Revenue			**$38,500**

Wheat Put Option Example (Basis $0.40 under)4

Transaction	Rising Wheat Futures (⇧ $1 /bu) Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇧	
Futures Price	$5.00	$6.00	
PUT Strike Price	**$5.00**	**$5.00**	
PUT Premium $/bu	**$0.75**	**$0.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		($0.75)	
Total Gain (Loss)		($7,500)	($7,500)
Harvest Sales			
Price @ Harvest			
Bu. Delivered			
Harvest Sales			
Total Revenue			

Wheat Put Option Example (Basis $0.40 under)5

Transaction	Rising Wheat Futures (⇧ $1 /bu) Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇧	
Futures Price	$5.00	$6.00	
PUT Strike Price	**$5.00**	**$5.00**	
PUT Premium $/bu	**$0.75**	**$0.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		($0.75)	
Total Gain (Loss)		($7,500)	($7,500)
Harvest Sales			
Price @ Harvest		$5.60	
Bu. Delivered		10,000	
Harvest Sales		+$56,000	+$56,000
Total Revenue			**$48,500**

Wheat Put Option Example (Basis $0.40 under)6

Transaction	Falling Wheat Futures (⇩ $1 /bu) Before Harvest	At Harvest	Payment Received	Rising Wheat Futures (⇧ $1 /bu) Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
PUT Strike Price	**$5.00**	**$5.00**		**$5.00**	**$5.00**	
PUT Premium $/bu	**$0.75**	**$1.00**		**$0.75**	**$0.00**	
Qnty. Bought (bu)	10,000			10,000		
Qnty. Sold (bu)		10,000			10,000	
Gain (Loss) /bu		+$0.25			($0.75)	
Total Gain (Loss)		+$2,500	+$2,500		($7,500)	($7,500)
Harvest Sales						
Price @ Harvest		$3.60			$5.60	
Bu. Delivered		10,000			10,000	
Harvest Sales		+$36,000	+$36,000		+$56,000	+$56,000
Total Revenue			**$38,500**			**$48,500**

Sell Cash + Buying Grain Call Options

Being in Position to Gain from Later Futures $ Increases

- **Why Buy Call Options?**
  - "Calls" provide protection from rising grain futures prices
  - If grain producer-sellers buy call options after Forward Contracting grain, they are positioning themselves to gain grain futures prices rise later on
  - Similar to post-harvest "Minimum Price Contracts"
- **Technical Definition of Call Options**
  - Calls provide "the right but not the obligation" to take "long" or "buy" positions in futures markets
    - Avoiding the margin calls possible from "buying futures"

Mechanics of Forward Contracts + Buying Grain Call Options

- **Strike Price (SP)**
  - "In-the-Money" Call Strike Price < Futures Price
  - "At-the-Money" Call Strike Price = Futures Price
  - "Out of-the-Money" Call Strike Price > Futures Price
- **Call "Premium" ⇨ Cost of Buying Call Option**
- **Futures Price Rise Coverage with Call Options**
  - Gains Above: $SP^{(Call)}$ + $Premium^{(Call)}$ + Brokers Fee
- **Minimum $ With Fwd Contract + Buying Calls**
  - Forward Contract $ – $Premium^{(Call)}$ – Brokers Fee

Wheat FWD Contract + Call Option 1

	Falling Wheat Futures (⇩ $1 /bu)			Rising Wheat Futures (⇧ $1 /bu)		
Transaction	**Before** Harvest	**At** Harvest	Payment Received	**Before** Harvest	**At** Harvest	Payment Received
KCBT PUTS		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
Call Strike Price	**$5.00**			**$5.00**	**$5.00**	
Call Premium $/bu	**$0.65**			**$0.65**	**$1.00**	
Qnty. Bought (bu)	10,000			10,000		
Qnty. Sold (bu)						
Gain (Loss) /bu						
Total Gain (Loss)						
Harvest Sales						
FC$ @ Harvest		**$4.60**			**$4.60**	
Bu. Delivered		10,000			10,000	
Harvest Sales		+$46,000	+$46,000		+$46,000	+$46,000
Total Revenue						

Wheat FWD Contract + Call Option 2

	Falling Wheat Futures (⇩ $1 /bu)		
Transaction	**Before** Harvest	**At** Harvest	Payment Received
KCBT PUTS		$ ⇩	
Futures Price	$5.00	$4.00	
Call Strike Price	**$5.00**	**$5.00**	
Call Premium $/bu	**$0.65**	**$0.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		($0.65)	
Total Gain (Loss)		($6,500)	($6,500)
Harvest Sales			
FC$ @ Harvest		$4.60	
Bu. Delivered		10,000	
Harvest Sales		+$46,000	+$46,000
Total Revenue			**$39,500**

Wheat FWD Contract + Call Option 3

Transaction	Rising Wheat Futures (⇧ $1 /bu)		
	Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇧	
Futures Price	$5.00	$6.00	
Call Strike Price	**$5.00**	**$5.00**	
Call Premium $/bu	**$0.65**	**$1.00**	
Qnty. Bought (bu)	10,000		
Qnty. Sold (bu)		10,000	
Gain (Loss) /bu		+$0.35	
Total Gain (Loss)		+$3,500	+$3,500
Harvest Sales			
FC$ @ Harvest		$4.60	
Bu. Delivered		10,000	
Harvest Sales		+$46,000	+$46,000
Total Revenue			**$49,500**

