GRAIN PRICING ORDER

Grain Marketing Contract

WHAT IS A GRAIN PRICING ORDER?

- A Grain Pricing Order (GPO) is an order to sell a specified amount of grain if the market reaches a desired price level within a given time period
- A GPO can be applied in the following situations:
  - To create a Deferred Delivery contract (futures +/- basis)
  - To apply a futures price to a Fixed Basis contract (futures only)
- GPOs can be used for unpriced grain, unharvested grain or grain, that is not yet grown
- A GPO is most beneficial when the futures market is volatile
- GPOs require the establishment of the grain quantity, grade, delivery period, target price and order expiration date
- The expiration date specified should be long enough to take advantage of market movement (eg. two weeks) but short enough to not forget about the commitment (eg. three months)
- Provided the GPO is not filled, the target price can be changed
  - We suggest the price be changed no more than once or twice during the pricing period (if you continually move the target price above the market there is a chance the order will not get filled)

Should I use a Grain Pricing Order? Yes, if you:

- Have a specific selling price in mind
- Do not have time to monitor the market

When should I use this contract?

- When futures prices are volatile and you feel the market will increase
- When the desired selling price is above the market and there is a chance the market will reach your selling price level prior to delivery

Risks:

- The market reaches the target price but continues to increase after the GPO has been executed
- The market may not reach the target price
- The market may reach a level close enough to the predetermined price but decrease prior to the expiration date

Benefits:

- GPOs instill a sense of discipline into a marketing plan by removing some of the emotion attached to making the pricing decision
- GPOs save time by allowing Cargill to monitor the market for your desired price level
- GPOs are traded regularly throughout the day, allowing you to benefit from market rallies
- GPOs eliminate the worry associated with missed pricing opportunities if the price reaches an acceptable level
- GPOs provide flexibility as they can be entered into at any time

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How Grain Pricing Order works

How does a Grain Pricing Order work?

- If the market price hits the desired target price established on the GPO prior to the expiration date, the grain is automatically sold
- If the market price does not hit the desired target price prior to expiration, the order expires on the expiration date
- GPOs are monitored daily by Cargill's grain hedging coordinator
- GPOs are filled while the market is traded, not at the daily close
- There is no delivery commitment until the GPO is filled (if the basis has not been established at an earlier date)

EXAMPLE:

On January 1 you enter a GPO to establish a May futures price at $285.00. The current May futures are trading at $275.00 and the order is set to expire in two months on March 1.

SCENARIO 1

The market reaches a peak of $286.00 on January 26 then begins to fall.

- Since the market reached the GPO trigger price of $285.00, the GPO is triggered and the cash grain contract is established with a futures price of $285.00
- In this case, you were able to lock in a futures price prior to the market falling without having to closely monitor the market

SCENARIO 2

The market reaches $285.00 on February 18 and continues to increase thereafter.

- Since the market reached the GPO trigger price of $285.00, the GPO is triggered and the cash grain contract is established with a futures price of $285.00
- In this case, you were able to lock in the desired futures price
- Prior to the GPO triggering, you have the option to increase the trigger price if you feel the market will continue to increase and exceed your established futures price

SCENARIO 3

The market reaches $283.00 on February 23, stabilizes then begins to fall.

- The GPO is not triggered
- In this case, you were not able to receive your desired futures price for your production

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