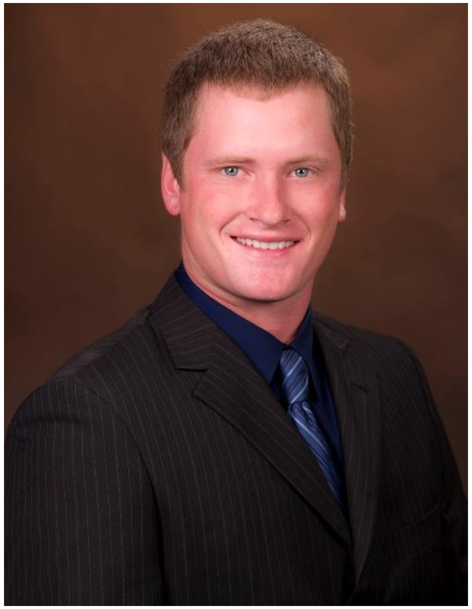
Commodity Marketing Strategies
Tools to Make the Decision



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Cash Price

- This is the price received at the elevator.
- Cash = Futures + Basis
- What most producers receive for their product.

What are futures?

- Futures are prices offered for commodities.
- Futures contracts are marked-to-market every day (zero sum game).
- Futures are traded many months and years into the future.

Futures contract specifications

- Grain futures generally represent some quality of grain of a specific number of bushels.

- For example: KC Wheat - 5,000 bu. of No. 2 HRW wheat.

Futures contract delivery

- Most farmers do not deliver on a futures contract.

- A producer would take an offsetting position in the futures contract prior to contract expiration to avoid delivery.

How is this useful?

- A producer can sell his crop at any time.
- A producer can sell next year’s crop if they believe the price is good.
- In theory, a farmer does know how much money he will make even before he sells his crop.

What is the catch?

- Initial and maintenance margin.
- Futures require margin to purchase or sell.
- This money ensures that no matter where the market moves, the contract can be marked-to-market.

Futures Hedge

- This is an offsetting position to the cash commodity.

- If I own bushels of wheat, I am long the cash market.

- Therefore, I want to be short the futures market.

Futures Hedge

- How do you short the futures market?
- Sell a futures contract. Choose a month close to but after "normal" harvest.
- An initial margin will need to be posted in order to enter the transaction. If prices go up, maintenance margin may be needed.

Futures Hedge

Futures	↑	↓
Cash	↑	↓
Hedge	↓	↑

Futures Example

- Producer wants to purchase one KC Wheat contract to protect downside risk.

- Cash price is currently $3.00 and the futures price is $4.00.

Futures Hedge Example

Price fall scenario: Producer hedges in Jan. for a June Harvest.		
	Futures	Cash
Sell (1) July KC wheat contract	$4.00	$3.00
Buy (1) July KC wheat contract	$3.00	$2.00
Difference	$1.00	($1.00)
Price Received		**$3.00**

Futures Hedge Example

Price increase scenario: Producer hedges in Jan. for a June Harvest.		
	Futures	Cash
Sell (1) July KC wheat contract	$4.00	$3.00
Buy (1) July KC wheat contract	$5.00	$4.00
Difference	($1.00)	$1.00
Price Received		**$3.00**

Thank You!

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- Link to more information:
- www.efarmanagement.okstate.edu

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