Wheat FWD Contract + Call Option 4

Transaction	Falling Wheat Futures (⇩ $1 /bu)			Rising Wheat Futures (⇧ $1 /bu)		
	Before Harvest	At Harvest	Payment Received	Before Harvest	At Harvest	Payment Received
KCBT PUTS		$ ⇩			$ ⇧	
Futures Price	$5.00	$4.00		$5.00	$6.00	
Call Strike Price	**$5.00**	**$5.00**		**$5.00**	**$5.00**	
Call Premium $/bu	**$0.65**	**$0.00**		**$0.65**	**$1.00**	
Qnty. Bought (bu)	10,000			10,000		
Qnty. Sold (bu)		10,000			10,000	
Gain (Loss) /bu		($0.65)			+$0.35	
Total Gain (Loss)		($6,500)	($6,500)		+$3,500	+$3,500
Harvest Sales						
FC$ @ Harvest		$4.60			$4.60	
Bu. Delivered		10,000			10,000	
Harvest Sales		+$46,000	+$46,000		+$46,000	+$46,000
Total Revenue			**$39,500**			**$49,500**

Wheat Marketing Strategy Results

Comparing:

A. Harvest Cash Sales

B. Preharvest Hedges

C. Preharvest Forward Contracts

D. Preharvest Put Options

E. Preharvest Forward Contract + Buy Call Options

Wheat Forward Pricing Results 1

Futures Trends	Cash Sale*	Short Hedge*	Forward Contract	Buy Put Option - Price Floor*	Forward Contract + Buy Call
Falling Futures  ($5.00 ⇨$4.00 /bu)	**$3.60** Worst	**$4.60** Best (tied)	**$4.60** Best (tied)	**$3.85** ≈ Middle	**$3.95** ≈ Middle

"*" Subject to basis risk, i.e., Cash basis > or < than $0.40 under futures

Wheat Forward Pricing Results 2

Futures Trends	Cash Sale*	Short Hedge*	Forward Contract	Buy Put Option - Price Floor*	Forward Contract + Buy Call
Falling Futures  ($5.00 ⇨$4.00 /bu)	**$3.60** Worst	**$4.60** Best (tied)	**$4.60** Best (tied)	**$3.85** ≈ Middle	**$3.95** ≈ Middle
Unchanged Futures ($5.00 ⇨$5.00 /bu)	**$4.60** Best (tied)	**$4.60** Best (tied)	**$4.60** Best (tied)	**$3.85** Worst	**$3.95** 2nd Worst

"*" Subject to basis risk, i.e., Cash basis > or < than $0.40 under futures

Wheat Forward Pricing Results 3

Futures Trends	Cash Sale*	Short Hedge*	Forward Contract	Buy Put Option - Price Floor*	Forward Contract + Buy Call
Falling Futures  ($5.00 ⇨$4.00 /bu)	**$3.60** Worst	**$4.60** Best (tied)	**$4.60** Best (tied)	**$3.85** ≈ Middle	**$3.95** ≈ Middle
Unchanged Futures ($5.00 ⇨$5.00 /bu)	**$4.60** Best (tied)	**$4.60** Best (tied)	**$4.60** Best (tied)	**$3.85** Worst	**$3.95** 2nd Worst
Rising Futures  ($5.00 ⇨$6.00 /bu)	**$5.60** Best	**$4.60** Worst (tied)	**$4.60** Worst (tied)	**$4.85** ≈ Middle	**$4.95** ≈ Middle

"*" Subject to basis risk, i.e., Cash basis > or < than $0.40 under futures

Price Trend Effects

On Cash Sales & Forward Contracts

Pricing Alternatives	Falling Futures	Rising Futures	Wider Basis	Narrower Basis
Cash Market Sales	(–)	(+)	(–)	(+)
Forward Cash Contract	None	None	None	None
Basis Contract	(–)	(+)	None	None
Hedge-to-Arrive (HTA)	None	None	(–)	(+)
Minimum Price Contract	None	(+)	None	None
Marketing Loans (FSA)	None	(+)	(–)	(+)

Price Trend Effects

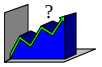
On Futures, Options & Marketing Loans

Pricing Alternatives	Falling Futures	Rising Futures	Wider Basis	Narrower Basis
Short Futures Hedge	None	None	(–)	(+)
Buy Put Options	None	(+)	(–)	(+)
Sell Cash & Buy Calls	None	(+)	None	None
Marketing Loans	None	(+)	(–)	(+)

Risk Exposure of Marketing Tools

A. Options Volatility Risk

- Risk that option premiums will not change 1-for-1 with cash/futures as the price level changes



B. Production Risk if Pre-harvest Pricing

- Risk of being unable to deliver grain to fulfill a contract

C. Counter Party Risk

- Risk that a buyer or broker wont fulfill their contract obligations

D. Control Risk

- Risk of market actions getting "out of control" before corrective actions can be taken by the seller (limit moves, etc.)

