

Using Futures to Hedge

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FUTURES MARKET

- Definition: The buying and selling of standardized contracts for the future delivery of a commodity.
- Can use the Futures Market to establish a HEDGE position for a commodity



Futures Contracts

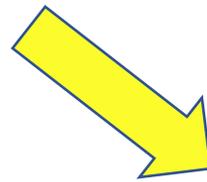
- A **futures contract** is an agreement between buyer and seller to deliver an asset (**specified quantity** and **grade**) at a **certain time in the future** for a **price** agreed to when the contract is first entered
- By contrast, in a **spot contract** there, is an agreement to buy or sell the asset immediately (or within a very short period of time)
- ***Standardization is key*** (only price can change)
 - Minimizes transaction costs of trading deferred delivery instrument
 - *Only* traded on approved exchanges

FUTURES PRODUCTS

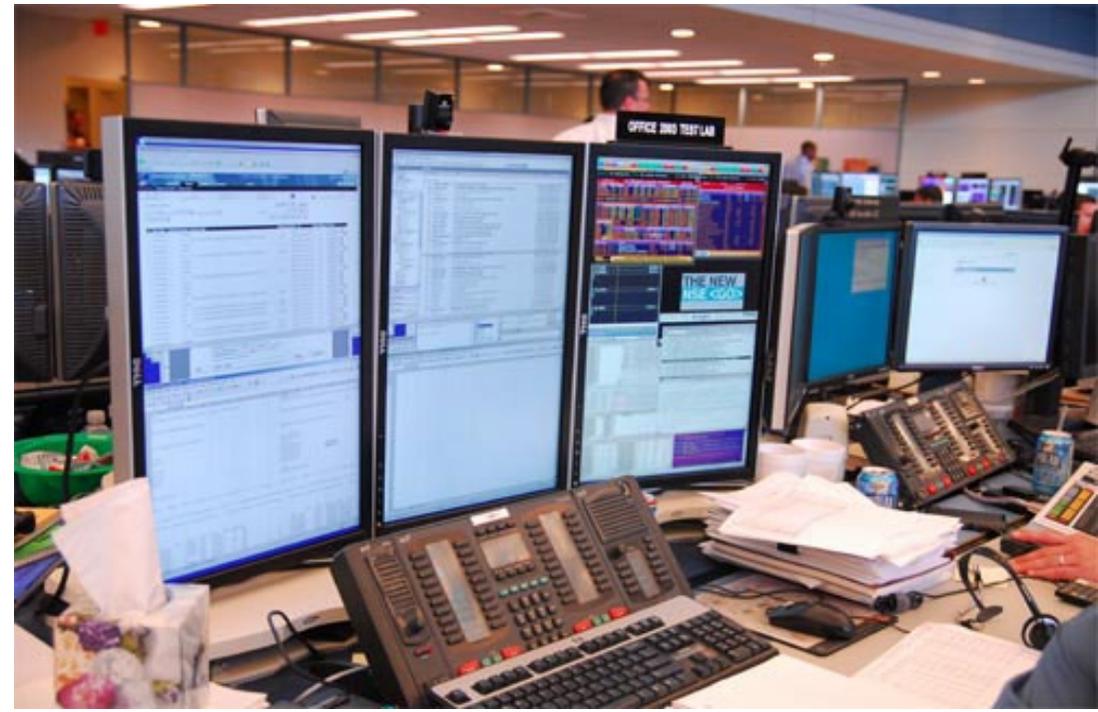
- FUTURES & OPTIONS
 - Pit-traded (open outcry)
 - Electronic
- Agricultural Commodities
- Financials
- Metals
- Energies
- Currencies



