

## Cash Sale/Deferred Delivery Contract For Ontario Producers

If you want to lock in a guaranteed price for some or all of your crop, the South West Ag Partners Cash Sale/Deferred Delivery Contract may be a valuable marketing tool for you.

### What is it?

A Cash Sale /Deferred Delivery Contract allows a seller to contract a specific quantity and quality of a commodity for either spot or future delivery at a guaranteed price. The actual cash price you receive becomes final once it is agreed upon between you and your South West Ag Partners Grain Marketing Specialist.

### What are the Advantages of the Cash Sale/Deferred Delivery Contract?

- A definite cash price is established, eliminating your downside risk.
- It is very simple and easy to understand.
- Payment will be made within ten business days of physical delivery of your grain.
- No storage charges will be applied to grain delivered to the elevator against this contract.

### What are the Risks and Disadvantages of the Cash Sale/Deferred Delivery Contract?

- You will not be able to take advantage of any further improvements in either basis or future levels.
- You are obligated to deliver the quantity and quality of grain specified in the contract and you are not protected from production risks.

### When is it used?

Sellers generally use this marketing tool when the market price has reached their contracting objectives and they do not expect further improvement in either the basis or future levels.

### How does it work?

Let's say July 3<sup>rd</sup>, your local South West Ag Partners Farm Service Center posts a cash bid of \$3.50 per bushel for October delivered corn, \$0.70 over the December corn futures price. This price meets your new-crop marketing objectives, and a basis of \$0.70 over the December futures price seems to you to be a good level. You also believe that the futures price isn't likely to improve and may in fact decline. Using that rationale, you sell your corn to South West Ag Partners under an October Cash Sale/Deferred Delivery contract at the quoted price of \$3.50 per bushel.

By October 1<sup>st</sup>, the quoted cash price has declined to \$3.00 per bushel for spot corn. But since you used a Cash Sale/Deferred Delivery contract to sell your corn at \$3.50, you have netted \$0.50/bu more than if you had waited until October 1<sup>st</sup> to determine the price.

However, if the price had risen above the \$3.50/bu level at any time after you entered into the Cash Sale/Deferred Delivery contract on July 3<sup>rd</sup>, you would have lost the opportunity to sell your contracted corn at the higher price.