New Generation Grain Marketing Contracts

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DISCLAIMER

The information presented in this bulletin is based on promotional materials produced by the companies offering these contracts. It is important to note that specific features of the contracts, as well their cost and availability, are subject to change. The selection of contracts described in this bulletin represents neither an endorsement of any product described, nor criticism of products not included. Farmers should carefully examine the terms and conditions of contracts before signing.

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New Generation Grain Marketing Contracts

Introduction

In an informal survey conducted during the 2001 Farm Income Workshops sponsored by the University of Illinois, 77% of participants agreed with the statement, "On average, corn and soybean producers sell 2/3 of their crops in the bottom 1/3 of the price range." The popularity of this perception serves to highlight the challenging nature of grain marketing, and the frustration many farmers have about their marketing performance. Over the last several years, new types of grain marketing contracts have been developed by the grain industry in an attempt to improve the results of the marketing process for farmers. Referred to here as "new generation" contracts, these products use automated pricing rules, discretionary marketing on the part of a professional advisor, options strategies, or some combination of all three. The goal of these contracts is to achieve a price for the farmer near or above the "average" price offered by the market over a given time, for a portion of the farmer's crop. Reports in the farm media suggest interest in new generation contracts has increased rapidly in recent years. For example, one set of contracts that use automated pricing rules is now being offered by about 650 grain elevators in a dozen Midwestern states (Smith, 2001).

The purpose of this research report is to summarize the features of new generation contracts and, where possible, to provide examples of how each would perform in different market conditions.[1] Please note that the examples are presented purely for illustrative purposes and are in no way intended to provide comparative performance information. In addition, the selection of contracts for this bulletin is not intended to represent comprehensive coverage of all available products.

Types of New Generation Contracts

Traditional grain marketing strategies involve discretionary sales by the farmer or sales based on the advice given by a professional market advisory service, or some combination of the two. New generation contracts take a different approach to marketing in that they follow prescribed rules for generating sales; they can be classified into three basic categories based upon their features:

1. Automated Pricing Contracts

Contracts in this category follow predetermined, nondiscretionary pricing rules for marketing a farmer's grain. These contracts give the farmer the average cash or futures price, depending on the contract, over a set pricing period. If the contract is based on an average of futures prices, the farmer typically has discretion as to establishing the basis. Companies that offer automated pricing contracts include *Cargill, Consolidated Grain and Barge* (CGB), *Decision Commodities,* and *E-Markets*, as well as many independent grain firms.

[1] "All in one" or "full service" marketing programs are not included in this definition of new generation marketing contracts. See Henderson (2001) for examples of such marketing programs.

Currently, among the large grain firms, only CGB offers a cash averaging contract through its local elevators. Some contracts in this category feature additional provisions for selling only above the loan rate, or have preset minimum and maximum price levels.

EXAMPLE: In January a farmer signs an automated pricing contract to market 5,000 bu. of new crop corn based on the average price of December corn futures over the period February 1 to June 30. The contract carries a fee of $0.05/bu. Each day between Feb. 1 and June 30, the closing price of the December corn futures contract is recorded by the elevator. The farmer decides to establish the basis on March 1, when the local forward cash price is $0.30 below the price of December futures. At harvest, the farmer delivers 5,000 bu. of corn and receives a final price of $2.15, determined as shown below:

Average Price of December corn futures, Feb. 1 – June 30.	$2.50/bu.
- Basis Established on March 1	-$0.30/bu.
- Service Fee for Contract	-$0.05/bu.
Final Price Received by Farmer	$2.15/bu.

It should be noted that the idea of an automated "averaging" marketing strategy is not really new. For example, in 1980, Good, Hieronymus, and Hinton discuss a minimum speculation strategy of making several, evenly distributed sales scattered throughout the marketing window. Such a marketing plan may be relatively easy for a farmer to implement, but requires the discipline to make systematic sales even during periods of "low" prices. One farmer states the problem this way, "If there's anything I've learned in the past 30 years of studying and marketing grain, it's this: Even with the right marketing plan and advisories, the critical calls to price grain are often not made." (Williams, 2001) A systematic selling strategy that has been written into an automated pricing contract removes much of the guesswork for the farmer.

2. Managed Hedging Contracts

Managed hedging contracts price a contracted amount of a farmer's production according to the recommendations of a professional market advisory service, over a set pricing period. There may be a predetermined minimum price for these contracts, but they offer no guarantee of generating average or above average performance. Furthermore, the marketing strategy of the advisor is not always transparent to the farmer. *Cargill,* as well as several other firms, currently offer this type of contract. In addition to a service fee similar to the Automated Pricing contracts, these contracts carry additional performance incentive fees if the market advisor achieves a price above a predetermined level.

3. Combination Contracts

A combination of the first two contract types, these contracts price the contracted amount of grain according to automated pricing rules, but allow the farmer to share in some of the gains, if any, of a professional hedging firm. The results of the discretionary component of these contracts are not always transparent, in real time, to the farmer, and service fees apply. To the best of the authors' knowledge, *Cargill* is currently the only company offering this type of contract at this time.

Examples Used in this Bulletin

To illustrate the results a typical central Illinois farmer might experience from the use of each contract, three example years are presented in each of the following fact sheets. The 1995 crop year is chosen to represent an up-market -- when prices increased steadily during the crop year. A "down" year is illustrated with the 1998 crop year, when prices generally declined. Finally, a "flat" year is represented by the 2000 crop year; it illustrates conditions of relatively stable prices. For each example year, a basis level is chosen that is closest to the Central Illinois average over the contract period. Loan Deficiency Payments and Marketing Loan Gain payments are not included in the examples presented in the fact sheets.

Many contracts listed in the bulletin have variable averaging periods, or contract lengths, and hence three different benchmarks are developed for comparison. The first benchmark averages cash prices over a 24-month marketing window. This two-year window begins on September 1 of the year prior to harvest and ends on August 31 of the year after harvest. The second benchmark averages only pre-harvest cash prices, using the first 12 months of the marketing window. The third benchmark averages post-harvest cash prices, using the second 12 months of the marketing window. The timelines of the three benchmarks are illustrated in Figure 1. Figures 2, 3, and 4 illustrate the path of cash corn prices for the 1995, 1998, and 2000 crop years, respectively. These figures illustrate the construction of the 24-month, pre-harvest, and post-harvest cash price benchmarks. A carrying charge, based on commercial storage rates for Central Illinois, is subtracted from all post-harvest cash prices.