Open Outcry System



Electronic Trading



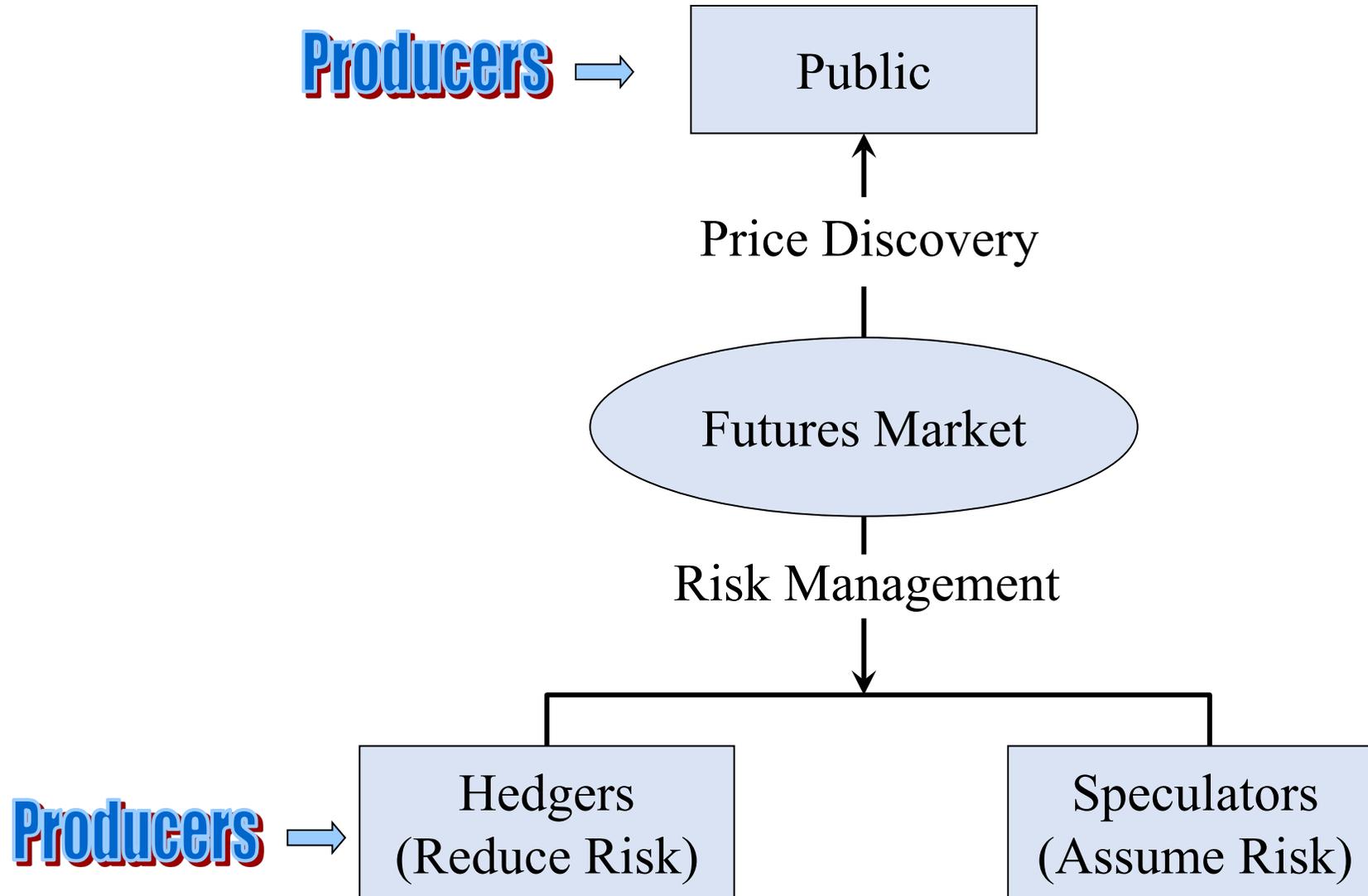
ECONOMIC FUNCTIONS OF FUTURES EXCHANGE (MARKET)

