GRAIN CONTRACTS - MONTANA

- CASH
- FORWARD
- NO PRICE ESTABLISHED (NPE)
- MINIMUM PRICE / OPTION
- BASIS
- HEDGE-TO-ARRIVE (Fixed Futures)

CASH CONTRACT

- Grain is sold on the current market
- Delivery is nearby or already in the elevator
- Most effective in an inverted market

	Jan 14, 2000	
Futures	KC March 00	2.93
+Nearby Basis	Ptld 13 pro HRW	.90
- Freight & Margin	Conrad elevator	-1.00
=Cash Price	Cash Price	2.83

CASH CONTRACT

ADVANTAGES

- Easy to execute
- Price risk is eliminated
- Producer receives payment promptly

DISADVANTAGES

- Producer accepts current market
- Futures and Basis marketed together
- Cash price may never reach target

FORWARD CONTRACT

- Grain is sold for future delivery
- Delivery is made during contract delivery period
- Most effective in a carry market

		Jan 14, 2000	
Deferred futures		KC May 00	3.03
+Deferred Basis	April	Ptld 13 pro HRW	.90
- Freight & Margin		Conrad elevator	-1.00
=Forward Price		Forward Price	2.93

FORWARD CONTRACT

ADVANTAGES

- Ability to lock in carry
- Price risk is eliminated
- Logistics planning

DISADVANTAGES

- Producer accepts forward market
- Futures and Basis marketed together
- Payment is received after delivery

NPE CONTRACT

- Grain is delivered to elevator without being priced
- Producer and elevator agree on service charge and pricing time frame
- Used mostly for harvest time delivery

	Jan 14, 2000	
Futures	KC Mar 00	2.93
+Nearby Basis	Ptld 13 pro HRW	.90
- Freight & Margin	Conrad elevator	-1.00
-Service Charge	Service Charge	- .15
=Contract Price	Contract Price	2.68

Delivery date August 1, 1999. Price: 2.98

NPE CONTRACT

ADVANTAGES

- Customer is able to deliver grain without pricing
- Allows producer to reserve storage space prior to harvest

DISADVANTAGES

- Service charge/interest cost may offset market gain
- Producer holds downside price risk

OPTION CONTRACT

- Producer desires to lock in a price floor and participate in a market rally
- Option is held for producer to market

	Jan 14, 2000	
Futures	KC Mar 00	2.93
+Nearby Basis	Ptld 13 pro HRW	.90
- Freight & Margin	Conrad elevator	-1.00
-Option Premium	Option Premium	- .17
=Floor Price	Floor Price	2.66

KC May 3.00 Call: 17 cents

OPTION CONTRACT

April 3, 2000		
KC May Futures:	3.53	
May 3.00 Call:	.53	Producer sells call
Floor Price		2.66
Call Option		.53
Net Contract Price		3.19

April 3, 2000		
KC May Futures:	3.00	
May 3.00 Call:	.06	Producer sells call
Floor Price		2.66
Call Option		.06
Net Contract Price		2.72

OPTION CONTRACT

ADVANTAGES

- Producer's downside risk is protected and still able to participate in a rally
- No storage and interest costs
- Producer controls marketing of option

DISADVANTAGES

- Value of option will not increase one for one with futures market
- Option will lose value over time, all other things constant

