FIXED BASIS

Grain Marketing Contract

WHAT IS THE FIXED BASIS CONTRACT?

- A Fixed Basis (FB) contract allows you to secure a basis level without specifying the futures price
- A Fixed Basis contract establishes a quantity, grade and delivery period for your grain

How does this contract work?

- A delivery period and corresponding futures reference month is specified on each Fixed Basis contract
- The futures pricing deadline is typically set as the third last business day of the month prior to the start of the futures reference month on the contract
- If the futures price is not established, the contract will be rolled into a deferred futures month establishing a new pricing deadline (a service fee will be applied)

Should I use this contract? Yes, if you:

- Would like to remain in the market to take advantage of potential future price increases
- Have specific delivery requirements and are willing to monitor the futures market until the time of pricing

Benefits:

- Reserves space for future delivery
- Protects against adverse movements in the basis level
- Allows you to remain in the market to benefit from futures price increases
- The basis can be rolled forward, gaining more time in the market to take advantage of market price increases
- Eliminates quality risk once the grain has been delivered

Risks:

- There could be an improvement in the basis level after you have established the contract
- The futures price could decrease while the contract remains unpriced

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

Cargill

How Fixed Basis works

How do I establish the futures price?

- The futures pricing deadline is typically set as the third last business day of the month prior to the start of the futures reference month on the contract
- At any point prior to the pricing deadline, the futures price can be assigned by contacting your local Cargill Representative
- The contract will be fully priced once the futures price is established, allowing you to receive full payment upon delivery

How do I roll a Fixed Basis contract if I want to remain in the market longer?

- Rolling a basis contract allows you to shift forward the futures reference month upon which the final price will be based
- The basis contract will automatically be rolled on the third last business day of the month prior to the start of the futures delivery month if the futures price has not been established
- The basis contract can be rolled a maximum of three times during one crop year prior to establishing the futures price

EXAMPLE:

You have a Fixed Basis contract at $30.00 under the January futures. What would be the new basis price if it were rolled under the May futures month?

CONTRACT ROLL			
January Current Futures	260.00	May Futures	275.00
January Basis	(30.00)	May Basis	?

To establish a new basis, you will need to add or subtract the spread in the futures to the current basis contract price.

JANUARY/MAY FUTURES SPREAD

January futures price	$260.00
Less: May futures price	$275.00
January – May futures spread	–$15.00

NEW FIXED BASIS CONTRACT PRICE

Original Fixed Basis contract price	($30.00)
January – May futures spread	($15.00)
New Fixed Basis contract price	($45.00)

– Referencing the May futures month

The futures pricing deadline for this contract is now extended until the third last business day in April prior to the beginning of the futures reference month (May).

EXAMPLE:

- New Fixed Basis contract price is $45.00 under the May futures month (as per above example)
- On April 7 you decide to fully price your contract when the May futures price is $280.00
- Your fully priced contract value will be:

Futures	$280.00
Basis	($45.00)
Final contract price	$235.00

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