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Volume 10 | Issue 8 Article 1

2015

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Recommended Citation
Johnson, Steven D. (2015) "Accumulator Contracts," *Ag Decision Maker Newsletter*: Vol. 10 : Iss. 8 , Article 1.
Available at: http://lib.dr.iastate.edu/agdm/vol10/iss8/1

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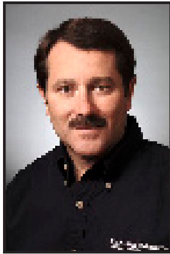
Ag Decision Maker

A Business Newsletter for Agriculture

Vol. 10, No. 8 www.extension.iastate.edu/agdm *June 2006*



Accumulator Contracts

by Steven D. Johnson, Ph.D., Farm & Ag Business Management Field Specialist, Iowa State University Extension, (515) 261-4215, sdjohns@iastate.edu

The Accumulator Contracts were developed by FCStone Trading and first offered for the 2005 crop year. These contracts are typically provided direct by country elevators and hedged through FCStone Trading. The goal is to increase grain origination of large volumes of corn and soybeans with these contracts. Grain merchandisers representing the elevator work with producers interested in committing bushels for delivery. Rapid adoption of these contracts by producers has been witnessed across Iowa as well as select areas of Nebraska and Illinois. The Accumulator Contracts are New Generation Grain Contracts (NGC) that fall in the category of combination that typically use price averaging techniques over a select time period. In addition, price risk is managed by the country elevator through FCStone Trading. The use of such risk management tools allows Accumulator Contracts to price bushels at futures prices that are typically offered 10 to 20 cents per bushel above the current corn futures price.

The Accumulator Program is facilitated by FCStone Trading directly with a country elevator. A variety of contracts, primarily concentrated on corn, are offered in increments of several thousand bushels to the elevator. The elevator then matches the contracts with various delivery periods to their own specific delivery needs, or a time frame that a producer would like to

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Monthly Returns (10 year summary: Swine Farrow to Finish) – B1-31 (2 pages)

Monthly Returns (10 year summary: Finishing Feeder Pigs) – B1-34 (1 page)

Monthly Returns (10 year summary: Cattle Feeding) – B1-36 (2 pages)

Historic County Cropland Rental Rates – C2-11 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

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deliver the grain. The volume of offerings provides an economic advantage to the elevator as well as convenience for the producer.

Elevator benefits

Several benefits are incurred by the country elevator to justify the cost of offering these Accumulator Contracts:

1) improved efficiency of grain origination through volume of purchases
2) reduced grain handling, transportation costs and timeliness of grain delivery
3) tool to target specific farms that have access to on-farm storage and truck transportation.

The merchandisers will likely focus on offering these contracts to customers who understand Accumulator Contracts. In addition, customer prospects with larger volumes of grain, and those who typically deliver directly to processors, terminals or feedlots can be targeted.

The selling price attraction

Imagine the producer that is offered $2.70 or $2.80 per bushel new crop corn futures price when the current December corn futures contract is trading at $2.60 per bushel. This selling price above the current futures price, minus basis, is provided by FCStone Trading to the elevator through a contractual arrangement. The basis (cash minus futures) will still need to be established by the producer before these bushels are delivered against the contract.

Thus Accumulator Contracts can possibly be attached to futures only or hedge-to-arrive contracts. Stipulated within the contract are the specifics as to the ability of this contract to be “rolled” to another futures contract for a delivery later than the original delivery period. An additional charge of up to 2 cents per bushel will be paid by the producer upon settlement of the cash sale to the contract.

Other Accumulator considerations

The producer that signs up for an Accumulator Contract must first determine the quantity of bushels that they wish to price. Secondly, understand that there will be an accumulation period in weeks designated for that specific contract with a start date and end date. Each week during this accumulation period, the closing futures price on that specific day of the week will be used to determine how many of the maximum total bushels offered are actually being priced. A typical Accumulator Contract for new crop corn would be offered in early winter with an accumulation period for the first week of April until September, or a 25 week period. If 5,000 bushels are offered as an example, then each week represents 200 bushels to be priced.

