Producers’ Guide to Grain Marketing Terminology

A

At-The-Money: An option where the strike price is either equal to or approximately equal to the current price of the underlying futures contract.

B

Bar Chart: The most popular technical tool where each day (week, month or year) is represented by a single vertical bar on a chart. The bottom of the bar represents the low price, while the top of the bar represents the high price for the time period. A tick mark on the left side of the bar represents the opening price, while the mark on the right indicates the closing or settlement price. Traders determine their strategy by watching the bar chart for particular recurring patterns.

Basis: The difference between the current cash price and a futures price. If the basis is quoted as over or under, it refers to the cash price being over or under the futures price, respectively.

Basis Contract: A marketing alternative where a producer delivers grain to the elevator and agrees to establish the price of the grain sold before a specified date. The price is tied to a predetermined
basis. A producer using this marketing alternative extends his/her marketing year and eliminates basis risk but still has price risk. A producer often receives partial payment for the grain at the time of delivery and storage charges are often waived. In the event the elevator should declare bankruptcy, the producer becomes an unsecured creditor.

**Basis Risk:** The risk associated with not being able to predict basis accurately. Because of fluctuations between the cash and futures markets, basis risk is less than price risk.

**Bear:** A person who thinks prices will fall.

**Bear Market:** A market in which prices are falling.

**Broker:** Someone who executes transactions on an agency basis for a commission or fee.

**Bull:** A person who thinks prices will rise.

**Bull Market:** A market in which prices are rising.

**Call Option:** Gives the option buyer the right, but not the obligation, to purchase the underlying futures contract at the strike price on or before the expiration date.

**Canadian Wheat Board (CWB):** Controlled by western Canadian farmers, the CWB is the largest wheat and barley marketer in the world. One of Canada’s biggest exporters, the Winnipeg-based organization sells grain to over 70 countries and returns all sales revenue, less marketing costs, directly to Prairie farmers.

**Carrying Charges:** The expenses involved in owning cash grain, including storage and interest costs. In a normal market, price differences for future contract months will reflect these charges.

**Cash Forward Contract:** A legal agreement to deliver a fixed quantity and grade of grain (or turn over ownership of grain in commercial storage), at a specified price to a designated location. The producer using this marketing alternative expands his/her marketing year and eliminates price risk but still has production risk.

**Cash Market:** A place where people buy and sell the actual commodities, such as a grain elevator, bank, etc. Spot usually refers to a cash market price for a physical commodity that is available for immediate delivery. A forward contract is a cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward contracts, in contrast to futures contracts, are privately negotiated and are not standardized.

**Chicago Board of Trade Holdings Inc. (CBOT):** The CBOT is a futures and futures-options exchange that trades many agricultural commodities electronically and by open auction.

**Chicago Mercantile Exchange Holdings Inc. (CME):** A combined entity formed by the 2007 merger of the Chicago Mercantile Exchange Holdings Inc. (CME) and the Chicago Board of Trade Holdings, Inc. (CBOT).

**Certificated Stocks:** Grain stocks approved as deliverable grades because they meet the grades specified in the futures contract. Certified stocks are stored in a facility approved by the exchange which trades the futures contract.

**C.I.F (Cost, Insurance and Freight):** An agreement whereby the seller pays for all costs, insurance and freight to the designated delivery point.

**Coarse Grain:** Corn, barley, oats, grain sorghum, rye and millet in some foreign countries.

**Commission:** Fees paid to a broker for executing an order to buy or sell a futures or options contract.
Commodity Futures Trading Commission (CFTC): The federal agency that regulates futures and option markets in the United States.

Consignment: A commodity placed under the control of an agent or broker for custody or sale.

Contract Grades: Grades and standards specified in the rules of an exchange, which must be met to deliver against the futures contract. In many instances, grain meeting different grades and/or standards can be delivered at a premium or discount.

Corner: A situation in which a trader has gained sufficient control of a market to manipulate price.