Areas of Risk Exposure

For Cash Sales & Forward Contracts

Pricing Alternatives	Options Volatility	Prodn. Risk if Prehvst.	Counter Party Risk	Control Risk
Cash Market Sales	---	---	---	Yes
Forward Cash Contract	---	Yes	Yes	---
Basis Contract	---	Yes	Yes	Yes
Hedge-to-Arrive (HTA)	---	Yes	Yes	Yes
Minimum Price Contract	Yes	Yes	Yes	Yes
Price Later Contract	---	---	Yes	Yes

Areas of Risk Exposure

For Futures, Options & Marketing Loans

Pricing Alternatives	Options Volatility	Prodn. Risk if Prehvst.	Counter Party Risk	Control Risk
Short Futures Hedge	---	Yes	Yes**	Yes
Buy Put Options	Yes	Yes	Yes**	Yes
Sell Cash & Buy Calls	Yes	---	Yes**	Yes
Marketing Loans	---	---	---	Yes

"**": Risk of equity in Margin accounts being "lost", i.e., "MF Global situation"

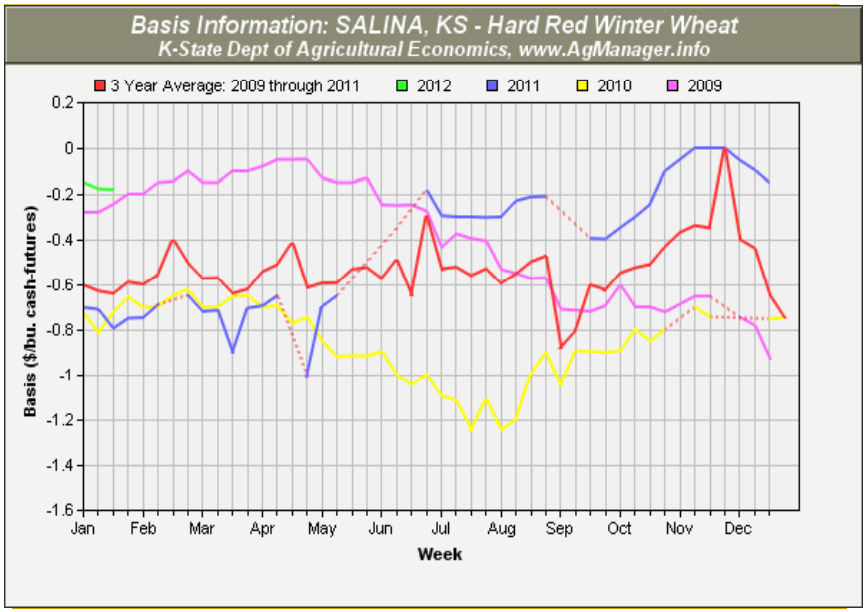
Grain Forward Pricing Decisions

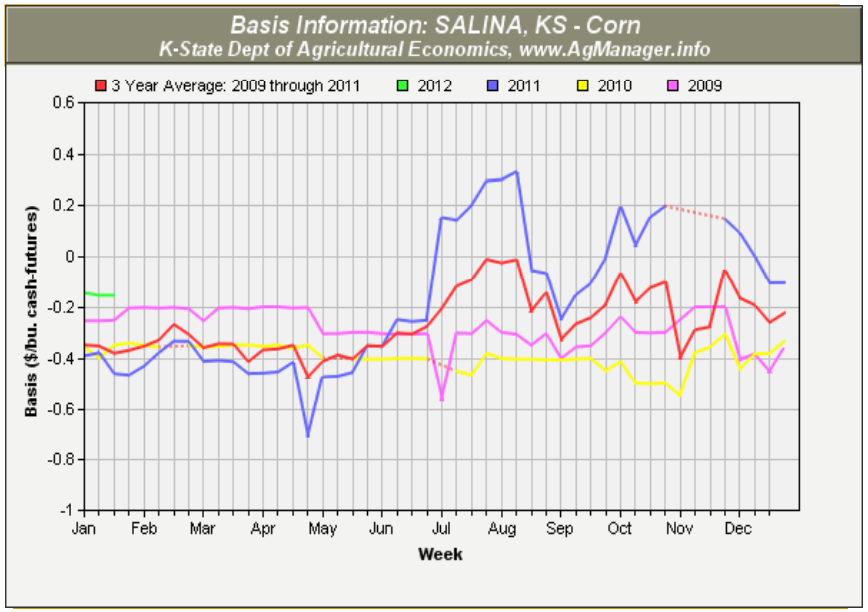
How Much to Forward Contract or Hedge?

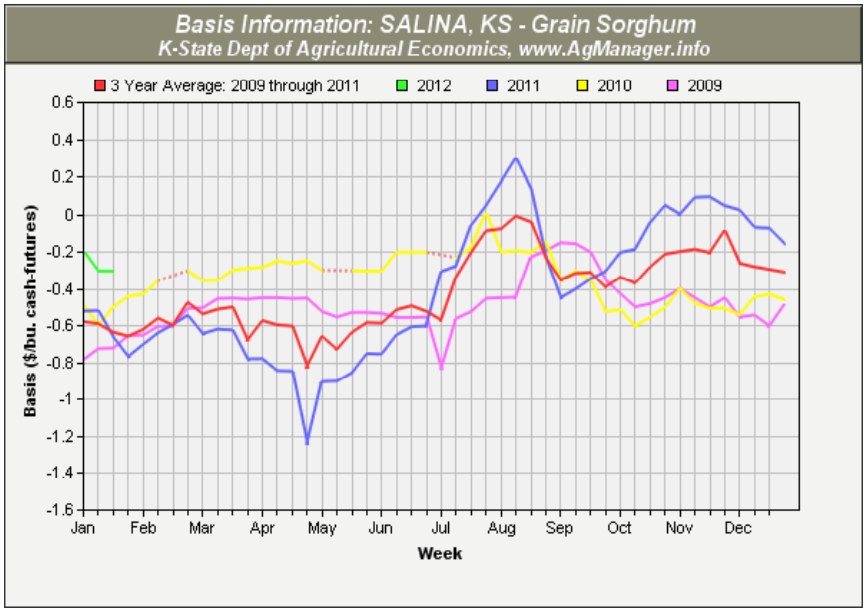
- **For Pre-Harvest Pricing:**
  - Max of 50%-75% of expected production *(average yields)*
    - *If have a short crop, use Crop Insurance Coverage revenues to help fill Forward Contract obligations*
  - **Recommended**: A disciplined grain marketing plan