Figure 1: The 24-Month Marketing Window

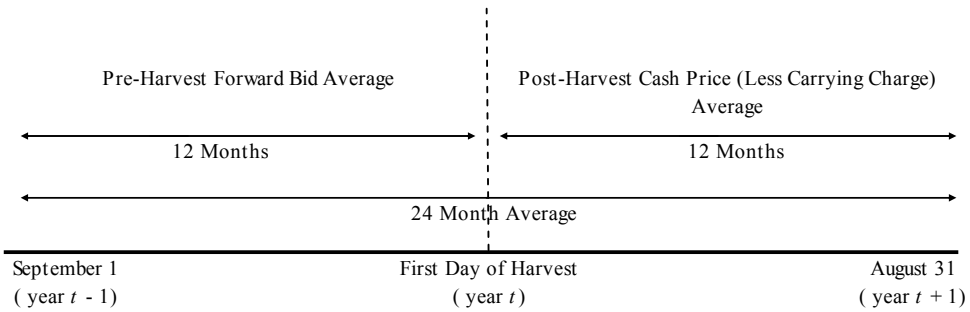


Figure 2: "Up" Year
Daily Prices of Corn, Central Illinois, 1995 Crop Year

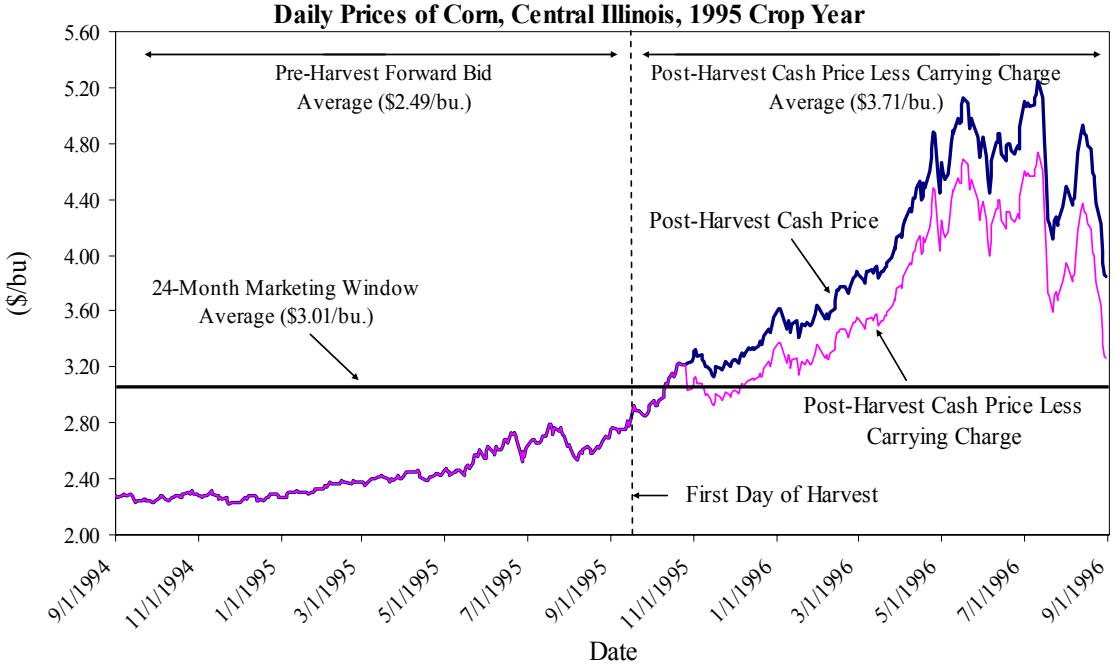


Figure 3: "Down" Year
Daily Prices of Corn, Central Illinois, 1998 Crop Year

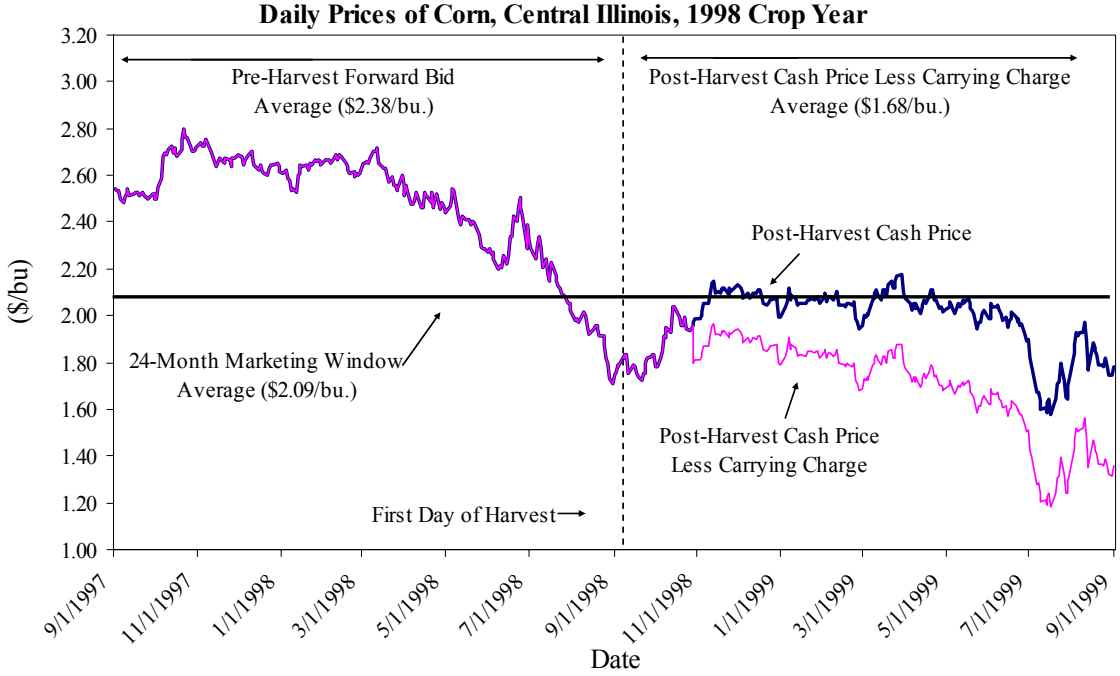
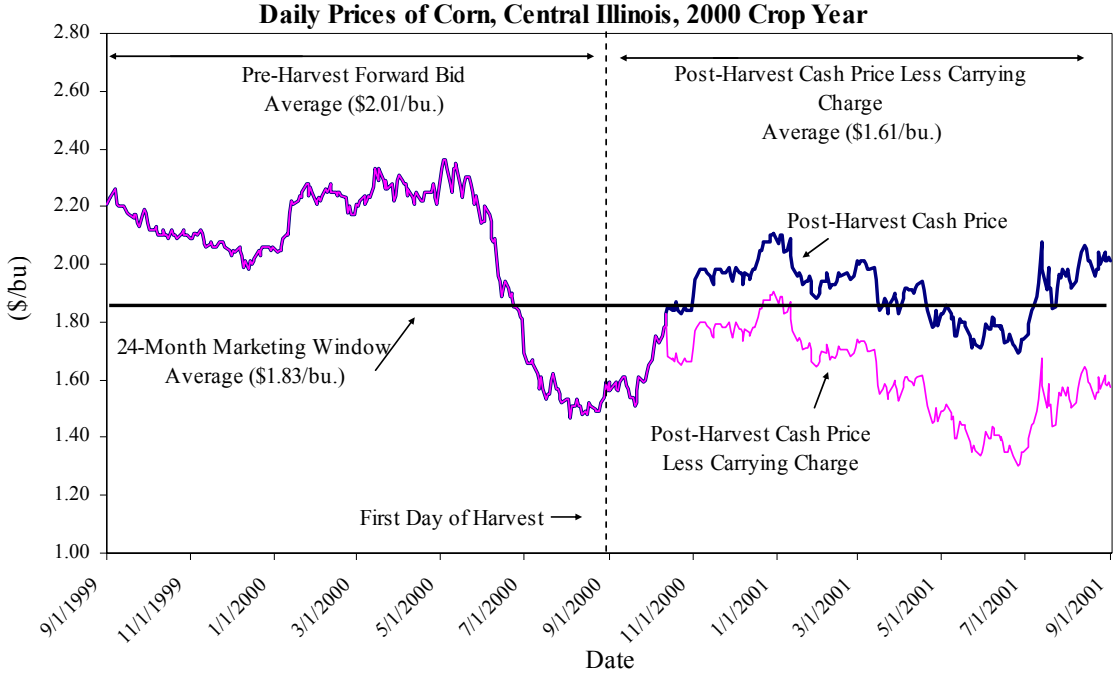