- **Price Discovery**
- **Risk Transfer**
- **Price Information**

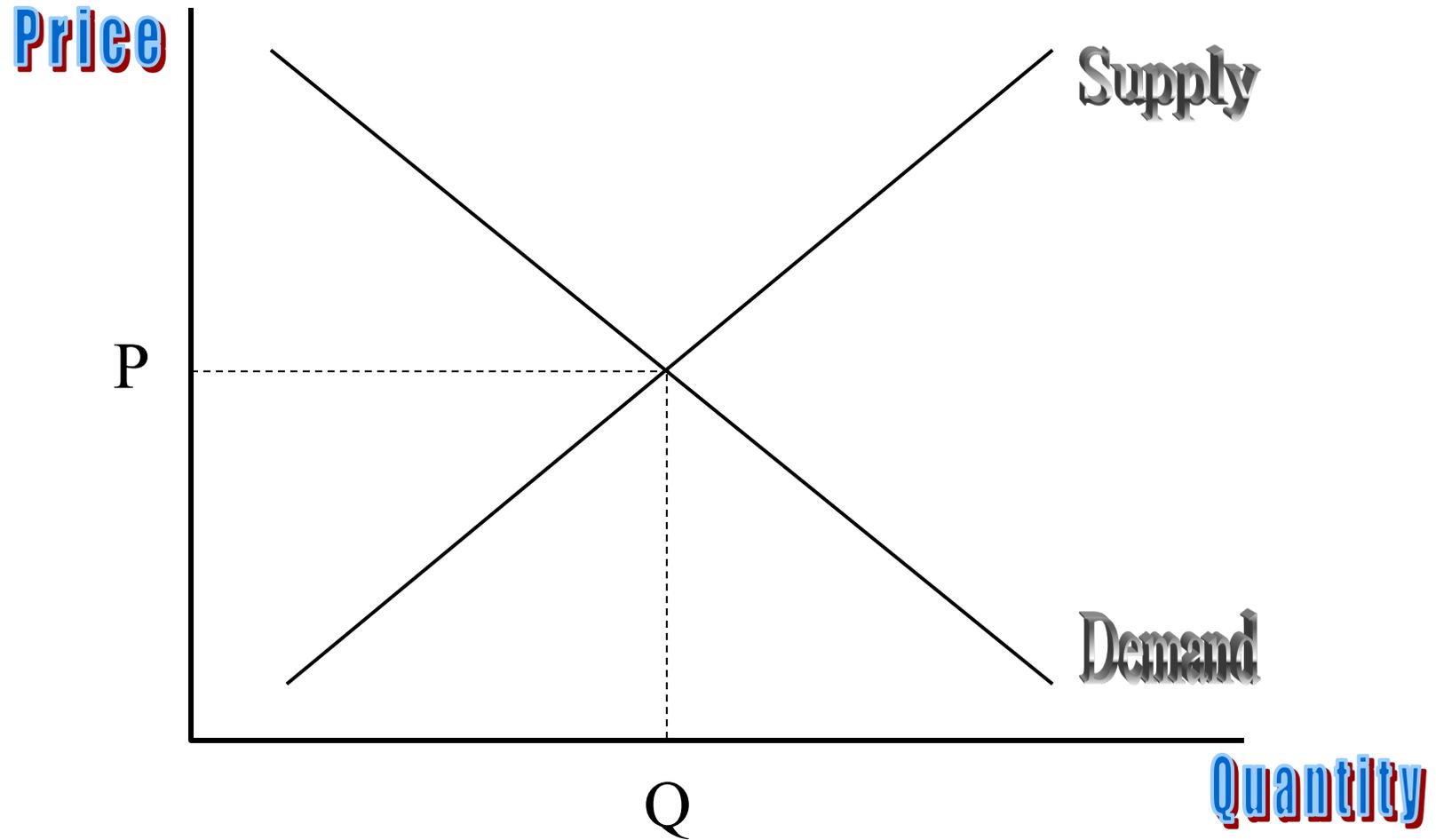
WHO USES FUTURES?

- **Observers**
- **Speculators** (large & small)
- **Hedgers** (producers, merchants, hedge funds)

ECONOMIC FUNCTIONS OF FUTURES



PRICE DISCOVERY



Trading Futures

- If Sell agreed to deliver, if Buy to receive
- If Buy at 1.00 and sell at 1.10, made or lost money?
- If Sell at 1.00 and buy back at 0.90, made or lost money?
- Since can either buy or sell, this is how can trade futures contracts without actual delivery – Can “offset” by assuming opposite position from initial.

DELIVERY OF COMMODITY

- Seller or buyer obligated to deliver or receive delivery unless take an offsetting position to attain a net-zero position with the clearinghouse
- Ability to offset is key feature of futures trading
- Only 2% or less of agricultural futures contracts result in physical delivery

FUTURES TERMINOLOGY

- **Short** Futures – to **sell** a futures contract
- **Long** Futures – to **buy** a futures contract
- **Basis** – difference between your local price and the price of a futures contract
- **Clearinghouse** – organization that clears trading activity and makes sure contracts are honored.
- **Commission** – fees paid to a broker for execution of an order
- **Margin** – deposit (earnest money) required by clearinghouse from buyer and seller to ensure the honor any financial liability

MARGIN MONEY

Good Faith Money Placed in Escrow

Both Buyer and Seller

Guards Against Default

Assures Money Lost is on Deposit

Is less for hedgers than speculators

Varied by Commodity & Trader, 5-10%

HEDGING

- Establishing an acceptable price for a commodity which is either owned or committed for production and will be deliverable at some point in time in the future.
- If it is priced, it is hedged.
- Hedgers combine cash market with futures market

HEDGING IS.....