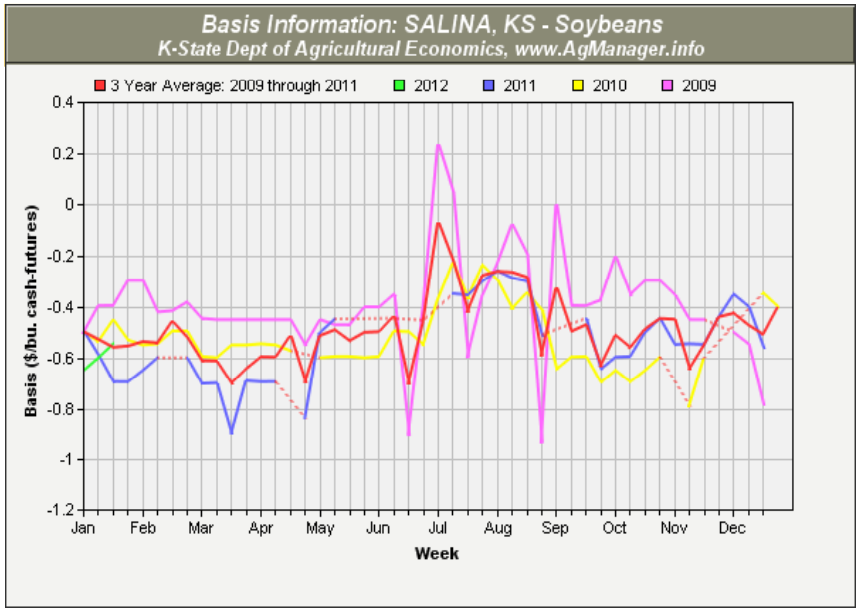
What Time Period to Set Grain Delivery In?

- Examine Harvest vs Post Harvest Basis, Storage Returns, & Grain Delivery Opportunities
- Timing of cash flow needs


Basis Information: SALINA, KS - Hard Red Winter Wheat
K-State Dept of Agricultural Economics, www.AgManager.info
3 Year Average: 2009 through 2011
2012
2011
2010
2009
Basis ($/bu. cash-futures)
Week
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Basis Information: SALINA, KS - Corn
K-State Dept of Agricultural Economics, www.AgManager.info
3 Year Average: 2009 through 2011
2012
2011
2010
2009
Basis ($/bu. cash-futures)
Week
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Basis Information: SALINA, KS - Grain Sorghum
K-State Dept of Agricultural Economics, www.AgManager.info
3 Year Average: 2009 through 2011
2012
2011
2010
2009
Basis ($/bu. cash-futures)
Week
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec


Basis Information: SALINA, KS - Soybeans
K-State Dept of Agricultural Economics, www.AgManager.info
3 Year Average: 2009 through 2011
2012
2011
2010
2009
Basis ($/bu. cash-futures)
Week
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

ADVANCED GRAIN MARKETING TOPICS & SUPPLEMENTAL INFORMATION

Futures Margins

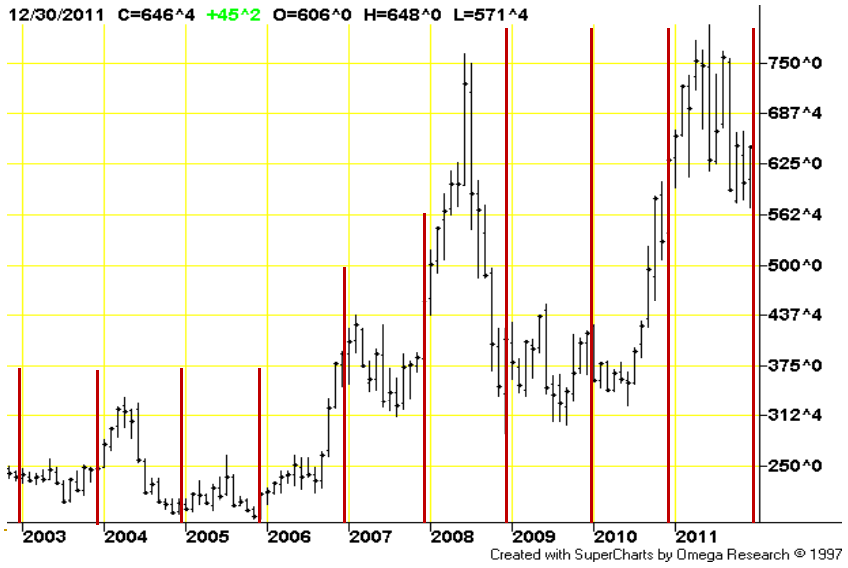
- **Initial Margin Deposit**:
  - Required up front, good faith deposit by exchanges
- **Margin Account**
  - Losses/gains in futures position reflected here
  - Minimum required margin account balance
- **Margin Deposit**
  - Additional money required when margin account falls below minimum balance due to losses in futures position

