



ORIGINATION
ACADEMY

Origination Essentials

Definitions, Futures Symbols, Basic
Contract Types & More

December 2023

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Futures Market

Definition, Symbols, Prices

The Chicago Mercantile Exchange (“CME” Group) is a marketplace for buyers and sellers, bringing together individuals, companies, and institutions that need to manage risk or that want to profit by accepting risk. The CME serves as a platform for price discovery.

The CME includes the Globex electronic trading platform, which allows users, worldwide, to access the markets.

A futures contract is a commitment to make or take delivery of a specific quantity and quality of a commodity; all contracts in the futures market are traded in 5,000 bushel increments.

Prices trade at the $\frac{1}{4}$, $\frac{1}{2}$, $\frac{3}{4}$ or dollar. If you see CME quotes, they might look like this:

| Month | Open | High | Low | Last | Change | Settle |
|-------|-------|-------|-------|-------|--------|--------|
| MAR | 552'0 | 556'6 | 546'6 | 547'2 | -2'6 | 550'0 |
| MAY | 555'2 | 562'0 | 552'2 | 553'2 | -2'2 | 555'4 |
| JUL | 557'2 | 564'0 | 554'0 | 554'2 | -3'0 | 557'2 |
| SEP | 522'6 | 524'4 | 518'0 | 518'0 | -4'2 | 522'2 |
| DEC | 514'2 | 518'2 | 510'2 | 511'4 | -4'4 | 516'0 |

Symbols Cheat Sheet



| Futures Month | Symbol | Delivery Period |
|---------------|--------|-----------------|
| March | CH | Jan, Feb, Mar |
| May | CK | April, May |
| July | CN | June, July |
| September | CU | Aug, Sept |
| December | CZ | Oct, Nov, Dec |



| Futures Month | Symbol | Delivery Period |
|---------------|--------|-----------------|
| March | SH | Jan, Feb, Mar |
| May | SK | April, May |
| July | SN | June, July |
| August | SQ | August |
| November | SX | Sep, Oct, Nov |
| January | SF | Dec, Jan |

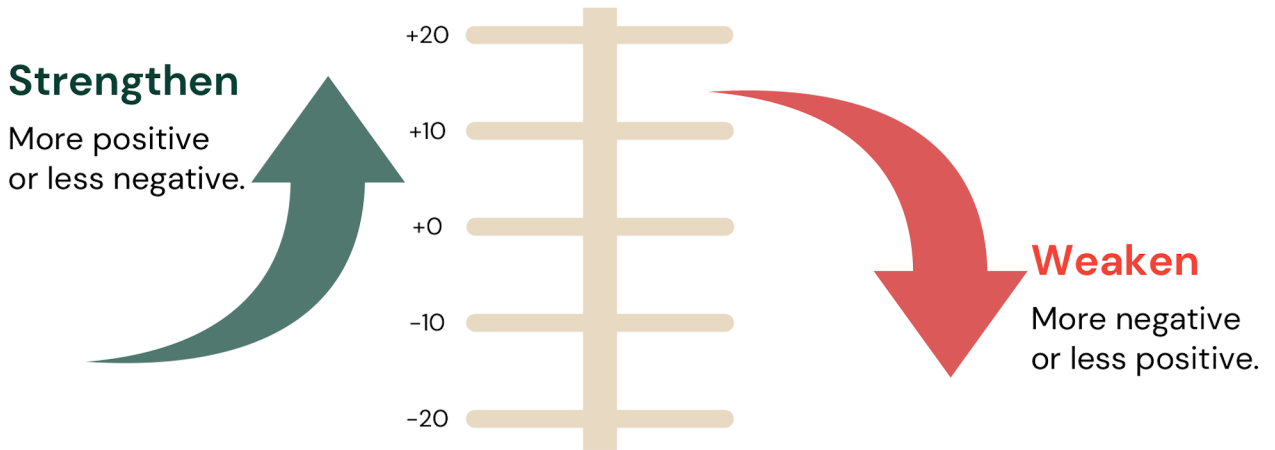
Key points to remember about futures trading:

- Brings buyers and sellers together
- Global reference for price
- Found through price discovery, ensured through defined trade rules
- Values constantly changing

Basis

Definition, Markets, Strengthening vs. Weakening

Basis is a localized value set by each elevator or end-user. The basis values change less than the futures market and are changed as determined by the location. Basis helps reflect the price of a bushel of grain delivered to that specific location. Basis values differ depending on the location, marketplace, etc.



Basis is the only component of the cash price that a grain handling facility changes to influence a producer to sell or not sell. Basis essentially drives the flow of grain to the marketplace.

Market Types



Processor



Feed



Export

Remember:

$$\text{Futures} + \text{Basis} = \text{Cash Price}$$

Contract Types

Cash Contract

Definition

A cash contract, also referred to as fixed price or spot price, is used when futures and basis levels have hit a point that attracts selling. It's also the most common type of transaction.

