Primient

Basis Forward Contract

About the contract

The Primient Basis Forward grain contract allows the producer to deliver grain and lock in a basis against a deferred futures month. This allows the producer the ability to avoid any storage charges, deliver grain when it is convenient, and lock in a favorable basis as well as favorable market spreads. The producer has until a specified date to set the futures and the final price the contract, all against the selected deferred futures month at the set basis.

Advantages

- Basis is locked in and cannot get wider
- Storage risks are passed on to the buyer
- Board spreads are locked in
- The producer can take advantage of rallies in the futures market
- The producer can take advantage of an interest free advance at any time before pricing

Considerations

- The producer cannot take advantage of any basis improvements
- The producer has exposure to any drops in the futures market

Example

Producer delivers 5,000 bushels of corn to elevator in October 2012 and puts the corn on a basis forward contract using July 2013 as the reference futures month with a pricing date of on or before June 30, 2013.

The forward basis level is as follows:

Elevator daily basis at delivery	- .25 December 2012 futures
Dec/July futures board spread	- .15 carry (July being more than December)
Basis forward level vs July futures	- .40 July 2013 futures

In May 2013, the producer decides to final price this basis forward contract.

July 13 corn futures	$6.35
Heyworth Local Basis	- .40
Cash Price	$5.95

Premiums, values, strike prices, and dates all vary depending on customer objective and current market conditions; *fee may apply