

# CFTC / KSU Ag Commodity Futures Conference

April 11, 2019

# Disclaimer

Neither futures trading nor swaps trading are suitable for all investors, and each involves the risk of loss. Swaps trading should only be undertaken by investors who are Eligible Contract Participants (ECPs) within the meaning of Section 1a(18) of the Commodity Exchange Act. Futures and swaps each are leveraged investments and, because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for either a futures or swaps position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles and only a portion of those funds should be devoted to any one trade because traders cannot expect to profit on every trade.

CME Group, the Globe Logo, CME, Globex, E-Mini, CME Direct, CME DataMine and Chicago Mercantile Exchange are trademarks of Chicago Mercantile Exchange Inc. CBOT is a trademark of the Board of Trade of the City of Chicago, Inc. NYMEX is a trademark of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. All other trademarks are the property of their respective owners.

The information within this communication has been compiled by CME Group for general purposes only. CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this communication are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience. All matters pertaining to rules and specifications herein are made subject to and superseded by official CME, CBOT, NYMEX and COMEX rules. Current rules should be consulted in all cases concerning contract specifications.

Copyright © 2019 CME Group Inc. All rights reserved.

## What is Convergence?

The coming together of the cash price with the expiring futures contract price sometime during the delivery period in at least one point in the delivery territory.

# What is a Cash Price?

OR

The Price IN



Source: Kann Manufacturing



Source: Brock Grain Systems

The Price OUT

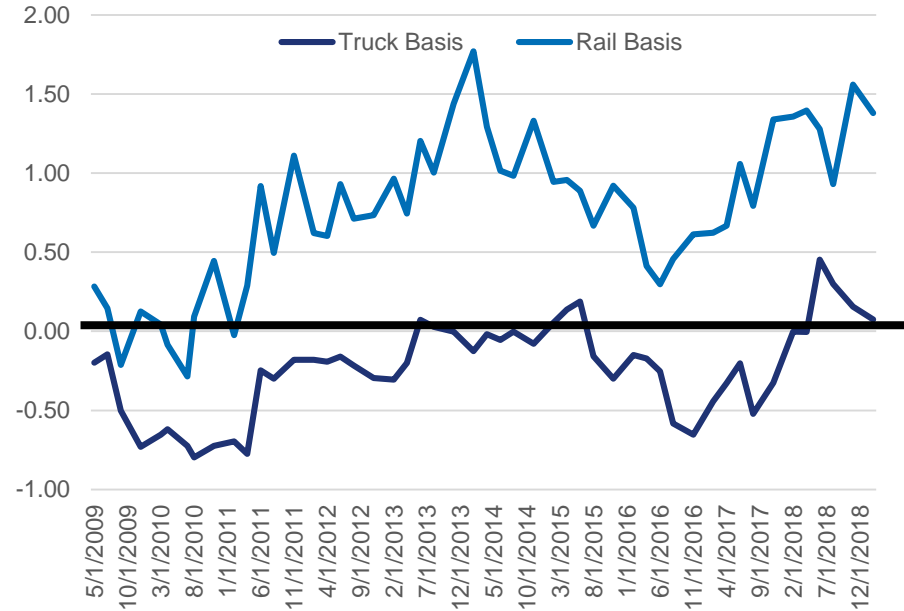


Source: GATX

# Both Prices Are Important but What is the Value of Grain?

- Futures Converge to a Price that Reflects the Value of Grain in the Elevator
- FOB Rail Values Always Reflect Value Because They Represent the Price an Elevator Can Sell Inventory
- Truck Bids, However, Don't Always Reflect Value. With Surplus Supplies, Elevators are Full and Reduce Bids to Reduce Incoming Flow and those Bids Do Not Reflect the Value of Grain in the Elevator.
- When Stocks are Normal or in Short Supply, Spreads are Inside Full Carry, and the Market is Bidding Grain Out of Storage and Bids Represent Replacement Value. Bids Do Reflect Value

Kansas City Truck Bid Basis (Ord) and FOB KC Track Basis (11%) on FND



# Where Would You Rather Own Wheat?

Tucked safely in here?



Or on this runway?



# Contract Design & Basis

## What Contract Designs can the Exchange Use to Address Basis Issues.

- VSR
  - Market Based Solution that Allows Price Discovery to Occur in the Spread.
  - May Adversely Affect Back-Month Liquidity.
  - May Encourage Unneeded Production.
- Forced Load-Out
  - Convergence Guaranteed.
  - Upsets Contract Balance.
- Fixed Storage
  - Simple, Easy to Understand, and Does Not Affect Back-Month Liquidity.
  - Does Not Affect the Term Structure of Inter-Commodity Spreads.
  - Can Lead to Periods of Weak Basis.

# Thank you