Execution

- Deliver grain to agreed upon facility within specified delivery period
- Lock in cash price for a specific delivery timeframe, either nearby or deferred

Strategy

- Use when the nearby price has met the selling objective or deferred months offer a favorable or profitable price
- Frequently used to "lock in carry"

Seller Advantages



- Easy to execute
- Payment upon delivery
- Eliminate price risk to the downside
- No contract cost

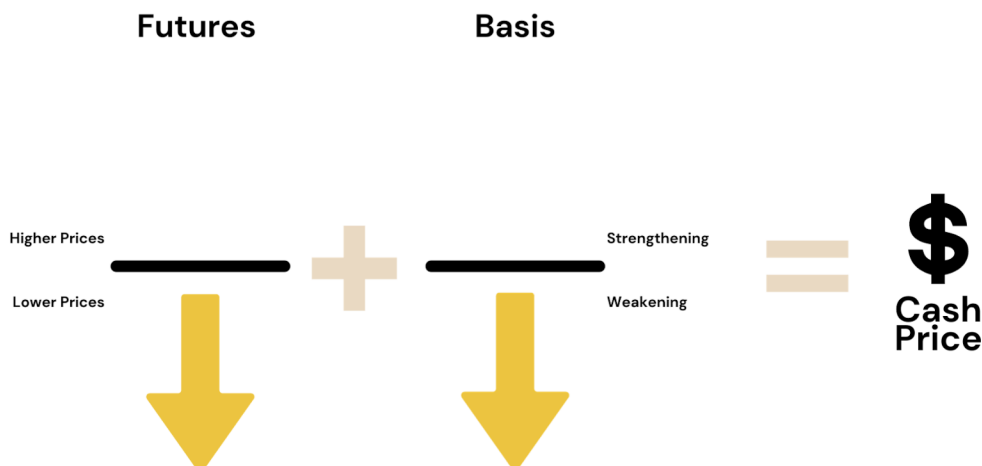
Seller Disadvantages



- Futures and basis both locked and there is no participation in improvement of either
- Delivery required at agreed upon timeframe determined at time of contract creation



When to Use



Contract Types

Basis Contract

Definition

A basis contract locks in a favorable basis level with the elevator at the time of contract creation, and futures are established at a later date.

Execution

- Establish a delivery period and location, bushel amount, basis level, and pricing timeframe
- Deliver grain as agreed
- Establish a futures price by pricing date or roll basis to a new futures month
- Receive payment, basis advance of 70%

Strategy

- Use to lock in a historically favorable basis level and allow the futures to appreciate

Seller Advantages



- Eliminates downside basis risk
- Leverages a historically firm basis
- Allows pricing flexibility with futures
- Able to receive some payment without establishing final price

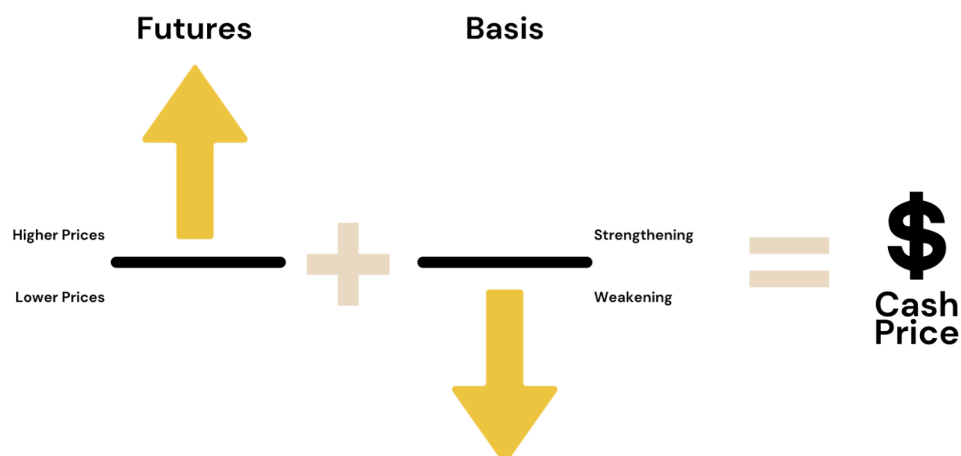
Seller Disadvantages



- Title of grain is transferred upon contracting
- Full payment not received until futures are established and grain is delivered
- Open to downside futures risk



When to Use



Contract Types

Futures Only (FO) Contract

Definition

A futures contract, also referred to as an “FO” or “HTA” (Hedge-to-arrive), is used when futures have hit a point that attracts selling, and only the futures portion is locked in upon execution. A futures only contract is commonly used for deferred contracts, allowing time for basis improvement.