Figure 4: "Flat" Year
Daily Prices of Corn, Central Illinois, 2000 Crop Year



Important Issues for Farmers

The different types of new generation contracts provide farmers with alternative means of marketing grain production. When used in conjunction with traditional forward contracts or cash sales, these tools allow farmers to diversify their marketing plan and manage price risk. However, the specific characteristics of a contract need to be carefully examined prior to its inclusion in a marketing plan. Unlike a forward contract, the final price the farmer will receive is not known at the time the contract is signed.

Contracts that do not offer a minimum price feature offer no assurance of performance. Managed hedging contracts, that involve discretionary sales by a professional, do not necessarily provide a guarantee that the final price received will be at or above the average price over the pricing period.

Because the pricing mechanisms of Automated Pricing contracts are transparent, a farmer should be able to replicate the performance of these contracts, and determine the current net price they would receive. The features of the Managed Hedging and Combination Contracts make it much more difficult for a farmer to track their ongoing performance. The trading strategy of the market advisory services used in these contracts is not immediately transparent to the farmer; therefore the farmer must rely on the advisor for performance updates. It is important for the farmer to understand how grain sales will be made under these contracts, and how often feedback will be available from the chosen market advisory service(s). Finally, as with a forward contract, the farmer faces counterparty risk; in the case of contracts which require transfer of title prior to the pricing period, it is possible for the farmer to lose the contracted amount of grain if the counterparty were to go out of business (e.g., Williams, 2002).

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INDEX TO CONTRACT FACT SHEETS

AUTOMATED PRICING CONTRACTS

MANAGED HEDGING CONTRACTS

COMBINATION CONTRACTS

1. CARGILL AGHORIZONS FLOORED AVERAGE™

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cargillaghorizons.com/aghorizons/index.htm

FEATURES:

- The "Floored Average" contract gives the farmer the average daily closing futures price of the selected commodity during the pricing window.
- There is a guaranteed minimum price component to this contract. The minimum price is chosen by the producer, relative to the reference futures contract, at the time the contract is signed.
- The farmer must set the basis prior to contract end or delivery, whichever is first.
- There is no set time period for this contract. It can be used for both pre- and post-harvest sales.
- The cost of this contract is variable, approximately $0.05/bu - $0.07/bu, depending on the chosen floor price.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract on January 16, 1995, with a minimum price set at $2.40/bu. (December futures were trading at $2.51 ¾) with an averaging period of February 1 through June 30, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[1] The average price of December corn futures over this period was $2.67/bu., which exceeded the minimum price. The final price would have been $2.42/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a contract on January 15, 1998 with a minimum price set at $2.75/bu. (December futures were trading at $2.83 ½) with an averaging period of February 1 through June 30, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[1] The average price of December corn futures over this period was $2.68/bu., which was below the minimum price. The final price would have been $2.49/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a contract on January 18, 2000 with a minimum price set at $2.40/bu. (December futures were trading at $2.49 ½) with an averaging period of February 1 through June 30, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[1] The average price of December corn futures over this period was $2.48/bu., which exceeded the minimum price. The final price would have been $2.11/bu. as shown in the table below.

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[2]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.67	2.75[3]	2.48
Cost of Contract	-.06	-.06	-.06
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.42/bu.**	**$2.49/bu.**	**$2.11/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

1. CARGILL AGHORIZONS FLOORED AVERAGE™

FACT SHEET NOTES:

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Examples are based on the average daily prices for the December corn futures contract in the example year.

[3] The minimum price feature of this contract exceeded the average futures price in this example, and is used in calculating the final price.

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest, assuming commercial storage costs.

2. CARGILL AGHORIZONS FLOORED AVERAGE TARGET RANGE™

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cargillaghorizons.com/aghorizons/index.htm

FEATURES:

- The "Target Range" contract gives the farmer the average daily closing futures price of the selected commodity during the pricing window.
- This contract has minimum and maximum price levels – the final price received by the farmer is the higher of the minimum price or average futures price, but equal to or less than the maximum price. The minimum and maximum prices are chosen by the producer, relative to the reference futures contract, at the time the contract is signed.
- The farmer must set the basis prior to contract end or delivery, whichever is first.
- There is no set time period for this contract. It can be used for both pre- and post-harvest sales.
- The cost of this contract is variable, approximately $0.06/bu - $0.10/bu, depending on the chosen floor and ceiling prices.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract on January 16, 1995, with a minimum price set at $2.40/bu. (December futures were trading at $2.51 ¾) and a maximum price of $2.65/bu., with an averaging period of February 1 through June 30, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[1] The average price of December corn futures over this period was $2.67/bu., which exceeded the maximum price. The final price would have been $2.40/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a contract on January 15, 1998 with a minimum price set at $2.75/bu. (December futures were trading at $2.83 ½) and a maximum price of $2.95/bu., with an averaging period of February 1 through June 30, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[1] The average price of December corn futures over this period was $2.68/bu., which was below the floor price. The final price would have been $2.49/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a contract on January 18, 2000 with a minimum price set at $2.45/bu. (December 2000 futures were trading at $2.49 ½) and a maximum price of $2.65/bu., with an averaging period of February 1 through June 30, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[1] The average price of December corn futures over this period was $2.48/bu., which exceeded the floor price. The final price would have been $2.11/bu. as shown in the table below.

2. CARGILL AGHORIZONS FLOORED AVERAGE TARGET RANGE™

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[2]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.65[3]	2.75[4]	2.48
Cost of Contract	-.06	-.06	-.06
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.40/bu.**	**$2.49/bu.**	**$2.11/bu.**
Benchmarks:			
24-Month Marketing Window Average[5]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[6]	2.49	2.38	2.01
Post-harvest Marketing Window Average[7]	3.71	1.68	1.61

FACT SHEET NOTES:

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Examples are based on the average daily prices for the December corn futures contract in the example year.