Crop Year: The marketing and production year for individual crops designated by the U.S. Department of Agriculture. The corn and soybean marketing years, for example, begin September 1 and end August 31 of the following year. For wheat, it begins on June 1 and ends on May 31 of the following year.

Current Delivery Month: The futures contract that will mature and become deliverable during the current month, also called the spot month.

Day Order: Instructions that a trader gives a broker which will expire at the end of the day if they are not executed.

Day Trader: A futures trader who initiates and closes his/her position on the same day.

Deferred Pricing Contract: A marketing alternative whereby the producer delivers grain to the elevator, and agrees to establish the price of the grain sold before a specified date. Price is generally tied to the local bid price, and storage charges are often eliminated. The producer will often receive partial payment for the grain at the time of delivery. Should the elevator declare bankruptcy, the producer becomes an unsecured creditor. The grain producer still has price risks.

Elliott Wave Theory: A technical tool that assumes prices move in a five-way sequence with the direction of a main trend, and in a three-wave sequence during corrective movements against the main trend.

Exercise: The action taken by the buyer of a put if he/she wishes to sell the underlying futures contract or by the buyer of a call if he/she wants to buy the underlying contract.

Expiration Date: The last day on which the buyer of an option may exercise the option. Options expire on a specified date in the month previous to the delivery month for the underlying futures contract.

Extrinsic Value: Same as time value.

F.A.S. (Free Alongside Ship): An agreement whereby the seller delivers grain to a designated export facility, and the buyer pays for loading the ship and for ocean freight and insurance.

Fixed Costs: Costs that do not change with volume. In storing grain, the costs of facility ownership such as depreciation, would be fixed. The costs do not change whether the storage bin is left empty or is full.

F.O.B (Free on Board): An agreement whereby the seller pays for loading the ship or other means of transportation at the designated point of delivery, with the buyer paying freight charges.

Forward Contract: A private, cash-market agreement between a buyer and seller for future
delivery of a commodity at an agreed price. Forward contracts are not standardized or transferable.

**F.S.T. (Free on Board, Stowed and Trimmed):** An agreement whereby the seller loads the ship and pays for stowing and trimming the load at the designated delivery point, while the buyer pays the ocean freight.

**Fundamentals:** A term that refers to basic economic (actual or anticipated supply and demand) factors determining the price of a futures contract.

**Fundamental Analysis:** Analysis that utilizes supply and demand variables to predict a market price or basis.

**Futures Contract:** A transferable contract traded on a futures exchange, for the delivery of a specified commodity. The contract specifies the terms and conditions of delivery.

**Futures market reporting terms:** These terms are used in futures price reporting which may be on the internet or local television networks or in newspapers.

- **Month** - the month and year of the contract.
- **Open** - the first trade price of the day (session) for the contract.
- **High** - the highest trade, bid or ask price for the contract during the trading day.
- **Low** - the lowest trade, ask or bid price for the contract during the trading day.
- **Last or Close** - the final trade price at the close of the most recent trading day session.
- **Change** - the change in price between the most recent "last" or "close" and the previous day's settlement price.
- **Time** - prices are delayed; the time indicates the clock time of the quote.
- **Volume** - the total number of contracts traded during the trading day.

**Futures Price:** The price of a particular futures contract at a specified point in time. The price is determined by open competition between buyers and sellers on the floor of a futures exchange.

**G**

**Good-Till-Cancelled (GTC) Order:** Also known as an open order. Instructions that a trader gives a broker, which remain in effect until the order is either executed or cancelled.

**Grading Certificates:** Certificates that verify the quality of a commodity.

**Grantor:** The seller of an options contract.

**H**

**Harvest Hedge:** A hedge used for protection against adverse price movements until the grain is harvested.

**Hedge:** An equal and opposite position in the cash and futures markets (or options markets) taken to provide protection against an adverse change in price.

**Hedge-To-Arrive Contract:** A contract that permits the seller to lock in a future price, but not set the basis at the time of the contract. The buyer and the seller will determine the basis later by a certain date.

