

## FIXED FUTURES CONTRACT

**Eliminate your price risk and wait for the basis to improve.**

### What is it?

A fixed futures contract allows you to fix the futures price on a quantity of grain and leave the basis open.

### How does it work?

You sign a contract locking in the futures for delivery of a fixed tonnage in a given month and leave the basis open.

### What are the advantages of a Fixed Futures contract?

- You have eliminated most of your price risk by fixing the futures.
- You can benefit from a future strengthening of the basis.
- In a carry market, where futures are higher than the nearby price, you are effectively getting paid for keeping your grain on farm.

### What should you know?

- The basis could continue to weaken.
- The futures market could rally and you have already locked in the futures price.

### When is it used?

The Fixed Futures contract is most effective in a carry market when the futures price is high and the basis is weak.

### Fixed Futures contract case study

It's September 15<sup>th</sup> and the November futures price is \$300/mt with a basis of -\$15/mt. The July futures price is \$320/mt with a -\$20/mt basis. You sign a fixed futures contract at the July price. By May 15<sup>th</sup>, the July futures price has fallen to \$275 and the lack of movement encourages crushers and line companies to narrow the basis to -\$10/mt. You set the basis at -\$10/mt on your fixed futures price of \$320.

In this scenario, you gained three ways.

- You took advantage of the carry market which covered the cost of keeping your grain on farm.
- You protected the higher July futures price of \$320/mt which fell to \$285/mt on May 15.
- You gained \$10/mt by waiting to fix the basis until May 15.