

Demeter Marketing Alternatives

Marketing Alternative	Contract Description	Advantages	Disadvantages
Spot	Deliver grain to the elevator and receive the posted cash price at the end of the day.	-- able to take advantage of market gains	-- subject to basis and futures losses
Storage	Deliver grain to the elevator and price it at a later time.	-- able to take advantage of market gains -- transfers quality risk -- retain title of grain, allowing you to participate in certain government programs	-- monthly fee -- subject to basis and futures losses
Deferred Pricing Contract	Deliver grain to the elevator and price it at a later time.	-- able to take advantage of market gains -- transfers quality risk -- usually cheaper fees than storage	-- monthly fee -- subject to basis and futures losses -- lose beneficial interest in the grain, making you unable to participate in certain government programs
Traditional Purchase Contract	Establish a favorable price for a quantity of grain you wish to sell during a specific delivery period.	-- no service fee -- no longer subject to basis or futures losses	-- no longer able to benefit from basis or futures gains
Price Protection Program (PPP)	Commit a quantity of grain to be sold for a specific delivery period which is then evenly sold over a period of several weeks.	-- no service fee -- creates an average price during a historically favorable pricing period -- takes the emotion out of selling ahead -- no longer subject to basis or futures losses once price is established -- flexibility to add/subtract bushels not yet sold -- can set a minimum price to not sell below	-- no longer able to benefit from basis or futures gains on bushels already priced
Basis Contract	Establish a basis level for a quantity of grain you wish to sell during a specific delivery period.	-- no service fee -- no longer subject to basis risk -- can receive a cash advance after delivery -- benefit from futures gains	-- no longer able to benefit from basis gains -- futures losses could force you to return part of your cash advance
Futures Only Contract (Hedge-to-Arrive)	Establish a CBOT futures price for a quantity of grain you wish to sell during a specific delivery period. Lock in the basis prior to or at the time of delivery to establish the flat price.	-- no longer subject to futures losses -- benefit from basis improvements -- no margin calls	-- fee based on delivery period chosen, which may out-weigh basis gains -- no longer able to benefit from futures gains -- basis may not improve
Minimum Price Contract	Establish a minimum price by purchasing a call option in conjunction with a purchase contract or a spot sale.	-- allows you to still capture market gains after locking in a price with a purchase contract or delivering spot. -- no margin calls	-- fee for financing the option -- the option may expire without the market rallying enough to recover the cost of the premium
Optional Price Contract	Establish a minimum futures price for a quantity of grain you wish to sell during a specific delivery period by purchasing a put option.	-- limits downside risk of lower futures -- benefit from basis improvements -- no margin calls	-- fee for financing the option -- the option may expire without the market falling to a point to recover the premium -- subject to basis risk
Maximum Price Contract	Collect a premium by selling a call option to establish a maximum price in conjunction with entering into a basis contract.	-- use the premium to obtain a more favorable basis level -- can still benefit from futures gains up to the strike price of the option -- no margin calls	-- fee for financing the option -- limited upside potential based on strike price of option -- unable to price basis contract until after option expires

Scenarios of When/When Not to Use Marketing Alternatives

	Weak Basis	Strong Basis	Low Futures	High Futures
Spot	no	yes	no	yes
Storage	yes	no	yes	no
Deferred Pricing	yes	no	yes	no
Purchase Contract	no	yes	no	yes
Price Protection Program	n/a	n/a	n/a	n/a
Basis Contract	no	yes	yes	no
Futures Only Contract	yes	no	no	yes
Minimum Price Contract	n/a	n/a	yes	no
Optional Price Contract	n/a	n/a	no	yes
Maximum Price Contract	no	yes	no	yes