Corn Futures Margin Deposit Example

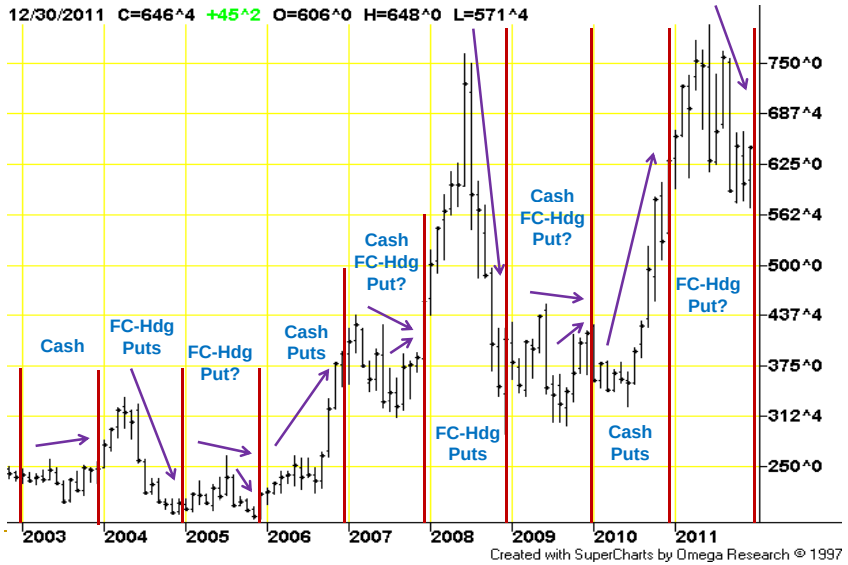
Sell 10,000 bu July CBOT Wheat @ $5.00/bu on 2/1/2012

Prices Trend Down $1		Prices Trend Up $1	
2/1: Sell $5.00 July Wheat		2/1: Sell $5.00 July Wheat	
Initial Deposit	= $1,500	Initial Deposit	= $1,500
Minimum Deposit	= $1,000	Minimum Deposit	= $1,000
7/1: July Wheat @ $4.00		7/1: July Wheat @ $6.00	
Loss in Futures	($10,000)	Gain in Futures	+$10,000
Account balance	($8,500)	Account balance	+$11,500
Margin Call	+$9,500	**Margin Call**	= $ 0
New Account balance	= $1,000	New Account balance	= $11,500

Monthly Corn Continuous Price Chart

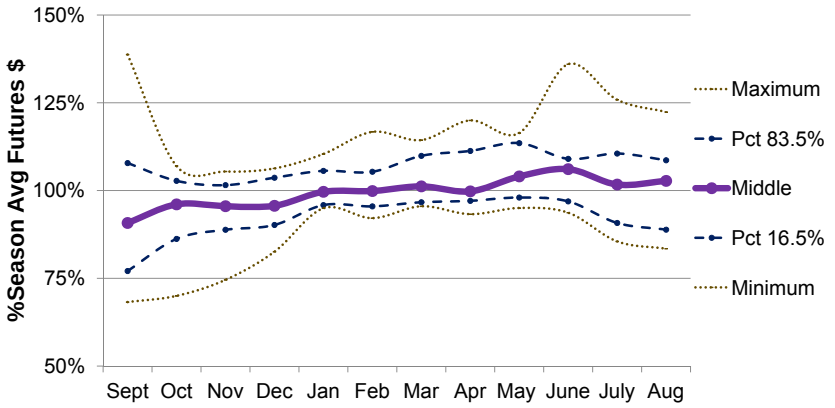


Monthly Corn Continuous Price Chart



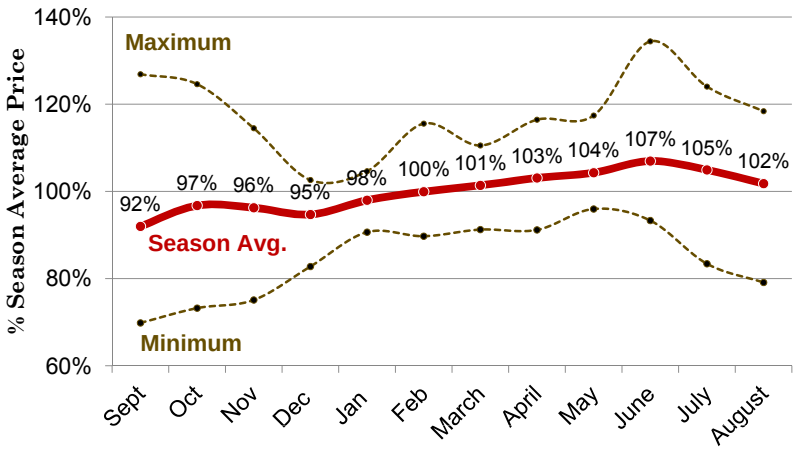
Corn Futures Seasonal Trends

CBOT Corn (MY 2000/01 – MY 2009/10)



