POET grain

Preston

FUTURES ONLY

What is a Futures Only contract?

A Futures Only (Hedge to Arrive) contract, allows you to lock in a designated futures price now, and price the basis prior to delivery later on. This contract is beneficial to those who want to avoid future risk.

What is a "*basis*"?

Basis is the difference between the current cash price and the futures price. For example, if the March futures are trading at $3.60 and we are paying $3.40 cash, our basis is 20 *under* the March futures.

Advantages:

- **Eliminates futures risk**
- **Delivery period is flexible**
- **Capture basis improvement**

Disadvantages:

- **Possibility of cash corn prices exceeding your set futures price**
- **Fees included— dependent upon the contract time span**
- **Target basis may not be reached**
- **Basis weakens**

How it works:

You are considering various contracting options; you don't like the current basis for a certain delivery period, but you are also worried about a potential market downfall in the coming months. You decide to enter into a futures only contract; which will allow you to set a futures price now, and take advantage of unlimited gains from the basis later on prior to delivery.

It is July, and the current December futures are trading at $3.80. You decide to set this futures price, knowing that there is a $0.03 fee involved. However, you are satisfied knowing that you do not have to deliver the corn until you have locked in your basis.

It is now September and December futures are trading at 3.70 with a basis of 40 under. You decide to lock in this basis.

Here's the math:

Dec. Futures (in July)		$3.80
Dec. Basis (in September)	-	$0.40
Contract Fee	-	$0.03
Cash Price		$3.37

You will be paid $3.37 upon delivery of the grain.

Here are a couple of different scenarios that could take place:

Scenario #1:

Set December futures price: $3.80 CZ (Current cash price is $3.35 b/c basis is – 45)

A few months go by and the basis has increased to 40 under the Dec futures price…

Set basis: $3.80 CZ futures - $0.40 basis = $3.40

You gain $0.05 per bushel (minus fee) because of the basis increase.

Scenario #2:

Set December futures price: $3.80 CZ (Current cash price is $3.35 b/c basis is – 45)

It is now November 30th, which is the last day to lock in the basis. The current basis is 50 under the Dec futures price...

Set basis: $3.80 CZ futures - $0.50 basis = $3.30

You lose $0.05 per bushel (minus fee) because of the basis decrease.

** Ask about fees (Subject to change each year)

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