

## **Fixed Price Contracts**

### **Description**

This type of contract, also known as a "Flat Price" contract, transfers all price risk and opportunity from the seller to the buyer on the date of the trade. **This summary is for general illustration purposes only.** Please contact a broker of your choice for information specific to your operation.

**Example:** On July 1, a producer sells for November delivery and establishes a flat price of \$2.30/bushel.

### **Risk to Seller**

All price risk is transferred to buyer on July 1. The seller carries opportunity risk that the market could rise and potential gains could be foregone. The seller is also subject to production risk; that is, the producer is responsible for delivering the contracted amount on the delivery date.

### **Risk to Buyer**

On July 1, the buyer accepts two price risks: futures risk and basis risk.

### **Who Might Use This Contract?**

A producer who wants to be insulated from any adverse price movement and who needs cash-flow/income predictability.

**Upside Price Potential.** None; the price is determined on July 1. Regardless of market moves, the price at delivery in November will be \$2.30.

**Downside Price Potential.** None; even if the market drops, the \$2.30 price is locked in. The producer does, however, take on the opportunity risk of a potential gain foregone if the market rises.

### **When Might This Contract Perform Well?**

This is not applicable because the sales price already has been established, regardless of price moves. From the seller's perspective, the contract produces greater income when the per bushel is strong on July 1.

### **When Might This Contract Perform Poorly?**

This is not applicable because, regardless of market performance, the sales price is established on July 1 at the time the contract is entered.

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