ASSUME EQUAL AND OPPOSITE POSITIONS IN BOTH THE CASH AND FUTURES MARKETS.

Pre *Sell* (sell futures) for something will sell later

Pre *Buy* (buy futures) for something will buy later

BASIS

The relationship between our local cash market prices and futures market prices for the same quality and quantity of commodity.

$$\text{Basis} = \text{Cash} - \text{Futures}$$

$$\text{Cash} = \text{Futures} + \text{Basis}$$

Email us with accessibility issues with this report.

Grain Report for 2/6/2026 - Final

Corn bids were 5 cents lower; New Crop corn bids were 3 to 4 cents lower. Soybean bids were 3 cents higher. Wheat bids were 5 to 6 cents lower.

Futures Settlements

Exchange	Commodity	Closing Settlement Prices (¢/bu) as of 2/6/2026						
CBOT	Corn	430.25 (Mar 26)	438.75 (May 26)	445.25 (Jul 26)	443.50 (Sep 26)	457.75 (Dec 26)	469.50 (Mar 27)	475.50 (May 27)
CBOT	Soybeans	1115.25 (Mar 26)	1128.75 (May 26)	1139.50 (Jul 26)	1128.00 (Aug 26)	1096.75 (Sep 26)	1094.00 (Nov 26)	1103.50 (Jan 27)
CBOT	Wheat	529.75 (Mar 26)	539.00 (May 26)	549.25 (Jul 26)	561.75 (Sep 26)	580.00 (Dec 26)	595.75 (Mar 27)	604.00 (May 27)
CBOT	White Oats	301.75 (Mar 26)	307.00 (May 26)	310.75 (Jul 26)	315.00 (Sep 26)	325.75 (Dec 26)	329.25 (Mar 27)	335.25 (May 27)
KCBT	Wheat	531.25 (Mar 26)	543.50 (May 26)	557.25 (Jul 26)	572.00 (Sep 26)	593.50 (Dec 26)	610.25 (Mar 27)	618.25 (May 27)
MGE	Wheat	570.00 (Mar 26)	582.50 (May 26)	596.25 (Jul 26)	613.25 (Sep 26)	631.75 (Dec 26)	644.50 (Mar 27)	

Coarse

US #2 Yellow Corn (Bulk)

Country Elevators - Conventional

Region/Location	Sale Type	Basis (¢/Bu)	Basis Change	Price(\$/Bu)	Price Change	Average	Year Ago	Freight	Delivery
Anderson, SC	Bid	75.00H	UNCH	5.0525	DN 0.0475	5.0525	5.5750	DLVD-T	Current
Conway, SC	Bid	-35.00H	UNCH	3.9525	DN 0.0475	3.9525	4.9250	DLVD-T	Current
Conway, SC	Bid	10.00U		4.5350		4.5350		DLVD-T	Aug - Sep New Crop
Darlington, SC	Bid	55.00Z	UNCH	5.1275	DN 0.0325	5.1275		DLVD-T	Aug New Crop
Hamer, SC	Bid	55.00Z	UNCH	5.1275	DN 0.0325	5.1275		DLVD-T	Aug New Crop
Kingstree, SC	Bid	25.00U		4.6850		4.6850		DLVD-T	Aug - Sep New Crop
Lake City, SC	Bid	30.00Z	UNCH	4.8775	DN 0.0325	4.8775		DLVD-T	Aug New Crop
Lynchburg, SC	Bid	25.00U		4.6850		4.6850		DLVD-T	Aug - Sep New Crop
Nichols, SC	Bid	55.00Z	UNCH	5.1275	DN 0.0325	5.1275		DLVD-T	Aug New Crop

Mills and Processors - Conventional

Region/Location	Sale Type	Basis (¢/Bu)	Basis Change	Price(\$/Bu)	Price Change	Average	Year Ago	Freight	Delivery
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Source: USDA AMS Livestock, Poultry & Grain Market News