Execution

- Must establish basis prior to delivery
- Ability to roll futures to next futures month prior to expiration
- Trade the spreads between futures months
- No payment received until basis is established and grain is delivered
- Futures only fee applies

Strategy

- Use futures contracts when futures price has met selling objective but basis prices are not appealing and have ability to improve
- Frequently used to “lock in carry”
- Great for deferred pricing opportunities

Seller Advantages



- Easy to execute
- Lock in favorable prices
- Flexible for establishing delivery timing and location

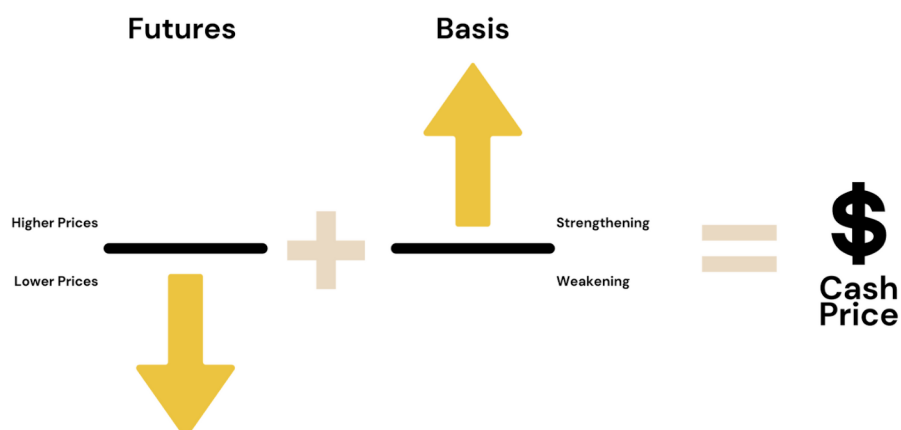
Seller Disadvantages



- Fee
- Cannot participate in futures rally
- Necessitates more basis management



When to Use



Contract Types

Deferred / Delayed Pricing (DP) Contract

Definition

A deferred, or delayed pricing contract, allows the seller to pay a fee to leave basis and futures unpriced, allowing both of them to be established at a later date.

Execution

- Deliver grain to agreed upon location within specified delivery timeframe
- Ownership is transferred to elevator upon delivery
- Watch for market opportunities to establish price
- Accrue DP charges as specified through the defined pricing date

Strategy

- Use DP contracts when needing to make delivery
- Have faith that the markets will move higher

Seller Advantages



- Allows for delivery without establishing a final price

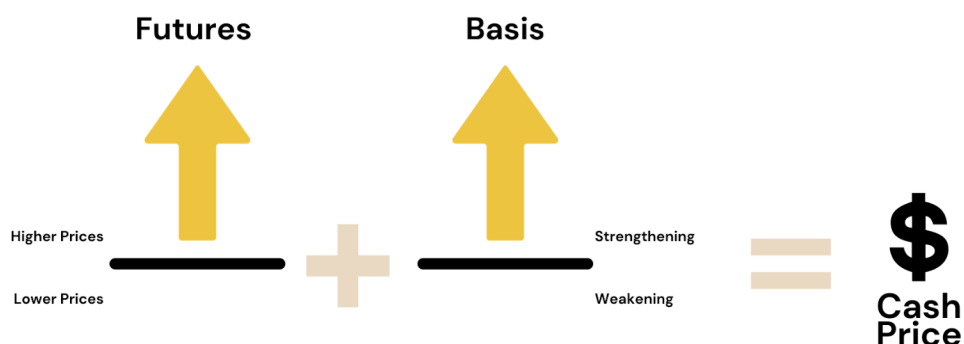
Seller Disadvantages



- Market speculation with no downside protection
- Fees add up and can be expensive
- Payment is not received until priced
- Pricing expiration date



When to Use



USDA REPORTS AND UNDERSTANDING MARKET IMPACT



USDA REPORT CALENDAR



DESCRIPTION & HISTORICAL OUTCOMES

| Rank | Report Month | Key Focus | Report Description |
|----------|------------------|-----------------------------|---|
| 4 | January | S&D Final Production | Focus on final production & South America |
| 2 | February | S&D Update | Focus on South America update |
| 2 | Late February | USDA Outlook Forum | First insight into acreage guess, loose estimate |
| 2 | March | S&D Update | "No man's land" on calendar |
| 5 | March 31 | Stocks & Acreage | Not precise but moves markets & is based on acre survey |
| 2 | April | S&D Update | USDA only touches old crop demand if stocks surprise |
| 3 | May | S&D Update | First new crop estimate, very predictable |
| 3 | June | S&D Update | USDA rarely touches production unless mega drought |
| 5 | June 30 | Stocks & Acreage | Updated Stocks & Acreage report |
| 4 | July | S&D Update | USDA interprets June 30th, might touch yields |
| 5 | August | S&D Update | USDA almost always adjusts yields, old crop demand |
| 5 | September | S&D Update | Most volatile yield adjustments usually |
| 3 | September 30 | Stocks Report | Final stocks on hand, sometimes a surprise |
| 4 | October | S&D Update | Key yield changes & interpretation of Sep 30th stocks |
| 4 | November | S&D Update | Sometimes a yield surprise, but rare |
| 1 | December | S&D Update | USDA rarely makes changes |