[3] The maximum price feature of this contract was less than the average futures price in this example, and is used in calculating the final price.

[4] The minimum price feature of this contract exceeded the average futures price in this example, and is used in calculating the final price.

[5] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[6] Based on the 12 months prior to harvest.

[7] Based on the 12 months after harvest, assuming commercial storage costs.

3. CONSOLIDATED GRAIN AND BARGE (CGB) EQUALIZER "CLASSIC" ®

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Cash
WEBSITE: http://www.cgb.com/

FEATURES:

- The CGB "Classic" contract gives the farmer the average daily price of the selected commodity (futures – local basis) over the length of the contract.
- This contract has a "Loan Rate" feature. Sales of the contracted amount of the selected commodity are limited to days when the price of the reference futures (December for corn, November for soybeans) contract is above a price roughly equivalent to the loan rate. For 2001, these loan rate "triggers" were $2.10 for corn, and $5.60 for soybeans.
- The entire contracted amount must be delivered; this contract has a "price-out provision" which allows all remaining un-priced bushels to be priced on one day, chosen by the farmer. The use of the price-out provision carries an additional fee of $0.02/bu.
- This contract is available for pre-harvest sales only. There are two contract periods available: December 1 – June 30 or February 1 – July 31.
- The cost of this contract is approximately $0.03/bu.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a 5,000 bu. contract which averaged cash corn prices over the period of February 1 through July 31, 1995. Daily cash prices were used to compute the average price over the period, which turned out to be $2.51/bu. Futures prices remained above the loan rate for all days during the pricing window. The final price would have been $2.48/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a 5,000 bu. contract which averaged cash corn prices over the period of February1 through July 31, 1998. Daily cash prices were used to compute the average price over the period, which turned out to be $2.40/bu. Futures prices remained above the loan rate for all days during the pricing window. The final price would have been $2.37/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a 5,000 bu. contract which averaged cash corn prices for the period of February 1 through July 31, 2000. Grain sales were made only on days when the futures price was greater than $2.10/bu; futures prices remained above this amount until June 9, 2000, after which they were below the trigger. At the end of the contract, 1389 bu. of corn remained un-priced. The average cash price on days when the futures price was above the trigger price for this period was $2.25/bu. A price-out fee of $.02/bu was applied to the remaining grain, which was then priced on July 31 at $1.53/bu. The final price would have been $2.01/bu.[2] as shown in the table below.

3. Consolidated Grain and Barge (CGB) Equalizer "Classic" ®

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[1]:

	"Up" Year	"Down" Year	"Flat" Year
Average Cash Price	2.51	2.40	2.04[2]
Cost of Contract	-.03	-.03	-.03
Sample Final Price Received	**$2.48/bu.**	**$2.37/bu.**	**$2.01/bu.**
Benchmarks:			
24-Month Marketing Window Average[3]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[4]	2.49	2.38	2.01
Post-harvest Marketing Window Average[5]	3.71	1.68	1.61

FACT SHEET NOTES:

[1] Examples are based on the average daily cash price for Central IL in the example year.

[2] Only days where the futures price was greater than the loan rate were used in this example. Thus, for a 5000 bu. contract, 3611 bu. were priced at the average of $2.25/bu., while 1389 bu. remained unpriced at the end of the contract. These bu. were priced at $1.53/bu. for a fee of $0.02/bu. The average price and final price received numbers reflected in the table are calculated as follows:

"Priced Bushels" $2.25/bu. x 3611 bu.	$8108.08
"Priced-Out Bushels" $1.53/bu x 1389	+$2125.17
Fee for "Price-Out" $0.02/bu. x 1389	-$27.78
Total Income	$10205.47
Final "Average" Price: $10205.47/5000	$2.04
Cost of Contract	-$0.03
Final Price Received	$2.01/bu.

[3] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[4] Based on the 12 months prior to harvest.

[5] Based on the 12 months after harvest, assuming commercial storage costs.

4. CONSOLIDATED GRAIN AND BARGE (CGB) EQUALIZER "SELECT" ®

CONTRACT TYPE: AUTOMATED PRICING CONTRACT
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cgb.com/

FEATURES:

- The CGB "Select" contract gives the farmer the average daily closing futures price of the selected commodity over the contract period. This contract is the same as the CGB "Classic" contract, but uses futures instead of cash prices in calculating the average.
- This contract has a "Loan Rate" feature. Sales of the contracted amount of the selected commodity are limited to days when the futures price is above a price roughly equivalent to the loan rate. For 2001, these loan rate "triggers" were $2.10 for December corn futures, and $5.60 for November soybean futures.
- The entire contracted amount must be delivered. This contract has a "price-out provision" which allows all remaining un-priced bushels to be priced on one day, chosen by the farmer. The use of the price-out provision carries an additional fee of $0.02/bu.
- The farmer must set the basis prior to contract end.
- This contract is available for pre-harvest sales only. There are two contract periods available: December 1 – June 30 or February 1 – July 31.
- The cost of this contract is approximately $0.03/bu.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of February 1 through July 31, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[1] Grain sales were made only on days when the futures price was greater than $2.10/bu. Futures prices remained above this amount for the entire length of the contract. Therefore, all contracted bushels were priced during the averaging period. The average futures price over this period was $2.70/bu. The final price would have been $2.48/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of February 1 through July 31, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[1] Grain sales were made only on days when the futures price was greater than $2.10/bu. Futures prices remained above this amount for the entire length of the contract. Therefore, all contracted bushels were priced during the averaging period. The average futures price over this period was $2.63/bu. The final price would have been $2.40/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of February 1 through July 31, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[1] Grain sales were made only on days when the futures price was greater than $2.10/bu. Futures prices remained above this level until June 30, 2000, after which they were below the trigger. At the end of the contract, 830 bu. of corn remained un-priced. The average futures price on days above the trigger price for this period was $2.49/bu. A price-out fee of $.02/bu was applied to the remaining grain, which was then priced on July 31 at $1.92/bu. The final price would have been $2.05/bu.[3] as shown in the table below.

4. CONSOLIDATED GRAIN AND BARGE (CGB) EQUALIZER "SELECT" ®

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[2]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.70	2.63	2.39[3]
Cost of Contract	-.03	-.03	-.03
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.48**	**$2.40/bu.**	**$2.05/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

FACT SHEET NOTES:

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Examples are based on the average daily prices for the December corn futures contract in the example year.

[3] Only days when the futures price was greater than the loan rate were are used in this example. Thus, for a 5,000 bu. contract, 4170 bu. were priced at the average of $2.49/bu., while 830 bu. remained unpriced at the end of the contract. These were priced at $1.92/bu. for a fee of $0.02/bu. The average price and final price received numbers reflected in the table are calculated as follows:

"Priced Bushels" $2.49/bu. x 4170 bu.	$10383.3
"Priced-Out Bushels" $1.92/bu x 830	+$1593.6
Fee for "Price-Out" $0.02/bu. x 830	-$16.60
Total Income	$11960.3
Final "Average" Price: $11960.3/5000	$2.39
Cost of Contract	-$0.03
Basis	-.31
Final Price Received	$2.05/bu.

