Marketing Tools I - Reference Guide

Objectives:

A. Have a basic understanding of the three marketing decisions that should be considered when marketing grain.
B. When a marketing decision is made, have an understanding of the alternative marketing tools that can be used.
C. Define the components of the local cash price.
D. Define which marketing tool to use based on the strength or weakness of basis or futures prices.
E. Use current cash and futures prices to demonstrate how each marketing tool can be used,

Page I **Marketing Decisions**

A. Identify the three marketing decisions a producer must make when selling grain; why he should be making those decisions; and what marketing tool to use for each decision.

Page 2 **Components of Cash Prices**

A. Define the components of Cash Prices - Futures and Basis. Discuss the relationship between futures and basis and how each can move in different directions.

Page 3 **Picking the Proper Marketing Tool**

A. Define which marketing tool to use based on the expected change in Basis or Futures price.
B. Discuss the concept of 4 squares. If Futures Prices and Basis are expected to strengthen or weaken select the proper tool in one of the four squares.

Page 4 **Cash Contract Requirement**

A. Identify the requirements for delivering grain to the local grain elevator.

Page 5 **Cash Sale - Forward Contract**

A. Using current cash prices for spot and deferred delivery, explain how to make a cash sale and a forward contract sale.

Page 6 **Store Grain - Delayed Price**

A. Identify the difference between storing grain on the farm and at the elevator; and explain delay-pricing grain at the elevator.

Page 7 **Basis Fixed Contract - Store Grain**

A. Identify the components of the Basis Fixed Contract. These include the delivery period; the futures month that the basis should be fixed from; and the date futures must be priced.

Page 8 **Buy A Call Option - Sell Cash in Bin**

A. Identify the two components of this marketing strategy: Sell cash and buy a call option.
B. Explain the process of selecting a month and strike price when buying a call option.
C. Demonstrate, in table form, the final cash prices given lower and higher futures prices on the date the options expire.

Page 9 **Buy Futures - Sell Cash in Bin**

A. Explain the concept of shifting risk from a cash grain position to a position that is maintained in the futures market.

Page 10 **Sell Futures - Sell Production**

A. Identify the two steps involved in selling cash grain using this marketing tool: Sell futures and set the basis at a later time.

Page 11 **Buy a Put Option - Sell Production**

A. Identify a period to deliver grain and choose the futures month in which to buy the put option that corresponds with that delivery period.
B. Select a strike price for that futures month and subtract the premium to determine the minimum futures price.

Page 12 **Market Decisions**

A. Discuss the contracts listed and identify if futures are established, if basis is established, if there is a storage cost, and quality risk and cash flow considerations.