**Holder:** The buyer of an options contract.

**I**

**In-The-Money:** A call is in-the-money if it has intrinsic value; meaning that the strike price is below the current price of the underlying futures contract. A put is in-the-money if it has intrinsic value, which means the strike price is above the current price of the underlying futures contract.

**Intercontinental Exchange (NYSE:ICE):** The ICE operates leading regulated exchanges, trading
platforms and clearing houses serving the risk management needs of global markets for agriculture, credit, currency, emissions, energy and equity index markets.

**Intrinsic Value:** For a put, the strike price minus the price of the underlying futures contract, if positive; otherwise zero. For a call, the price of the underlying futures contract minus the strike price, if positive; otherwise zero.

**Inverted Market:** A situation in which nearby futures contracts are selling at a premium to distant futures contracts. Hence, the carrying costs are not reflected in price.

**K**

**Kansas City Board of Trade (KCBT).** Members trade futures and option products on hard red winter wheat electronically and by open auction.

**L**

**Life of Contract:** The period of time from the first to the last trading day for a particular futures contract.

**Limit:** The maximum price advance or decline allowed from the previous trading day’s settlement price for a specific futures contract under exchange rules.

**Limit Order:** Instructions that a trader gives a broker to buy or sell a specific futures or options contract at a specific price or better.

**Liquidation:** A purchase or sale that offsets an existing position in the futures or options markets.

**Long:** The position established by the purchase of a futures or options contract if there is no offsetting position.

**Long Hedge:** A hedge taken for protection against rising prices.

**M**

**Manifest:** An invoice listing the cargo aboard a ship.

**Margin:** In futures, money deposited to insure performance. No margin money is required from buyers of option contracts. Commodity exchanges establish minimum margin requirements, but individual brokerage houses may charge considerably more margin money than the minimums established by the exchanges.

**Margin Calls:** Additional funds that a person with a futures position or the seller of an options contract may be called upon to deposit if there is an adverse price change or if margin requirements are increased.

**Margin, Initial:** The amount of money required by a brokerage house to establish a futures position.

**Margin, Maintenance:** The amount of money or equity that must be on deposit at all times to maintain a futures position. If the amount of equity in an account drops below the maintenance margin, the trader will receive a margin call equal to the difference between the initial margin requirement and the trader’s equity. If the trader is unable to obtain sufficient funds to meet the margin call in a timely manner, then the futures position will be closed.

**Market-If-Touched (MIT):** Instructions that a trader gives a broker to buy or sell a futures or options contract when the price reaches a specified or better price. Upon reaching the specified price, the order automatically becomes a Market Order.

**Market Order (MKT):** Instructions that a trader gives a broker to buy or sell a futures contract at the best price available and as soon as possible, after the order reaches the trading floor of the exchange.
**Maturity:** The period of time in a futures contract’s life in which the seller can make physical delivery and the buyer can take physical delivery of the cash grain.

**Mid-American Commodity Exchange (Mid-AM):** Commodities traded include corn, oats, soybeans, soybean oil, soybean meal and wheat.

**Minneapolis Grain Exchange (MGEX):** Members trade futures and options products electronically and by open auction on hard red spring wheat.

**Moving Averages:** A trend-following technical tool that uses moving averages to detect significant changes in the trend of the market.

**N**

**Naked Writing:** Selling (writing) an options contract with no opposite cash or futures market position. Also called uncovered writing.

**Nearby:** The futures contract with maturity closest to the current date.

**Notice Day:** The day on which a “notice of intention of delivery” can be issued for a specific futures contract.

**O**

**Open Order:** An order that remains good until filled, canceled, or eliminated. See Good-Till-Cancelled Order.

**Open Interest:** The total number of futures or options contracts outstanding on a given commodity or contract at a specific point in time. Most technicians will use commodity open interest rather than the open interest on an individual contract.

**Out-of-The-Money:** A call option with a strike price above the current futures price, or a put option with a strike price below the current futures price (that is, the option contract has no intrinsic value).