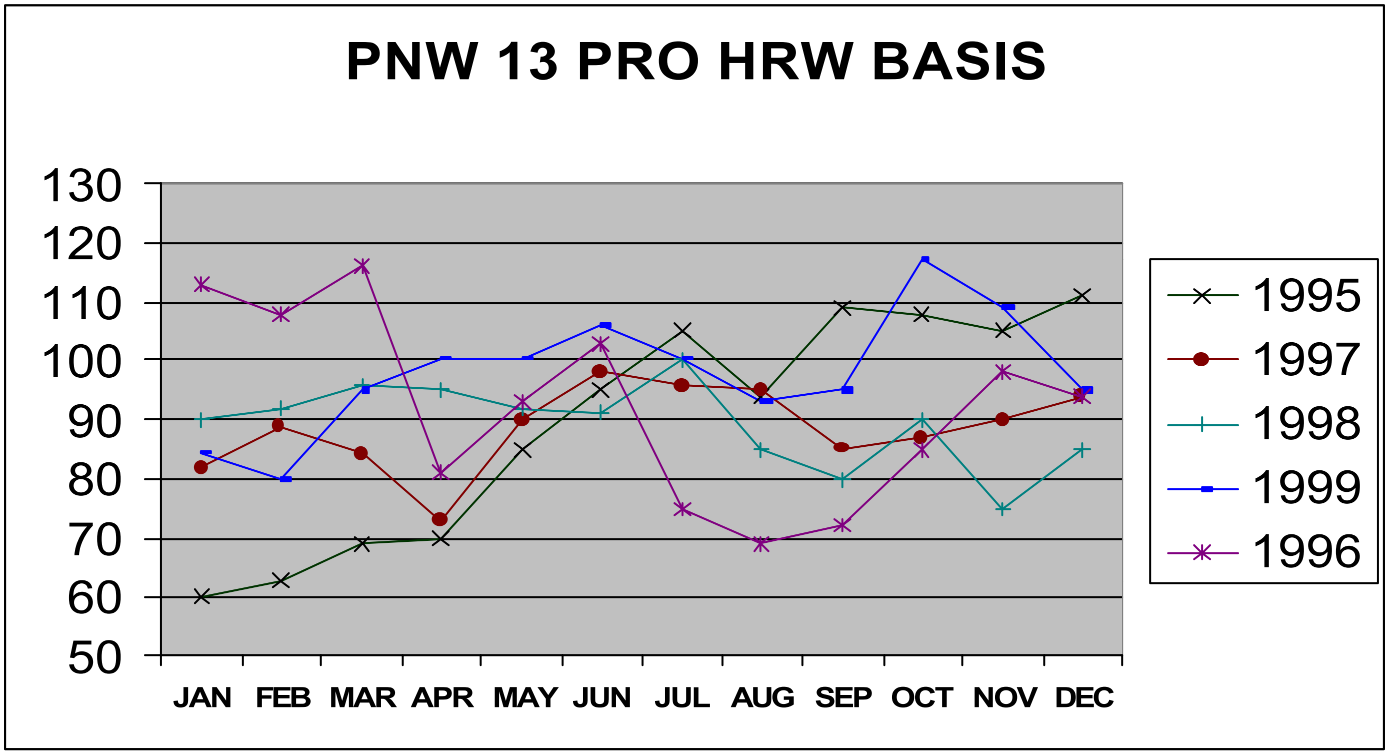
BASIS CONTRACT

- Producer desires to price the basis portion of their grain and stay long the futures portion
- Generally most effective in an inverted market

		Dec 1, 1999
Basis	PTLD 13.0 Pro Jan	1.13
-Freight & Margin		-1.00
= Contract Basis		.13

Dec 1, 1999 KC March Futures: 2.80
Jan 14, 2000 KC March Futures: 2.93 Producer Prices
Net Contract Price: 2.93 + .13 =3.06
Elevator Cash Price: 2.83

BASIS CONTRACT



BASIS CONTRACT

ADVANTAGES

- Producer’s locks in an attractive basis price and waits for potential futures rally

DISADVANTAGES

- Producer holds downside futures price risk

HEDGE-to-ARRIVE CONTRACT

- Producer desires to price the futures portion of their grain and stay long the basis portion
- Generally most effective in a carry market

August 1, 1999

KC Sept 99 Futures:	3.03	
KC Mar 00 Futures:	3.31	Producer hedges futures and sets Jan delivery period

Dec 1, 1999

Ptld 13 Pro HRW	1.13	Producer prices Jan Basis
Conrad elevator	-1.00	
Contract Basis	.13	

Net contract price: 3.31 + .13 = 3.44

HEDGE-to-ARRIVE CONTRACT

ADVANTAGES

- Producer's locks in an attractive futures price and waits for potential basis increase

DISADVANTAGES

- Producer holds downside basis price risk
- Carrying charges accrue prior to basis pricing and/or delivery of grain