General inquiries, please call: (202) 720-1990 or email: mymarketnews@usda.gov

<http://www.ams.usda.gov/lpgmn>

<https://mymarketnews.ams.usda.gov/> | <https://mymarketnews.ams.usda.gov/viewReport/2787>

LIQUIDATION OF FUTURES

- DELIVERY:

- > If Long: Accept Delivery

- > If Short: Make Delivery

- OFFSET:

- >If Long: Sell Futures

- >If Short: Buy Futures

FUTURES MARKET DISADVANTAGES

1. Complex, hard to understand
2. Margin money
3. Not an exact price
3. Must price in minimum quantities
4. Setting Min. or Max. appeals to most strategies more

**MOST OF YOU WILL NOT WANT TO USE BUT IF UNDERSTAND,
WILL BE BETTER RISK MANAGERS/MARKETER. ALL
OTHER ALTERNATIVES BASED ON FUTURES!**

FUTURES MARKET ADVANTAGES

- 1. Potential Better Price than contracts.**
- 2. Increased Flexibility. You will find a buyer to purchase your futures market contract. You will find a seller when you want to purchase a futures market contract.**
- 3. You give yourself time. With a hedge you can lock in a price for as long as 18 months.**
- 4. You may benefit from basis gain if basis moves in your favor.**
- 5. May be only forward pricing option available.**

HEDGING EXAMPLE

Date	Cash	Futures	Basis

HEDGING EXAMPLE

Sell Soybeans at Harvest

Date	Cash	Futures	Basis
June 1		Nov. =11.00	(?)

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Nov. = 11.00	0.00 (expected)

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Nov. =11.00	0.00
Exp. Hedge Price			
For Sell Nov. @ 11.00 + 0.00 Basis= \$11.00			

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
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June 1			
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Nov. =11.00	
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0.00

Exp. Price =

$11.00 + 0.00 = 11.00$

If acceptable – Sell one Nov. contract.

We are now hedged!

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Sell Nov @11.00	0.00
Nov. 1		Nov. = 9.00	

What is the cash price likely to be?

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Nov. = 11.00	0.00
Nov. 1		Nov. = 9.00	

What is the cash price likely to be?

If we did a good job of predicting the basis, then cash price should be near

$9.00 + 0.00 = \$9.00$

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Nov.=11.00	0.00
Nov 1	Cash = \$9.00	Nov. = 9.00	0.00

How did the hedge work out?

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Sell Nov.= 11.00	+ 0.00
	Hedge Price = 11.00		
Nov 1		Nov. = 9.00	0.00
	Sell cash @ \$9.00	BUY Nov. @ \$9.00	
		Sell Nov. @ \$11.00	
		Buy Nov. @ \$9.00	
		Futures	
		gain = \$2.00	

HEDGING EXAMPLE

Pre-selling

Date	Cash	Futures	Basis
June 1		Sell Nov.= 11.00	0.00
	Hedge Price = 11.00		
Nov 1		Nov. = 9.00	0.00
	Sell cash @ \$9.00	BUY Nov. @ \$9.00	
	<u>Net Price of \$9.00 CASH + \$2.00 FUT. Gain = \$11.00!</u>		
	<i>Futures Gain Offsets Cash Loss!</i>		

HEDGING EXAMPLE

Pre-selling

What if Futures Prices Go Up?

Date	Cash	Futures	Basis
June 1		Sell Nov.= 11.00	0.00
	Hedge Price = 11.00		
Nov 1		Nov. = 13.00	0.00
	Sell cash @ \$13.00	BUY Nov. @ \$13.00	
	<u>Net Price of \$13.00 Cash -</u>	<u>\$2.00 Fut. Loss = \$11.00</u>	
		<i>\$2.00 Futures Loss Offsets Cash Gain</i>	

Is this a Good Hedge?

HEDGING EXAMPLE

Pre-selling

What Happens the Basis is Different than Expected?