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest, assuming commercial storage costs.

5. CONSOLIDATED GRAIN AND BARGE (CGB) EQUALIZER "POST HARVEST" ®

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cgb.com/

FEATURES:

- The CGB "Equalizer Post Harvest" contract gives the farmer the average futures price over the contract period. The daily price used in averaging is determined by a daily market-on-close order for the July futures contract.
- The entire contracted amount must be delivered. This contract has a "price-out provision" which allows all remaining un-priced bushels to be priced on one day, chosen by the farmer. This feature has an additional fee of $0.02/bu.
- The farmer must set the basis (vs. July futures) prior to contract end. Once basis is set and delivery made, an advance payment is available to the farmer.
- This contract is available for post-harvest sales only. The contract period is February 1 – June 14.
- The cost of this contract is approximately $0.03/bu.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract for the averaging period of February 1 through June 14, 1996. It is assumed the basis was set on May 9 at + $0.06/bu.[1] Since averaging occurs during a post-harvest period, carrying charges of $0.49/bu. are deducted from the average futures price.[2] The average price of July futures over the pricing period was $4.24/bu., so the final price would have been $3.78/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a contract for the averaging period of February 1 through June 14, 1999. It is assumed the basis was set on April 22 at -$0.19/bu.[1] Since averaging occurs during a post-harvest period, carrying charges of $0.38/bu. are deducted from the average futures price.[2] The average price of July futures over the pricing period was $2.24/bu., so the final price would have been $1.64/bu. as shown in the example below.

3. "Flat" year (2000): A farmer initiated a contract for the averaging period of February 1 through June 14, 2001. It is assumed the basis was set on April 4 at -$0.18/bu.[1] Since averaging occurs during a post-harvest period, carrying charges of $0.38/bu. are deducted from the average futures price.[2] The average price of July futures over the pricing period was $2.13/bu, so the final price would have been $1.54/bu. as shown in the example below.

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[3]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	4.24	2.24	2.13
Cost of Contract	-.03	-.03	-.03
Basis	+.06	-.19	-.18
Carrying Charge[2]	-.49	-.38	-.38
Sample Final Price Received	**$3.78/bu.**	**$1.64/bu.**	**$1.54/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

5. CONSOLIDATED GRAIN AND BARGE (CGB) EQUALIZER "POST HARVEST" ®

FACT SHEET NOTES:

[1] This date reflects the basis level (vs. July futures) closest to the average for Central Illinois over the contract period.

[2] Carrying charge for commercial storage, per bu., from harvest until June 14.

[3] Examples are based on the average daily prices for the July corn futures contract in the example year.

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest. assuming commercial storage costs.

6. DECISION COMMODITIES "HARVEST SALE INDEX" / E-MARKETS "MARKET INDEX FORWARD"

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.decisioncommodities.com/, http://www.e-markets.com

FEATURES:

- The "Harvest Index" product gives the farmer the average daily closing futures price of the selected commodity during the pricing window.
- This tool is a pricing mechanism, not a contract; a forward contract is signed with a participating elevator, and E-Markets / Decision Commodities is specified as the pricing mechanism.
- The farmer must set the basis prior to contract end.
- This contract is available for pre-harvest sales only. It is offered on a flexible basis – starting time is variable, with the contract running to June 30 or October 15.
- The cost of this contract is approximately $0.03/bu.[1]

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract for the averaging period January 1 to June 30, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[2] The average price of December corn futures over the averaging period was $2.64/bu. The final price would have been $2.42/bu. as shown in the table below:

2. "Down" year (1998): A farmer initiated a contract for the averaging period January 1 to June 30, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[2] The average price of December corn futures over the averaging period was $2.71/bu. The final price would have been $2.48/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a contract for the averaging period January 1 to June 30, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[2] The average price of December corn futures over the averaging period was $2.48/bu. The final price would have been $2.14/bu. as shown in the table below.

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[3]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.64	2.71	2.48
Cost of Contract	-.03	-.03	-.03
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.42/bu.**	**$2.48/bu.**	**$2.14/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

6. DECISION COMMODITIES "HARVEST SALE INDEX" / E-MARKETS "MARKET INDEX FORWARD"

FACT SHEET NOTES:

[1] Estimate, based on @griculture Online, http://www.agriculture.com/buyersguide/sidebyside/sbs_riskmgmt.html

[2] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[3] Examples are based on the average daily prices for the December corn futures contract in the example year.

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest, assuming commercial storage costs.

7. DECISION COMMODITIES "WEATHER INDEX" / E-MARKETS "SEASONAL INDEX FORWARD"

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.decisioncommodities.com/, http://www.e-markets.com

FEATURES:

- The "Weather Index" product gives the farmer a weighted average of closing futures prices of the selected commodity over the pricing window. The farmer specifies a portion of bushels to price during two periods. For example, a portion of bushels is priced during the period January 1 – June 30, and the remaining amount is priced during the period July 1 – October 15.
- This tool is a pricing mechanism, not a contract; a forward contract is signed with a participating elevator, and E-Markets / Decision Commodities is specified as the pricing mechanism.
- The farmer must set the basis prior to contract end.
- This contract is available for pre-harvest sales only. It is offered on a flexible basis – starting time is variable, with the contract running to October 15.
- The cost of this contract is approximately $0.03/bu. for corn.[1]

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract for the averaging period January 1 – Oct. 15, 1995, choosing to market 80% of the contracted amount during the period January 1 – June 30, and the remaining 20% during the period July 1 – October 15, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[2] The average price of December corn futures was $2.64/bu. for the period January 1 – June 30, and $2.94/bu. for the period July 1 – October 15. The final price would have been $2.48/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a contract for the averaging period January 1 – October 15, 1998, choosing to market 80% of the contracted amount during the period January 1 – June 30, and the remaining 20% during the period July 1 – October 15, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[2] The average of price of December corn futures was $2.71/bu. for the period January 1 – June 30, and $2.20/bu. for the period July 1 – October 15. The final price would have been $2.37/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a contract for the averaging period January 1 – October 15, 2000, choosing to market 80% of the contracted amount during the period January 1 – June 30, and the remaining 20% during the period July 1 – October 15, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[2] The average of price of December corn futures was $2.48/bu. for the period January 1 – June 30, and $1.95/bu. for the period July 1 – October 15. The final price would have been $2.04/bu. as shown in the table below.

7. DECISION COMMODITIES "WEATHER INDEX" / E-MARKETS "SEASONAL INDEX FORWARD"

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[3]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.70[4]	2.60[5]	2.38[6]
Cost of Contract	-.03	-.03	-.03
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.48/bu.**	**$2.37/bu.**	**$2.04/bu.**
Benchmarks:			
24-Month Marketing Window Average[7]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[8]	2.49	2.38	2.01

FACT SHEET NOTES:

[1] Estimate, based on @griculture Online, http://www.agriculture.com/buyersguide/sidebyside/sbs_riskmgmt.html

[2] This date reflects the basis closest to the average for Central Illinois over the contract period.

