CFTC / KSU Ag Commodity Futures Conference

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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?

The Price IN

OR

The Price OUT

Source: Kann Manufacturing

Source: Brock Grain Systems

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
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