**Overbought:** A market condition in which prices have risen too fast and too far relative to the underlying economic fundamental factors. Traders would expect prices to fall in this type of market, at least in the near term.

**Oversold:** A market condition in which prices have fallen too fast and too far relative to the underlying economic fundamental facts. Traders would expect prices to rise in this type of market, at least in the near term.

**P**

**Pit:** An area on the trading floor of a grain exchange where trading in futures is conducted.

**Point:** The minimum price fluctuation allowed for a particular type of futures contract.

**Point and Figure Chart:** A charting technique that assumes the only important factor is the direction of price changes-volume and that times are unimportant. Traders observe the chart patterns to determine a trading strategy.

**Position Trader:** A futures trader who has his/her futures position for an extended period of time.

**Premium:** The price of an option, not including related brokerage commission fees. The buyer of an option pays the premium and the seller of an option receives the premium.

**Price Risk:** The risk associated with not being able to predict prices accurately. Price risk is greater than basis risk.
Position: A market commitment. A buyer of futures contracts is said to have a long position and a seller of futures contract has a short position.

Production Risk: The risk associated with a producer not being able to accurately predict his/her production.

Put Option: An option that gives the buyer the right, but not the obligation, to sell the underlying futures contract at the strike price on or before the expiration date.

Quantity: The number of units or lots of a futures contract. Occasionally, it is also called size.

Quote: (1) The actual price, bid, or asked price of either cash commodities or futures contracts; (2) An indication of current bids and offers in the market on a particular instrument or spread.

Range: The difference between the highest and lowest price recorded during some time period—a day, week, month, life of contract, or any given period.

Relative Strength Index: A technical tool that uses price changes, rather than price levels, to indicate overbought or oversold market conditions.

Round Lot: A trading unit corresponding to the quantity specified in one contract—5,000 bushels for CBT grain contracts.

Roundturn: A completed futures transaction initially begun by buying or selling a futures or options contract, which was later offset by an equal but opposite transaction. Brokerage commissions and fees for futures market transactions are usually based on a round turn, whereas commissions and fees for options transactions are not.

Settlement Price: The price at which the clearing house of the futures exchange clears all the day’s trades.

Short: The position created by the sale of a futures or options contract if there is no offsetting position.

Short Hedge: A hedge taken for protection against falling prices.

Speculator: A trader using the futures markets for reasons other than hedging. Speculators are necessary to provide liquidity for hedgers using the futures market.

Spot Price: The cash price. The price at which a physical commodity for immediate delivery is selling at a given time and place.

Stop Order: An order that becomes a market order when a particular price level is reached. A sell stop or stop loss is placed below the market price; a buy stop or stop limit is placed above the market price.

Storage Hedge: A hedge used to protect against adverse price movements for grain in storage.

Strike Price: The price at which the buyer of an option contract may choose to exercise the option.

Technical: A term that refers to a variety of chart-following techniques and chart patterns related to market price.

Technical Analysis: Analysis that studies the market itself rather than the incorporation of factors of supply and demand. It uses a variety of tools to give
buy-and-sell signals, or to predict a market top or bottom regarding a specific futures contract. Common technical tools include: bar charts, contrary opinion, Elliott Wave theory, moving averages, point and figure charts, relative strength indices, trend analysis, and volume and open interest methods.

**Time Value:** Any amount by which an option premium exceeds the option’s intrinsic value. If an option has no intrinsic value, its premium is entirely time value.

**Trend:** The general direction of the market.

**Underlying Futures Contract:** The specific futures contract that may be bought or sold by exercising an option.

**Unit Train:** A train loaded by a single shipper, moving to a single buyer at a single location. Unit trains usually obtain preferential freight rates and schedules.

**Variable Costs:** Costs that change as volume changes. In storing grain, examples of variable costs include insurance on the grain, shrinkage, interest foregone on the grain, and quality losses.

**Volatility:** A measurement of the change in price over a given time period.

**Volume:** The aggregate number of contracts traded during a specified period of time.

**W**

**Writer:** The seller or issuer of an options contract.

**References**


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