[3] Examples are based on the average daily prices for the December corn futures contract in the example year.

[4] The average futures price reflects the marketing weights chosen in the example (.80 x $2.64 + .20 x $2.94 = $2.70/bu.)

[5] The average futures price reflects the marketing weights chosen in the example (.80 x $2.71 + .20 x $2.20 = $2.60/bu.)

[6] The average futures price reflects the marketing weights chosen in the example (.80 x $2.48 + .20 x $1.95 = $2.38/bu.)

[7] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[8] Based on the 12 months prior to harvest.

[9] Based on the 12 months after harvest, assuming commercial storage costs.

8. DECISION COMMODITIES "LOAN PLUS RALLY"

CONTRACT TYPE: Automated Pricing Contract
COMMODITIES COVERED: Corn, Soybeans
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.decisioncommodities.com/

FEATURES:

- The "Loan Plus Rally" product gives the farmer a weighted average of daily closing futures prices of the December or March contracts for the selected commodity over the pricing window.
- This tool is a pricing mechanism, not a contract; a forward contract is signed with a participating elevator, and Decision Commodities is specified as the pricing mechanism.
- Pricing for this contract is done only on days when the closing price of the reference futures contract is below the previous day's close, and above the loan rate. The number of bushels marketed, on qualifying days, is determined by dividing the remaining number of un-priced bushels by the remaining number of days in the contract period, and multiplying the result by 5.
- Bushels remaining un-priced at the end of the contract are the seller's responsibility.
- The farmer must set the basis prior to contract end.
- This contract is available for pre-harvest sales only. It is offered on a flexible basis – starting time is variable, with the contract running to October 15.
- The cost of this contract is approximately $0.03/bu. [1]

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of January 1 through October 15, 1995. It is assumed the basis was set on May 18, 1995 at -$0.20/bu.[2] Grain sales were made only on days when the futures price was greater than $2.10/bu.[3] Futures prices remained above this amount for the entire length of the contract. Therefore, all contracted bushels were priced during the averaging period. The average futures price over this period was $2.58/bu. The final price would have been $2.35/bu. as shown in the table below.

2. "Down" year (1998): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of January 1 through October 15, 1998. It is assumed the basis was set on August 13, 1998 at -$0.25/bu.[2] Grain sales were made only on days when the futures price was greater than $2.10/bu.[3] All bushels were marketed while futures prices were above the loan rate. The average futures price over this period was $2.79/bu. The final price would have been $2.51/bu. as shown in the table below.

3. "Flat" year (2000): A farmer initiated a 5,000 bu. contract which averaged December corn futures prices for the period of January 1 through October 15, 2000. It is assumed the basis was set on June 15, 2000 at -$0.32/bu.[2] Grain sales were made only on days when the futures price was greater than $2.10/bu.[3] All bushels were marketed while futures prices were above the loan rate. The average futures price over this period was $2.52/bu. The final price would have been $2.17/bu. as shown in the table below.

8. DECISION COMMODITIES "LOAN PLUS RALLY"

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[4]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.58	2.79	2.52
Cost of Contract	-.03	-.03	-.03
Basis	-.20	-.25	-.32
Sample Final Price Received	**$2.35/bu.**	**$2.51/bu.**	**$2.17/bu.**
Benchmarks:			
24-Month Marketing Window Average[5]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[6]	2.49	2.38	2.01
Post-harvest Marketing Window Average[7]	3.71	1.68	1.61

FACT SHEET NOTES:

[1] Estimate, based on @griculture Online, http://www.agriculture.com/buyersguide/sidebyside/sbs_riskmgmt.html

[2] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[3] The $2.10/bu. trigger price reflects an adjustment to the national average loan rate for corn of $1.89/bu. A "basis" of $0.21 is added to the cash loan rate to produce a "futures loan rate," which serves as a price trigger for this contract.

[4] Examples are based on the average daily prices for the December corn futures contract in the example year.

[5] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[6] Based on the 12 months prior to harvest.

[7] Based on the 12 months after harvest, assuming commercial storage costs.

9. CARGILL AGHORIZONS PROPRICING MARKETPROS™

CONTRACT TYPE: Managed Hedging Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: N/A – contract involves purely discretionary hedging
WEBSITE: http://www.cargillaghorizons.com/aghorizons/index.htm

FEATURES:

- The "MarketPros" contract is a managed hedging contract – the farmer chooses one or several participating market advisory firms to market the contracted amount of grain.
- This contract is offered during two periods. For corn, the first contract period is January 1 – September 28, and the second is January 1 – November 30; for soybeans, the contract is offered January 1 – September 14 or January 1 – October 31.
- There is a guaranteed minimum price component to this contract. The minimum price is set relative to the current price of the reference futures contract at the time the contract is signed (prior to the start of the averaging period). There is no guarantee that the final price will equal or exceed the average, or be above the level of the loan rate.
    - The reference futures contracts for the first pricing period are December and November contracts for corn and soybeans respectively; for the second period, the reference futures contracts are March and January, respectively.
- There is a minimum contract size of 5000 bu. for corn and 3000 bu. for soybeans; the contracted amount cannot exceed 50% of total production.
- The farmer must set the basis prior to the beginning of the futures reference month or prior to delivery, whichever is first.
- Once delivery is made, an advance payment can be taken, with the amount determined by the guaranteed price.
- The cost of this contract is approximately $0.05/bu. for corn, and $0.07/bu. for soybeans. Additional $0.02/bu. (corn) and $0.03/bu. (soybeans) performance incentive fees may apply if the chosen marketing firm(s) achieves a final price in the top one-third of the trading range during the contract period.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract on December 15, 1994 with a minimum price set at $2.40/bu. (December futures were trading at $2.46 ¼) for the period January 1 – September 28, 1995, following the marketing advice of service "X". It is assumed the basis was set on March 2 at -$0.19/bu.[1] There are two possible outcomes for the final price received by the farmer. If service "X" achieved a "good" price[2], thereby earning an incentive fee, the final price would have been $2.71/bu. If service "X" achieved a "poor" price[3], the final price would have been $2.40/bu. These examples are illustrated in the tables below.

2. "Down" year (1998): A farmer initiated a contract on December 15, 1997 with a minimum price set at $2.70/bu. (December futures were trading at $2.81 ¾) for the period January 1 – September 28, 1998, following the marketing advice of service "X". It is assumed the basis was set on March 26 at -$0.20/bu. There are two possible outcomes for the final price received by the farmer. Regardless of the performance of service "X", the final price would have been $2.45/bu, due to the minimum price feature. These examples are illustrated in the tables below.

