Fixed Price Contract

Highlights:

- Lock in Futures and Basis to eliminate all downside price risk.
- No fee to lock in price
- Effective and Simple to Use

How it works

This is the simplest of all grain contracts but one of the most effective as well. A producer is able to lock in both Futures and Basis, making this a true Cash Contract. If the producer likes the current price level he could eliminate all downside price risk by using a fixed price contract. The price would be set free of charge and would be paid out upon delivery of the commodity to the elevator. These are typically only offered one year prior to harvest of the chosen commodity.

When to use

A producer would choose a Fixed Price Contract when they believe the current level fits in with their marketing plan and they want to eliminate downside risk. A producer also may choose this contract if they believe futures and basis will fall.

Primary Risks

Production Risk- This will be a risk in every contract. Use multi year average yields to help determine the appropriate amount to forward sell per commodity.

Missed Opportunity Risk- By locking in both futures and basis you eliminate the ability to price at higher levels on the contracted bushels if the markets were to go up.

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