Purchase Contract Types - Grain

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There are seven different Purchase Contract types:

Priced

Grain is contracted for a specific delivery period and a basis is determined along with a Futures price. The title passes to buyer upon delivery. There is a specified Commodity, number of units, price, and delivery period. The price is agreed upon today and delivery is at a later date.

Price = Futures + Basis (Basis can be negative)

Spot

Spot contracts are similar to Priced contracts except the delivery or sale of grain happens immediately. If there is no contract, the current day's *spot* price will be paid which is the elevator's current daily bid for grain. There is not a specific number of units - only a set price. These contracts are identified with an *S* before the contract number (*S1*, *S2*, etc. no matter the prior contract number sequence).

Price = Futures + Basis

FOB

Free or Freight on Board contracts are the same as Priced contracts except freight is subtracted manually. The price paid is adjusted based on freight rather than tracking freight separately. Grain is contracted for a specific delivery period and a basis is determined along with a futures price. The title passes to the buyer upon delivery.

Price = Futures + Basis - Freight

Priced Later

Priced Later contracts have a specified commodity and number of units. Service fees may apply. This is an unpriced contract in which the title passes to the buyer but neither the basis, futures price, or final price are set. The seller has the right to establish the price later within a specified market minus any applicable service charges the elevator has in place. This is alternative to Storage contracts because the grain is company-owned and can be shipped.

Basis Fixed

There is a specified Commodity, number of Units, Futures Month, Basis Price, and delivery period. This allows delivery while maintaining flexibility with pricing.

Grain is contracted with a specific Basis Price but the Futures Price is determined at a later date. The title passes to the buyer at the time grain is delivered. An advance (ex: 70-90%) can be issued against this grain using an estimated value of that day's CBOT futures.

Note: Basis is a price level given in cents/bushel above or below the Board of Trade's Futures Month for a specific month. Basis must be priced before the BOT's delivery month begins (Company Preferences). These contracts can be rolled to another contract month for more pricing flexibility.

Futures Fixed/Hedged to Arrive

There is a specified Commodity, number of Units, Futures Month, Futures Price, and delivery period. This allows delivery while maintaining pricing flexibility.

The Futures Month and delivery period is established for a forward contract. The BOT Futures Contract Month coincides with the established deferred delivery period. The Basis is set at a later date prior to delivery. The title passes upon delivery.

Minimum Priced

Minimum Priced is an unpriced contract in which the buyer agrees to set a floor (minimum). These are contracts in which the buyer uses options instead of futures to offset price risk. There is a specified delivery period, Quantity, and Minimum Price. This allows for a price increase and protects the farmer against lower prices. The title passes upon delivery.

Price = Cash Price - Service Charge - Option Price