3. "Flat" year (2000): A farmer initiated a contract on December 15, 1999 with a minimum price set at $2.20/bu. (December futures were trading at $2.27 ¾) for the period January 1 – September 28, 2000, following the marketing advice of service "X". It is assumed the basis was set on March 23 at -$0.31/bu.[1] There are two possible outcomes for the final price received by the farmer. If service "X" achieved a "good" price[2], thereby earning an incentive fee, the final price would have been $2.09/bu. If service "X" achieved a "poor" price[3], the final price would have been $1.84/bu. These examples are illustrated in the tables below

9. CARGILL AGHORIZONS PROPRICING MARKETPROS™

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[4] ("Good" Performance):

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.97	2.70[5]	2.47
Cost of Contract	-.05	-.05	-.05
Performance Incentive	-.02	-.00	-.02
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.71/bu.**	**$2.45/bu.**	**$2.09/bu.**
Benchmarks:			
24-Month Marketing Window Average[6]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[7]	2.49	2.38	2.01
Post-harvest Marketing Window Average[8]	3.71	1.68	1.61

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION ("Poor" Performance):

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.64	2.70[5]	2.20[5]
Cost of Contract	-.05	-.05	-.05
Basis	-.19	-.20	-.31
Sample Final Price Received	**$2.40/bu.**	**$2.45/bu.**	**$1.84/bu.**
Benchmarks:			
24-Month Marketing Window Average	3.01	2.09	1.83
Pre-harvest Marketing Window Average	2.49	2.38	2.01
Post-harvest Marketing Window Average	3.71	1.68	1.61

FACT SHEET NOTES

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Average of the upper one-half of the price range for December corn futures contract in the example year.

[3] Average of the lower one-half of the price range for December corn futures contract in the example year.

[4] Examples are based on the average daily prices for the December corn futures contract in the example year.

[5] The minimum price feature of this contract exceeded the average futures price in this example, and is used in calculating the final price.

[6] Bassed on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[7] Based on the 12 months prior to harvest.

[8] Based on the 12 months after harvest, assuming commercial storage costs.

10. CARGILL AGHORIZONS PROPRICING A+™

CONTRACT TYPE: Combination Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cargillaghorizons.com/aghorizons/index.htm

FEATURES:

- The Cargill "A+" gives the farmer the average daily closing futures price during the pricing period February 1 through June 30. Averaging does not occur during the entire length of the contract.
- This contract is offered during two periods. For corn, the first contract period is January 1 – September 28, and the second is January 1 – November 30; for soybeans, January 1 – September 14 or January 1 – October 31.
    - The reference futures contracts for the first pricing period are December and November contracts for corn and soybeans respectively; for the second period, the reference futures contracts are March and January, respectively.
- This contract offers the possibility of a price higher than the average if Cargill traders exceed the average price during the contract period; if this happens, 2/3 of Cargill's profits ($/bu.) are added to the farmer's final price. The final price received by the farmer is not affected if Cargill's hedging profits fail to exceed the average price.
- The farmer must set the basis by November 30 for corn, or October 31 for soybeans.
- The cost of this contract is approximately $0.03/bu. for corn and $0.05/bu. for soybeans.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year (1995): A farmer initiated a contract for the averaging period of February 1 through June 30, 1995. It is assumed the basis was set on March 2 at -$0.19/bu.[1] The average price of December corn futures over the averaging period was $2.67/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

2. "Down" year (1998): A farmer initiated a contract for the averaging period of February 1 through June 30, 1998. It is assumed the basis was set on March 26 at -$0.20/bu.[1] The average price of December corn futures over the averaging period was $2.68/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

3. "Flat" year (2000): A farmer initiated a contract for the averaging period of February 1 through June 30, 2000. It is assumed the basis was set on March 23 at -$0.31/bu.[1] The average price of December corn futures over the averaging period was $2.45/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

10. CARGILL AGHORIZONS PROPRICING A+™

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[2]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.67	2.68	2.45
Cost of Contract	-.03	-.03	-.03
Basis	-.19	-.20	-.31
Sample Final Price (No Hedging Profit)	**$2.45/bu.**	**$2.45/bu.**	**$2.11/bu.**
Sample Final Price ($.06/bu. Hedging Profit)[3]	**$2.51/bu.**	**$2.51/bu.**	**$2.17/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

FACT SHEET NOTES

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Examples are based on the average daily prices for the December corn futures contract in the example year.

[3] Assuming Cargill earned a $.09/bu. hedging profit, the farmer would receive an additional $.06/bu. (2/3 of profit shared with farmer x $.09/bu. profit = $.06/bu. added to final price)

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest, assuming commercial storage costs.

11. CARGILL AGHORIZONS PROPRICING A+ ULTRA™

CONTRACT TYPE: Combination Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat
BASED ON AVERAGE OF: Futures
WEBSITE: http://www.cargillaghorizons.com/aghorizons/index.htm

FEATURES:

- The Cargill "A+ Ultra" gives the farmer the average daily closing futures price during the pricing period February 1 through June 29. Averaging does not occur during the whole length of the contract.
- This contract is offered during two periods. For corn, the first contract period is January 1 – September 28, and the second is January 1 – November 30; for soybeans, January 1 – September 14 or January 1 – October 31.
    - The reference futures contracts for the first pricing period are December and November contracts for corn and soybeans respectively; for the second period, the reference futures contracts are March and January.
    - This contract offers the possibility of a price higher than the average if Cargill traders exceed the average price during the contract period; if this happens, 2/3 of Cargill's profits are added to the farmer's final price. The final price received by the farmer is not affected if Cargill's hedging profits fail to exceed the average price.
- This contract features a floor price – for days that futures close below the floor price, the floor price is substituted for the closing price and then used in calculating the average.
- The farmer must set the basis prior to the beginning of the futures reference month or prior to delivery, whichever is first.
- The cost of this contract is approximately $0.03/bu. for corn and $0.05/bu. for soybeans.

DESCRIPTION OF SIMULATED HISTORICAL CONTRACT EXECUTION:

1. "Up" year: A farmer initiated a contract for the period January 1 – September 28, 1995, with averaging done between February 1 and June 29, 1995. A floor price was set at $2.40/bu. (December futures were trading at $2.48/bu.) It is assumed the basis was set on March 2 at -$0.19/bu.[1] The average price of December futures over the averaging period, using the floor price for days when the futures price was below $2.40/bu., was $2.75/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

2. "Down" year: A farmer initiated a contract for the period January 1 – September 28, 1998, with averaging done between February 1 and June 29, 1998. A floor price was set at $2.70/bu. (December futures were trading at $2.79/bu.) It is assumed the basis was set on March 26 at -$.20/bu.[1] The average price of December futures over the averaging period, using the floor price for days when the futures price was below $2.70/bu., was $2.73/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

3. "Flat" year: A farmer initiated a contract for the period January 1 – September 28, 2000, with averaging done between February 1 and June 29, 2000. A floor price was set at $2.25/bu. (December futures were trading at $2.32/bu.) It is assumed the basis was set on March 23 at -$.31/bu.[1] The average price of December futures over the averaging period, using the floor price for days when the futures price was below $2.25/bu., was $2.40/bu. There are two possible outcomes for the final price received by the farmer, one assuming Cargill earned no hedging profit and the other assuming a hedging profit was earned, as illustrated in the table below.