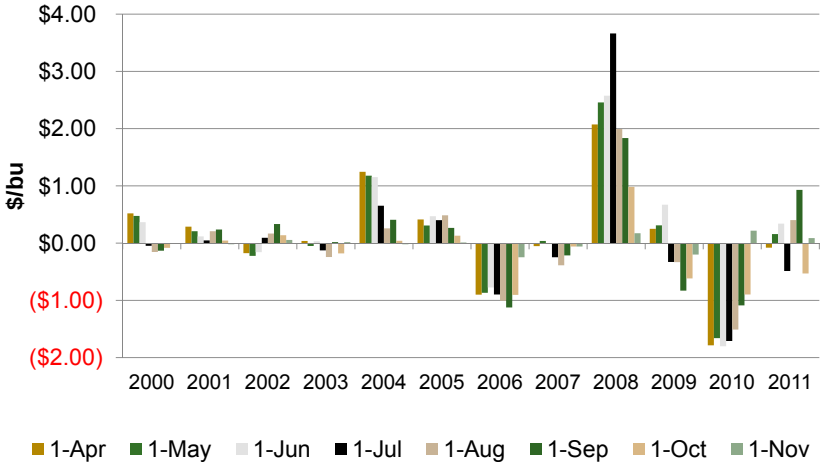
Kansas Corn Seasonal $ Index

Marketing Years: 2001/02 thru 2010/11



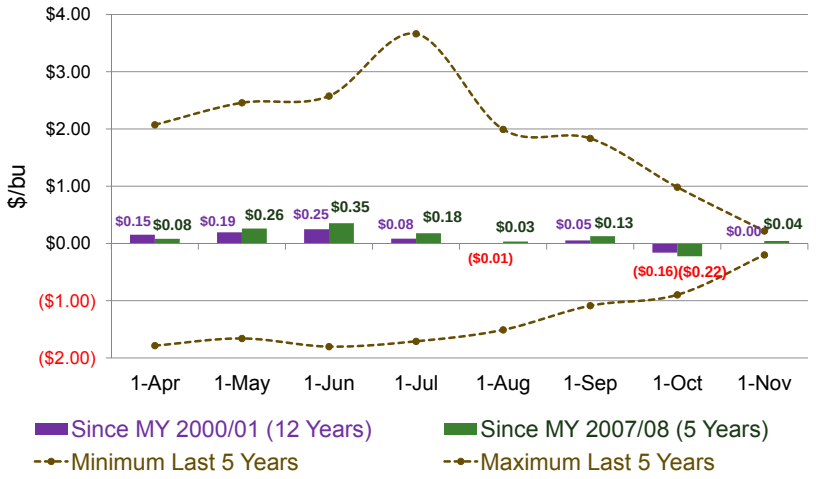
Returns from Corn Futures Short Hedges

Sell Dec Corn @ start of each month – Close position on Nov. 15th



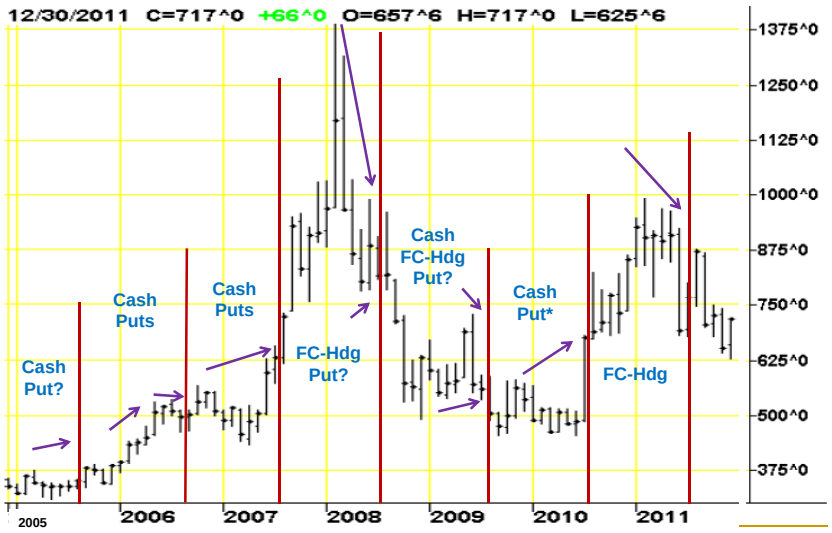
Average Corn Short Hedge Returns

Sell Dec Corn @ start of each month – Close position on Nov. 15th



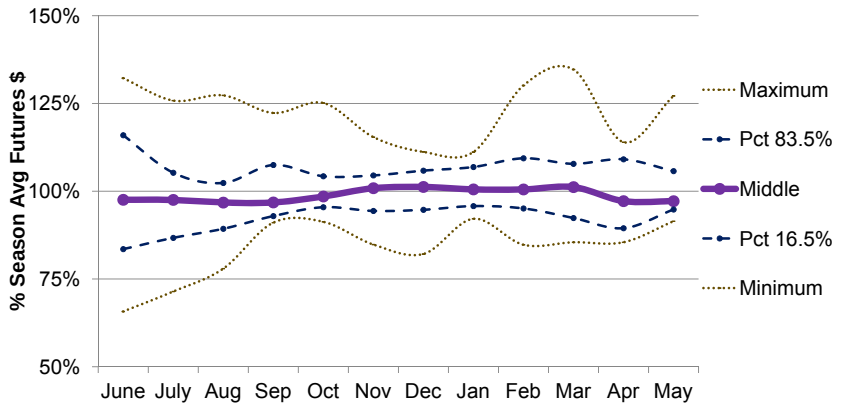
Monthly KC Wheat Continuous $ Chart

Monthly KC Wheat Continuous $ Chart



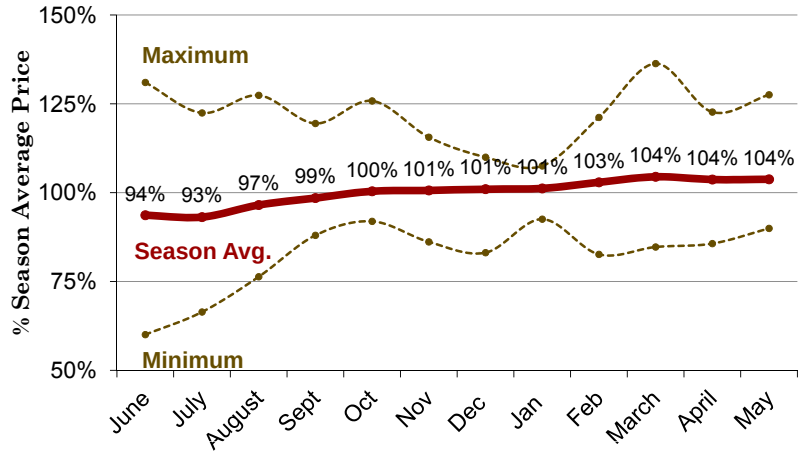
Wheat Futures Seasonal Trends

KCBT Wheat (MY 2000/01 – MY 2009/10)