1 = Less Important

5 = Very Important

REPORT INSIGHTS

Corn Prices vs. Carryouts

- 2 bil+ carryout usually means \$4.00–type corn prices
- 1.5 bil carryout usually means \$5.50–type corn prices
- 1 bil or less carryout usually means \$7.50–type corn prices

Soybean Prices vs. Carryouts

- 450+ mil carryout usually means sub \$10.00–type bean prices
- 300–400 mil carryout usually means \$11 to \$12.50–type bean prices
- 250 mil or less carryout usually means \$14+ type bean prices

PROCURING MORE BUSHELS

- ✓ Recommend offers above the market before the report (be mindful of price limits)
- ✓ If bullish, explain why and what you think it could mean (short-term or long-term impact)
 - If short-term, recommend selling now or offers near the market
 - If long-term, provide assurance of being patient, but watching closely for opportunities
- ✓ If bearish, call undersold farmers first and recommend selling "some"
 - Call oversold farmers next and applaud them for a good move
- ✓ Utilize premium collection strategies before major reports
- ✓ Build relationships by texting report details quickly after release



For use with "Understanding USDA Reports" course.

Supply & Demand Table Template

| US Corn S&D | Description | | | | |
|----------------------|--|--|--|--|--|
| Planted Acres | <i>Total planted acres in US</i> | | | | |
| Harvested Acres | <i>Usually 88-92.5% of Planted Acres</i> | | | | |
| Yield | <i>Yield per acre</i> | | | | |
| Production | <i>Harvested Acres x Yield</i> | | | | |
| Beg. Stocks | <i>Ending Stocks of Prev. Crop Year</i> | | | | |
| Imports | <i>Corn imported to US (usually <100 mil)</i> | | | | |
| TOTAL SUPPLY | <i>Production + Beg Stocks + Imports</i> | | | | |
| Feed & Residual | <i>Total corn used for Feed + Residual</i> | | | | |
| Ethanol | <i>Total corn used for Ethanol</i> | | | | |
| Industrial | <i>Corn used for Industrial (usual ~1.4 bil)</i> | | | | |
| Exports | <i>Total corn Exported out of US</i> | | | | |
| TOTAL DEMAND | <i>Add all four demand lines together</i> | | | | |
| ENDING STOCKS | <i>Total Supply minus Total Demand</i> | | | | |

| Notes |
|-------|
| |

Supply & Demand Table Template

| US Bean S&D | Description | | | | |
|----------------------|---|--|--|--|--|
| Planted Acres | <i>Total planted acres in US</i> | | | | |
| Harvested Acres | <i>Usually 98-99% of Planted Acres</i> | | | | |
| Yield | <i>Yield per acre</i> | | | | |
| Production | <i>Harvested Acres x Yield</i> | | | | |
| Beg. Stocks | <i>Ending Stocks of Prev. Crop Year</i> | | | | |
| Imports | <i>Beans imported to US (usually <100 mil)</i> | | | | |
| TOTAL SUPPLY | <i>Production + Beg Stocks + Imports</i> | | | | |
| Crushings | <i>Total soybeans used for Crush</i> | | | | |
| Exports | <i>Total soybeans Exported out of US</i> | | | | |
| Seed | <i>Total soybeans for Seed (usually <150M)</i> | | | | |
| Residual | <i>Residual account for USDA (usually <100M)</i> | | | | |
| TOTAL DEMAND | <i>Add all four demand lines together</i> | | | | |
| ENDING STOCKS | <i>Total Supply minus Total Demand</i> | | | | |

| Notes |
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Reminders

























Resource Page

Below is a list of recommended websites for educational and professional purposes.



NGFA

Website:

<https://imis.ngfa.org/>

Trade Rules:

https://imis.ngfa.org/members/tr/Trade_Rules_Overview/ngfa/Trade_Rules/Trade_Rules_Overview.aspx#:~:text=The%20five%20sets%20of%20the%20NGFA%20Trade%20Rules,formulates%20and%20recommends%20rule%20changes%20to%20the%20membership



CME Group

Website:

<https://www.cmegroup.com/>

Online Glossary:

<http://www.cmegroup.com/education/glossary.html>



USDA

General Website:

<https://www.usda.gov/>

NASS Website:

<https://www.nass.usda.gov/>



Questions?

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