TFM Cash+
Tools Glossary

TFMCash+

The TFM analytics team makes **Cash+** recommendations based on the use of a variety of contracts, as they tend to be the most common and readily available at many grain handling facilities. If you have questions regarding any of the contracts mentioned below, or another contract that you have seen offered, please feel free to reach out to a member of our Cash+ team for further information, and they will be glad to assist you.

Basis Contract:

Used to set the ***price differential*** between the buyer's cash price and the referenced CBOT futures price. Often, basis is at its weakest point during harvest when local supplies are ample, and at its strongest during planting and again in mid/late summer when local supplies are more scarce. Once basis is set, the seller is still fully exposed to the price fluctuations of the CBOT futures market and can set/fix the futures reference price when it is most beneficial.

Hedge to Arrive (HTA):

Used to lock the futures reference price portion of the contract price. Once the futures reference price is locked, a deadline is set for the seller to either set basis and deliver or roll to the following contract month. During this time, the seller is still fully exposed to fluctuations in basis and can set/fix the basis portion at a time prior to the deadline when it is most beneficial. Usually, if the seller has not set basis by the deadline, the buyer will set the basis using their current basis value as of the deadline date. HTA contracts may be rolled out to later delivery/contract months to capture market carry, when the following month's prices are higher than the current month, and still within the initial crop year.

Cash Offer (Offer):

Prices set above the current market where the producer is willing/agrees to sell a set quantity of grain at a given facility for a specified delivery time frame. Therefore, creating a ***Forward Contract*** when (and if) the price is reached.

Forward Contract:

A contract where the seller agrees to deliver to the buyer's facility a set quantity of grain, at a set price, and during a specific time frame. These can be used to set price and quantity for either the very short term (perhaps later that day) or for some time in the future (perhaps at harvest).

Minimum Price Contracts:

- **Floor**: This strategy enables the producer to set a minimum price at which they will sell their grain, and still maintain possible upward appreciation. This contract limits the seller's downside risk by creating a pricing "floor" of the seller's choosing, while leaving opportunity open for the grain to be priced later at better levels. The contracted "floor" price minus the contract fee will generate the net minimum price for the contracted grain. *This type of contract often results in an HTA contract, where basis will need to be set prior to delivery. Contact your local facility for specific details.* ***(This is a cash grain contract, with an obligation to deliver the contracted quantity to the buyer's facility, in a specified time frame. No margin or hedge account is required. Final grain settlement is not available until final pricing has been set.)***

- **Open Upside:** This contract is similar to the **Minimum Price (Floor)** in that it also enables the seller to set a minimum price at which they will sell their grain, and still maintain possible upward appreciation. With this contract, the seller prices cash grain similar to a forward contract, and simultaneously maintains any upward price appreciation from a predetermined level. The fees paid for this contract will be deducted from the initial price of the contracted grain, creating the net minimum price. When final pricing is determined (usually at a mutually agreed-upon time in the future), any gains made above the predetermined pricing level, minus fees, will be credited back to the final contracted price. *This type of contract often results in an HTA contract, where basis will need to be set prior to delivery. Contact your local facility for specific details.* ***(This is a cash grain contract, with an obligation to deliver the contracted quantity to the buyer's facility in a specified time frame. No margin or hedge account is required. Final grain settlement is not available until final pricing has been set.)***

- **Open Upside with a Ceiling:** This contract is very similar to a **Minimum Price (Open Upside)** contract in that it allows the seller to participate in upward appreciation with limited downside risk. However, this is accomplished at a reduced cost because of the addition of a ceiling price level, above which any further gains would be capped.

  This contract can often be created using a pre-existing forward contract or HTA contract by adding an upward pricing level from which any upside gains can be made, and then adding a ceiling price level which will, in turn, cap any further gains. For example, a farmer has hedged soybeans for March delivery at $14.00 using an HTA contract, and the market price is now $12.50. If he believes the market may go back up prior to delivery, he can create an **Open Upside with a Ceiling** contract using his $14.00 HTA contract and adding an upward pricing level of $13.00 and a $14.20 ceiling for a $.25 fee. The new net minimum price that our farmer can now receive is $13.75 ($14.00 contract price - $.25 fee), but he stands to gain if the price of soybeans rises above the $13.00 upward pricing level for a maximum net additional gain of $.95 ($14.20 ceiling - $13.00 upward pricing level - $.25 fee = $.95). This additional gain may either then be added back to the original contract price or paid out separately by the facility, depending on their procedures. *Contact your local facility for specific details.* ***(This is a cash grain contract, with an obligation to deliver the contracted quantity to the buyer's facility in a specified time frame. No margin or hedge account is required. Final grain settlement is not available until final pricing has been set.)***

- **Minimum/Maximum - Fence:** This contract creates a price floor similar to the **Minimum Price (Floor)** contract. Instead of having unlimited upside potential, a ceiling price is used to reduce the cost of the contract by limiting the amount of gain that can be achieved on a market rally. With this strategy, the grain will be priced **between** the floor and ceiling prices that are chosen. The lower floor price will be the minimum price that the grain can be priced, while the upper ceiling price will cap any further gains above that level. This effectively creates a price window in which the grain will ultimately be priced. Any costs or credits involved in setting the pricing levels will usually be added to or deducted from the final contract price. This type of contract often results in an HTA contract where basis will need to be set prior to delivery. *Contact your local facility for specific details.* ***(This is a cash grain contract, with an obligation to deliver the contracted quantity to the buyer's facility in a specified time frame. No margin or hedge account is required. Final grain settlement is not available until final pricing has been set.)***

Accumulator Contract:

This contract allows the farmer to sell his grain above the current market price if certain conditions are met. The key components of this contract are the accumulation price level, the knockout price level and a specified pricing period. The accumulation price level is set above the current market price, while the knockout price level is set below the current market price, and the pricing period is the specified time frame in which the contract can be priced. Pricing typically occurs at the accumulation price level in equal amounts, as defined by the contract, throughout the pricing period (i.e., daily, weekly, etc.). Also, as defined by the contract, if the market falls below the knockout price level, pricing is finished. If the market price closes above the accumulation price level, prior to being knocked out, the number of bushels being priced will double. *The parameters of these contracts and fees often fluctuate depending on the issuing facility, and market conditions. Contact your local facility for specific details.* ***(This is a cash grain contract, with an obligation to deliver the contracted quantity to the buyer's facility in a specified time frame. No margin or hedge account is required. Final grain settlement is not available until final pricing has been set.)***

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