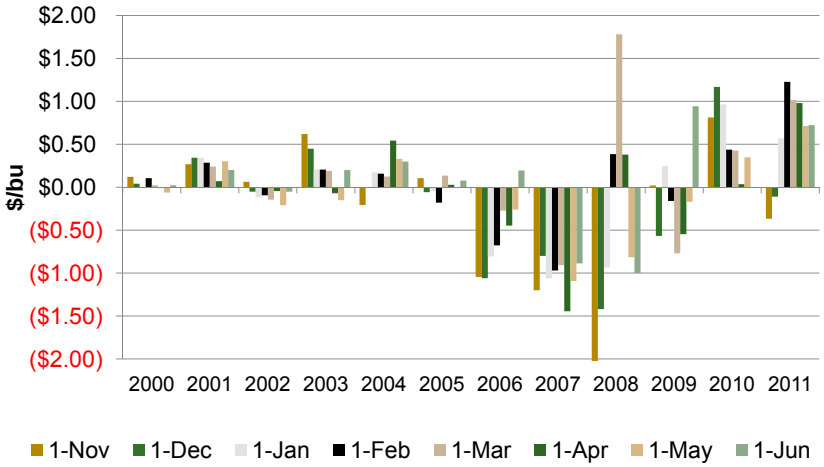
Kansas Cash Wheat Seasonal $ Index

Marketing Years 2001/02 through 2010/11



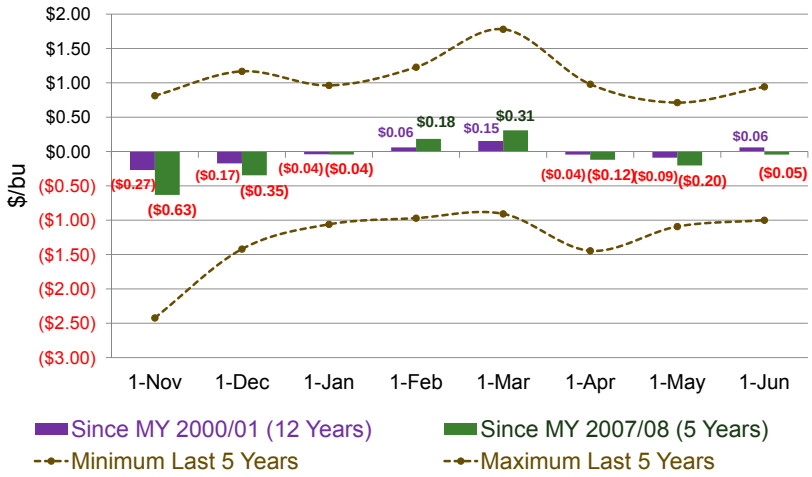
Returns from KC Wheat Short Hedges

Sell July Wheat @ start of each month – Close position on June 15th



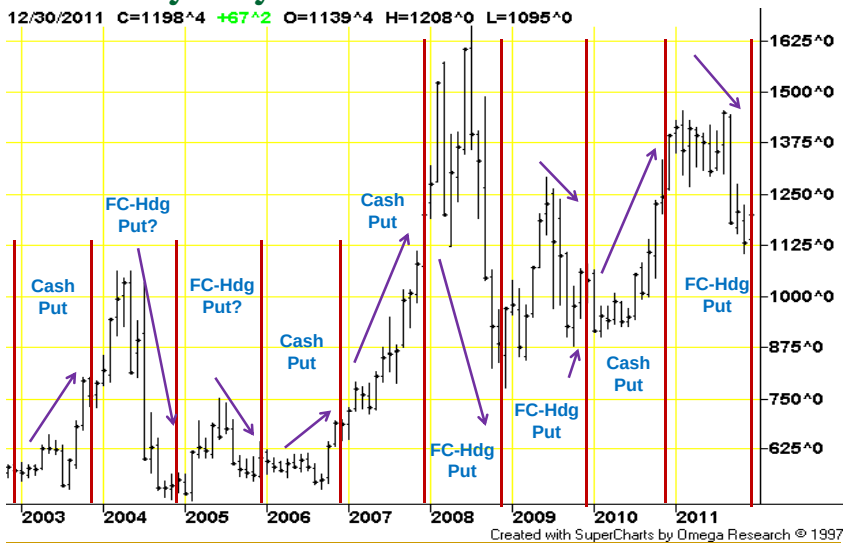
Average KC Wheat Short Hedge Returns

Sell July Wheat @ start of each month – Close position on June 15th



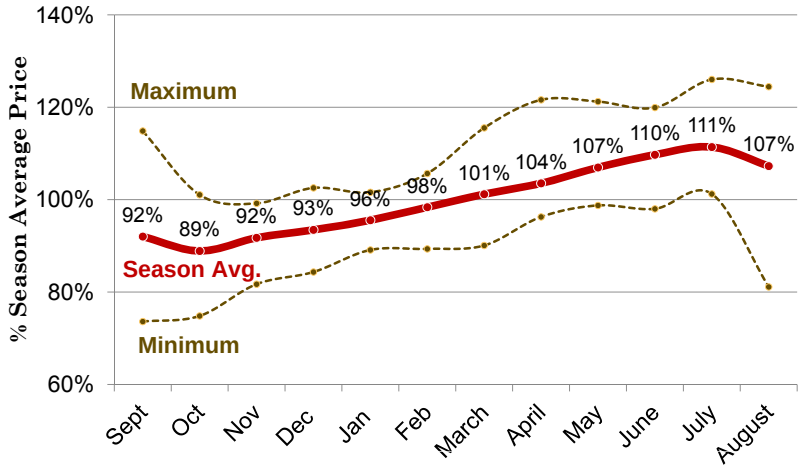
Monthly Soybeans Continuous $ Chart

