FUTURES FIRST

Grain Marketing Contract

WHAT IS THE FUTURES FIRST CONTRACT?

- A Futures First (FF) contract secures a futures price and delivery period without specifying the basis level
- The basis pricing deadline is set 30 days prior to the first day of the selected delivery period
- A Futures First contract establishes the grain quantity, grade and delivery period

Should I use this contract? Yes, if you:

- Want to improve pricing potential
- Want to store grain on farm and lock in the carry in the futures market
- Understand your production costs and profit margin requirements
- Track local basis levels

Benefits:

- Provides additional time to take advantage of possible improvements in the basis level
- Captures the futures market carry while the grain remains on farm
- Reserves space for future delivery
- Allows you to avoid downside futures price risk
- No margin call payments are required as Cargill holds the futures position in return for a delivery commitment

When should I use this contract?

- When you want to lock in an attractive futures price but feel the basis level will improve prior to delivery
- When you want to reserve space for future delivery

Risks:

- The futures price increases after the contract is established
- The basis may decline prior to the pricing deadline (subject to basis risk)
- The physical commodity cannot be delivered until the basis is established

For more information, drop by your nearest Cargill location, contact your Cargill representative or visit cargillag.ca

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How Futures First works

How does the Futures First contract work?

EXAMPLE:

On January 1 you establish a Futures First contract at $275.00 referencing the May futures month for delivery in April. The current basis bid for delivery in April is $20.00 under May futures.

SCENARIO 1

Futures price increases to $280.00 and the basis increases to $25.00 under the May futures month.

- The current futures price has increased, and therefore exceeds the Futures First contract price
- The current basis bid for delivery in April is $25.00 under May futures
- If you establish the basis today, the final contract price will be equal to $250.00 ($275.00 futures less the $25.00 basis)
- The current bid will be equal to $255.00 ($280.00 futures less the $25.00 basis)

SCENARIO 2

Futures price decreases to $272.00 and the basis remains flat under the May futures month.

- The Futures First contract price exceeds the current futures price as the futures have decreased since contract sign-up
- If you decide to establish the basis today, the contract flat price will be equal to $255.00 ($275.00 futures less the $20.00 basis)
- The current bid will be equal to $252.00 ($272.00 futures less the $20.00 basis)

SCENARIO 3

Futures price remains flat and the basis improves to $15.00 under the May futures month.

- The Futures First contract price equals the current futures price as the futures are the same as at the time of contract sign-up
- If you decide to establish the basis today, the contract price will be equal to $260.00 ($275.00 futures less the $15.00 basis)
- The current bid will be equal to $260.00 ($275.00 futures less $15.00 basis)

NOTE:

In all of the above scenarios, the basis must be established 30 days prior to the start of the delivery period.

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