

Marketing Terms

Advance: A fixed percentage of the current full value of your grain marketing contract that may be paid prior to final pricing of the contract.

At-the-money: Describes an option whose strike price is equal, or approximately equal, to the current market price of the underlying futures contract.

Basis: The difference between the cash grain price and the price of the underlying futures contract.

Bullish: Believing that the market will go up.

Bearish: Believing that the market will go down.

Call: An option, which entitles the holder to buy the underlying futures contract at a specific price (the "Strike Price"), before a specified expiry date.

Carrying Charges: The amount by which the value of grain for future delivery exceeds the value of the same grain for nearby delivery or, what the market is paying for storage of and interest on grain. Carrying charges can exist in futures prices and in the basis between one contract month and another. The term is often shortened to the carry.

CIF: Stands for "cost, insurance, freight" and in general, refers to the pricing of export shipments of grain at that destination point.

Contract: In the grain, feed and processing industries, an agreement between buyer and seller that a court will enforce. While oral contracts are enforceable, signed contracts are preferred.

Downside Risk: The risk that prices move lower while the producer retains ownership of his/her commodity.

FOB: Stands for "free on board" and in general, refers to the pricing of grain at the shipments point of loading into a rail car, truck, or boat.

In-the-money: An option having intrinsic value. A call is in-the-money if its strike price is below the current price of the underlying futures contract. A put is in-the-money if its strike price is above the current price of the underlying futures contract.

Intrinsic Value: The amount, which could be realized if the holder of an option were to exercise that option immediately. This would involve buying or selling the underlying futures contract at the specified Strike Price, and then buying or selling that same contract back at the current market price.

Inverted Market: A futures market in which the nearby contracts are trading at values higher than the deferred contracts. Characteristically, an inverted market (sometimes referred to as "an inverse") is one in which supplies are currently in shortage and which pays no carrying charges.

Marketing Alternatives: A variety of methods farmers can choose from to sell grain. Alternatives differ in methods of pricing, delivery flexibility and terms of payment.

Option: A financial instrument which gives the holder the right, but not the obligation, to either buy or sell a futures contract. A call option entitles the holder to buy the underlying futures contract; a put option entitles the holder to sell the underlying futures contract. Options are denominated in different pre-determined prices, referred to as the "Strike Price" of the option, which define at what price level the contract may be bought or sold. Options may also have expiry dates.

Premium: Refers to the price, or cost, of an option.

Price Out: Used as a verb to describe the action of choosing the current futures price contract level to finalize the pricing on an un-priced contract.



Put: An option, which entitles the holder to sell the underlying futures contract at a specified price (the "Strike Price"), before a specified expiry date.

Rally: A fast upward price move.

Roll: With regard to basis contracts, to roll the contract is to shift forward the futures month around which the contract is priced.

Speculation: The attempt to anticipate commodity price changes, and to profit through the purchase or sale of either the commodity futures contract or the physical commodity.

Spot: Refers to the characteristic of being available for nearby delivery. An outgrowth of the phrase on the spot, it usually refers to a cash market price for immediate delivery. The 'spot-month' refers to the futures contract of the month.

Spread: The difference between two futures prices. Spreads may be inter-commodity (corn vs. wheat) or time related (March vs. May wheat).

Strike Price: The price at which an option may be exercised. In other words, it is the price at which the underlying futures contract may be bought or sold, if the market reaches that level. For example, a December \$2.40 corn call has a \$2.40 Strike Price.

The holder has the right to exercise the option and buy December corn futures at \$2.40 if the market reaches that level.

Time Value: Any amount by which an option premium exceeds the option's intrinsic value. If an option has no intrinsic value, its premium is made up entirely of time value.