Focal Point

Express Your Bias

Markets are constantly moving. Cargill® Focal Point is for the customer who wants to be "hands on" in expressing a market bias. Focal Point allows you to sell your grain and re-establish futures price risk. You establish an initial Focal Point price on a selected futures month and then re-price at a later date, allowing you to stay in the market. The resulting gain or loss from that initial price then becomes a part of your final contract price.

When is it used?

Focal Point should be used when you feel that futures prices have upside potential in relationship to the current market. It can be used prior to delivery or when you need to transfer ownership of grain due to space limitations, grain condition or financial need. Utilize the contract when you are confident that futures prices in the selected month will improve and you are comfortable without an absolute price floor.

What are the advantages of the Focal Point contract?

- ☐ *Lock in a futures level through a futures-only or priced cash contract, knowing that if market conditions change you can participate in a potential futures price movement*
- ☐ *Can establish or re-price the Focal Point outside of normal CBOT trading hours*
- ☐ *Cash can be generated in the form of an advance on delivered production; advance levels may vary by location*
- ☐ *Offers an alternative to paying No Price Established (NPE) charges or storage charges*
- ☐ *Flexibility of having the opportunity to improve the futures level after already making a selling decision*
- ☐ *Possibility of an increase in the contract price from the initial Focal Point price*
- ☐ *You can establish and re-establish a Focal Point price multiple times if it is prior to delivery*
- ☐ *Relatively straightforward and easy to understand compared to using more traditional brokerage services that require margining*
- ☐ *Use of downside protection is required, which can be in the form of a fixed price stop, trailing stop, or strategy using a long put*

*See **example** on back* ▶

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How does it work?

Example 1 On October 10th you decide to sell your corn for $4.00 per bushel (cash price) for October delivery, but are very interested in using Focal Point. You are confident that the July futures will improve relative to current levels, but you think there may be some downside in the next two weeks. With Focal Point you have the opportunity to establish an initial Focal Point price no later than the last date of the shipment period. On October 15th you begin to deliver your grain, and by October 20th, July futures have dropped to $4.35 per bushel. You instruct Cargill® to establish your initial Focal Point price.

Scenario 1 On May 15th, July corn futures have risen to $4.60 per bushel. You instruct Cargill to re-price and lock in your final Focal Point price. In this example, using Focal Point would net you 22 cents more for your cash sale.

$4.60 Final Focal Point price
-4.35 Initial Focal Point price
-0.03 Focal Point investment
+0.22 Cash Price Adjustment

Scenario 2 On May 15th, July corn futures have fallen to $4.05. You instruct Cargill to re-price and lock in your final Focal Point price. In this example, using Focal Point would net you 33 cents less for your cash sale.

$4.05 Final Focal Point price
-4.35 Initial Focal Point price
-0.03 Focal Point investment
-0.33 Cash Price Adjustment

Example 2 On April 10th, you decide to make a futures only sale by locking in $4.47 March futures knowing that if the market conditions change, Cargill offers Focal Point. On June 10th you feel the market has dropped too low given the growing season ahead. You instruct Cargill to establish an initial Focal Point price using those same March futures which are now trading at $4.05.

Scenario 1 On July 15th, March corn futures have risen to $4.80. You instruct Cargill to re-price and lock in your Focal Point. At this time you also set your basis at -0.25 March. In this example, using Focal Point would net you 75 cents more for your contract.

$4.47 Futures
-0.25 Basis
+0.75 Focal Point adjustment ($4.80-$4.05)
-0.03 Focal Point investment
$4.94 Final Cash Price

Scenario 2 On July 15th, March corn futures have fallen to $3.82 per bushel due to perfect growing conditions. You instruct Cargill to re-price and lock in your final Focal Point price. At this time you also set basis at -0.25 March. In this example, using Focal Point would result in 23 cents less for your contract and a final cash price of $3.96.

$4.47 Futures
-0.25 Basis
-0.23 Focal Point adjustment ($3.82-$4.05)
-0.03 Focal Point investment
$3.96 Final Cash Price

Cargill®