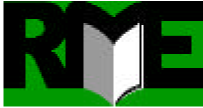

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Deferred Price Contract

Also known as "No Price Established" Contract

Description

This contract provides the seller the opportunity to deliver and transfer ownership on the contract date, but without setting a sales price. The buyer generally charges an up front or monthly fee. The producer retains the basis and futures price risk and opportunity in this contract until the sales price is determined.

Example: On November 1, a producer delivers to the local elevator and enters into a deferred price contract. On January 1, the producer prices the contract at the current elevator bid, less the delayed price (DP) charge.

Risk to Seller

The seller retains futures price risk and basis price risk until the pricing date. The seller also is subject to production risk; that is, the producer is responsible for delivering the contracted amount on the delivery date.

Risk to Buyer

If the buyer maintains ownership, there is no futures price risk or basis price risk. However, if the buyer chooses to sell these "unpriced" bushels to a third party (processor, feedlot, etc.), the buyer assumes basis risk and, potentially, futures risk and spread risk.

Who Might Use This Contract?

A producer who believes the market will rise and who is in a strong enough financial position to bear the risk of a market turndown.

Upside Price Potential. Even though the producer transfers ownership to the buyer, he or she retains the opportunity to benefit from prices rising.

Downside Price Potential. The producer also retains the risk that prices will fall between the time the contract is entered and the date on which the sales price is determined.

When Might This Contract Perform Well?

This contract will perform well if markets rise following the contract date. However, this outcome may depend on the producer judging correctly when to establish the sales price.

When Might This Contract Perform Poorly?

This contract may not perform up to the producer's expectations if prices fall after the contract date.

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