Monthly Soybeans Continuous $ Chart



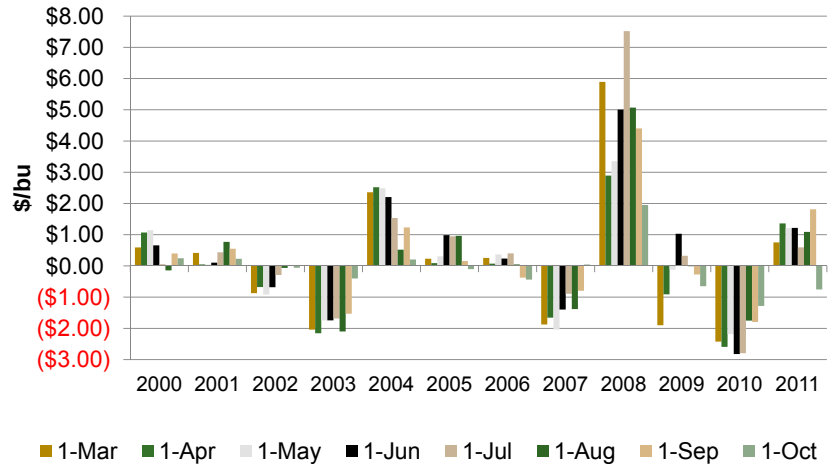
Kansas Soybean Seasonal $ Index

Marketing Years 2001/02 through 2010/11



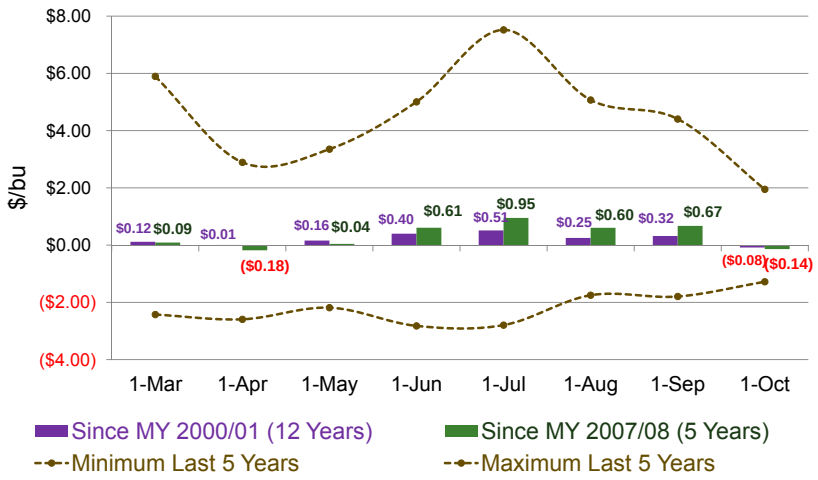
Returns on Soybean Futures Short Hedges

Sell NOV @ start of each month – Close position on October 15th



Average Soybean Short Hedge Returns

Sell NOV @ start of each month – Close position on October 15th



Questions or Comments?

K-State Research and Extension
Extension Agricultural Economics
Website:

www.Agmanager.Info