11. CARGILL AGHORIZONS PROPRICING A+ ULTRA™

EXAMPLES OF SIMULATED HISTORICAL CONTRACT EXECUTION[2]:

	"Up" Year	"Down" Year	"Flat" Year
Average Futures Price	2.75	2.73	2.40
Cost of Contract	-.03	-.03	-.03
Basis	-.19	-.20	-.31
Sample Final Price (No Hedging Profit)	**$2.53/bu.**	**$2.50/bu.**	**$2.06/bu.**
Sample Final Price ($.06/bu. Hedging Profit)[3]	**$2.59/bu.**	**$2.56/bu.**	**$2.12/bu.**
Benchmarks:			
24-Month Marketing Window Average[4]	3.01	2.09	1.83
Pre-harvest Marketing Window Average[5]	2.49	2.38	2.01
Post-harvest Marketing Window Average[6]	3.71	1.68	1.61

FACT SHEET NOTES

[1] This date reflects the basis level closest to the average for Central Illinois over the contract period.

[2] Examples are based on the average daily prices for the December corn futures contract in the example year.

[3] Assuming Cargill earned a $.09/bu. hedging profit, the farmer would receive an additional $.06/bu. (2/3 of profit shared with farmer x $.09/bu. profit = $.06/bu. added to final price)

[4] Based on a two-year marketing window in Illinois. Marketing Window Averages assume commercial storage, and do not reflect LDP/MLG payments. Complete details on construction of the marking window averages can be found in The Pricing Performance of Market Advisory Services In Corn and Soybeans Over 1995-2000 Irwin, Martines-Filho, and Good (2002).

[5] Based on the 12 months prior to harvest.

[6] Based on the 12 months after harvest, assuming commercial storage costs.

Appendix: Contracts without Historical Examples

CoMark Cooperative Marketing Alliance is a co-op that markets crops for producers across the United States. As a managed hedging contract, their Premier Crop Marketing program markets a farmer's production according to the advice of professionals. Due to the wide degree of latitude in marketing decisions afforded to the market advisors of this program, it is difficult to present examples that would adequately reflect the historical performance of this contract. The features of the product are presented for reference.

CONTRACT NAME: COMARK PREMIER CROP MARKETING
CONTRACT TYPE: Managed Hedging Contract
COMMODITIES COVERED: Corn, Soybeans, Wheat, Milo, Cotton
BASED ON AVERAGE OF: N/A – contract involves purely discretionary hedging
WEBSITE: http://www.comark.org

FEATURES:

- This contract hedges crop production for a farmer based on the recommendations of marketing specialists. Producers commit a portion of their crop to a grain pricing pool, which is managed by CoMark. The producer signs the contract with CoMark, but delivers the grain to a local elevator.
- Each grain pricing pool is managed by three professionals; each advisor, independently, markets one-third of the grain in the pool. Advisors are limited to "short" futures positions, offset with long call option positions, or long put option positions. The producer does not have the ability to choose which advisors to use. The producer does not have to finance the hedge margins or option premiums. Marketing pool performance updates are made available daily on the CoMark website, as well as quarterly by mail.
- CoMark provides advice regarding the timing of cash sales, but the producer is ultimately responsible for determining the quantity and frequency of cash grain marketing. Cash sales must be made in 5,000 bu. increments, and delivered to the chosen location. After cash sales are made, and the contracted amount of grain is delivered, the producer can elect to "opt-out" of the pool, collecting all hedging profits to date, or to "opt-in," leaving a portion of money in the pool to be managed post-harvest.
- This contract is offered on a flexible basis – it covers both the pre- and post-harvest periods of a given crop year.
- There is a minimum contract size of 5000 bu., and participation is based on 5,000 bu. increments. The contracted amount cannot exceed 50% of total pre-harvest production.
- The service charge for this contract is approximately $0.05/bu. - $0.10/bu.

E-Markets (http://www.e-markets.com) offers three contracts which are not included in the preceding fact sheets: "Trend Tack", "Trend Trail" and "Market Prospector." These contracts follow automated pricing rules, but require the farmer to specify a number of parameters which are used to determine when grain is priced. Because of the high degree of customization these contracts afford the farmer, it is difficult to present examples which would accurately reflect their performance. The features of these contracts are presented for reference.

1. CONTRACT NAME: E-Markets DRC® "Trend Tack"
   CONTRACT TYPE: Automated Pricing Contract
   COMMODITIES COVERED: Corn, Soybeans
   BASED ON AVERAGE OF: Futures

   FEATURES:
   - The "Trend Tack" contract gives the farmer the average daily closing futures price of the selected commodity during the pricing window. Grain is priced when the day's closing price is within a range (farmer specified) of a moving average.
     - The farmer specifies the length of time used in calculating the moving average. The moving average can be between 9 and 60 days.
     - The farmer specifies a range, or "sensitivity," below the moving average for pricing. A sensitivity of 10 would allow pricing only on days where the close was, at the most, 10 cents below the moving average.
   - The farmer may establish a price threshold below which pricing will not occur; this is not required.
   - There is no set time period for this contract. It can be used for both pre- and post-harvest sales.
   - The cost of this contract is approximately $0.03/bu.

2. CONTRACT NAME: E-Markets DRC® "Trend Trail"
   CONTRACT TYPE: Automated Pricing Contract
   COMMODITIES COVERED: Corn, Soybeans
   BASED ON AVERAGE OF: Futures

   FEATURES:
   - The "Trend Trail" contract gives the farmer the average daily closing futures price of the selected commodity during the pricing window. Grain is priced when the day's closing price is within a range (farmer specified) of an index.
     - The farmer specifies the length of time used in calculating the moving average. The moving average can be between 9 and 60 days.
     - The farmer specifies a trigger, or "sensitivity," that prices grain while the market is going up. A sensitivity of 10 would allow pricing only on days when the market goes up 0-10 cents.
   - The farmer may establish a price threshold below which pricing will not occur; this is not required.
   - There is no set time period for this contract. It can be used for both pre- and post-harvest sales.
   - The cost of this contract is approximately $0.03/bu.

3. CONTRACT NAME: E-Markets DRC® "Market Prospector"
   CONTRACT TYPE: Automated Pricing Contract
   COMMODITIES COVERED: Corn, Soybeans
   BASED ON AVERAGE OF: Futures

   FEATURES:
   - The "Market Prospector" contract gives the farmer the average daily closing futures price of the selected commodity during the pricing window. Grain is priced when the day's closing price is within a range (farmer specified) of an index.
     - The farmer specifies the length of time used in calculating the moving average. The moving average can be between 9 and 60 days.
     - The farmer specifies a trigger number, which is based on the Relative Strength Index technical indicator. Trigger values range from 20-80. Pricing occurs when RSI moves above the trigger value.
   - The farmer may establish a price threshold below which pricing will not occur; this is not required.
   - There is no set time period for this contract. It can be used for both pre- and post-harvest sales.
   - The cost of this contract is approximately $0.03/bu.