Date	Cash	Futures	Basis
June 1		Sell Nov.= 11.00	0.00
	Hedge Price = 11.00		
Nov 1		Nov. = 13.00	+0.50
	Sell cash @ \$13.50	BUY Nov. @ \$13.00	
	Net Price = \$13.50 - \$2.00 = \$11.50		

*Missed Expected Hedge Price by
Difference in Expected and Actual Basis = +0.50*



	Cotton		Corn		Soybean		Tobacco		Swt Potatoe		Peanuts	Cucumbers		Squash
		lb		Irr.	bu	bu	Flue Cured	lb	bu	bu		lb	Irr.	Irr.
Acres	200		1,700		850		300		600		250		300	
Yield per acre	950	lb	210	bu	38	bu	2,400	lb	485	bu	4,000	lb	140	cwt
Share of production	1.00		1.00		1.00		1.00		1.00		1.00		1.00	
Operating Expenses/Acre														
Seed	99.18		104.00		50.00		240.00		246.00		130.50		70.00	65.00
Fertilizer	170.90		254.30		88.70		201.64		305.00		92.32		280.00	311.00
C. Chemicals	78.20		73.96		62.89		535.03		207.00		325.92		134.00	138.00
Crop insur.	7.28		8.75		4.70		120.00		-		7.15		-	-
Drying fuel	-		40.26		1.34		593.00		300.00		25.74		-	-
Irrig energy	-		54.00		-		-		-		-		186.81	171.72
C. Supplies	-		-		-		7.50		-		-		-	30.00
C. Cust hire	124.00		10.00		10.00		10.00		-		21.40		-	-
C. Labor	9.58		6.90		8.16		1275.00		2005.00		20.51		800.00	900.00
C. Hauling	-		73.50		12.25		75.00		-		12.00		-	-
C. Marketing	-		-		-		-		-		-		8.50	1145.00
Storage	-		9.55		4.77		95.48		95.48		-		-	-
Supplies	8.52		8.52		4.26		170.31		212.88		17.03		8.52	17.03
Fuel & oil	7.07		7.07		7.07		222.83		353.70		14.15		7.07	10.61
Repairs	21.46		26.83		26.83		139.51		214.63		64.39		26.83	48.29
Labor	44.30		44.30		44.30		177.18		177.18		88.59		44.30	44.30
Land rent	61.44		61.44		61.44		61.44		61.44		61.44		61.44	61.44
Pers prop tx	11.74		11.74		11.74		46.98		46.98		23.49		11.74	11.74
Farm insur.	17.45		17.45		17.45		69.80		69.80		34.90		17.45	17.45
Utilities	14.19		14.19		14.19		70.97		56.77		28.39		14.19	14.19
Consultants	9.76		9.76		-		9.76		9.76		9.76		9.76	9.76
Dues & fees	23.26		23.26		11.63		23.26		23.26		23.26		23.26	23.26
Total operating	708.33		859.78		441.72		4,144.69		4,384.88		1,000.94		1,703.87	3,018.79
Projected Price	\$0.68		\$5.25		\$11.00		\$2.01		\$10.00		\$0.23		\$19.00	\$17.50
Per Unit Cost	\$0.75		\$4.09		\$11.62		\$1.73		\$9.04		\$0.25		\$12.17	\$12.08
EBITDA / Revenue	-10%		22%		-6%		14%		10%		-9%		36%	31%

	Cotton	Corn	Soybean	Tobacco	Swt Potatoe	Peanuts	Cucumbers	Squash
		Irr.		Flue Cured			Irr.	Irr.
Acres	200	1,700	850	300	600	250	300	300
Yield per acre	950 lb	210 bu	38 bu	2,400 lb	485 bu	4,000 lb	140 cwt	250 bu
Revenue	\$646	\$1,103	\$418	\$4,824	\$4,850	\$920	\$2,660	\$4,375
Operating	<u>-\$708</u>	<u>-\$860</u>	<u>-\$442</u>	<u>-\$4,145</u>	<u>-\$4,385</u>	<u>-\$1,001</u>	<u>-\$1,704</u>	<u>-\$3,019</u>
EBITDA	-\$62	\$243	-\$24	\$679	\$465	-\$81	\$956	\$1,356
EBITDA Efficiency	-10%	22%	-6%	14%	10%	-9%	36%	31%
Crop Insurance								
Type	RP	RP	RP	YP	NAP?	RP	NAP?	NAP?
Yield	950	210	38	2,400	485	4,000	140	250
Price	\$0.68	\$4.48	\$10.81	\$2.01	\$5.00	\$0.23	\$9.50	\$8.75
Coverage	75%	60%	75%	75%	50%	75%	50%	50%
Guarantee	\$485	\$564	\$308	\$3,618	\$1,213	\$675	\$665	\$1,094
Guarantee/Operating	68%	66%	70%	87%	28%	67%	39%	36%