Two specific target or index prices will be designated by the contract:

1) Accumulator selling price
2) Barrier or “knock out” price.

The bushels offered are priced each week during the accumulation period when CBOT futures price, which acts as the index, trades between the Accumulator selling price and the knock out price. An equal number of bushels for that contract will be designated as priced at the selling price quoted.

Doubling up bushels sold

However, for this same example the contract will also identify a potential of 10,000 bushels (twice the 5,000 offered) that could be priced. That’s because during the accumulation period, for any week with the designated day of the week the actual CBOT close/settlement is above the Accumulator selling price, the number of bushels offered will be doubled at the Accumulator selling price. Thus, should actual CBOT futures prices rally, the producer must understand that they could be committing as many as twice the number of bushels that they thought they offered.

Knock out price

Another consideration is the fact that should the designated CBOT futures price trade at or below the knock out price during any week of the accumulation period, the pricing of additional bushels stops permanently and the total bushels priced to that date are then determined. Thus, the risk exists of bushels that the producer offered might not all be priced.

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2005 contract performance

Accumulator Contracts Corn: December 2005 Performance		
1.	Bushels Priced	5,000 offered– 10,000 potential
2.	Accumulation Period	April 1st – Sept. 23rd
3.	Accumulator Selling Price	$2.55/bu.
4.	Knock Out Price	$2.25/bu.
5.	Service Charge	Varies by elevator

December 2005 CBOT Futures

Source: www.futuressource.com

This Accumulator Contract would have priced a total of 5,200 bushels at $2.55/bu. The "knock out" price was reached in week 23. However, 2 weeks would have doubled the 200 bushels priced to 400 bushels.

22 weeks X 200 bushels = 4,400 bushels
2 weeks X 400 bushels = 800 bushels
priced and committed delivery = 5,200 bushels

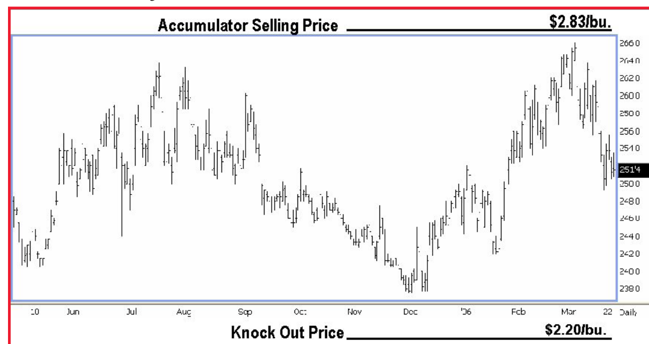
Example of 2006 contract offered

Several different Accumulator Contracts with a variety of selling prices, knock-out prices and Accumulation periods were available for 2006 corn. An example of one such contract is featured.

Accumulator Contracts Corn: December 2006 Prospectus		
1.	Bushels Priced	5,000 offered – 10,000 potential
2.	Accumulation Period	April 7th – Sept. 29th
3.	Selling Price	$2.83/bu.
4.	Knock Out Price	$2.20/bu.
5.	Service Charge	Varies by elevator

December 2006 CBOT Futures

Source: www.futuressource.com



Note that the Accumulation Period for this contract does not begin until April 7th. There is potential for the CBOT December corn futures to be above this $2.83/bu. selling price. As a result, the number of bushels offered could double. While this could be of concern for some producers, selling more bushels at "high prices" is usually the goal. Caution should be used in understanding the bushels offered versus potential. A producer should never contract more potential bushels to a contract than they are willing to deliver.

Recommendations

It is critical that producers must understand the pricing mechanisms being provided before signing up for an Accumulator Contract. This consideration includes bushels offered, bushels potential, accumulation period, selling price as well as knock out price and penalties for nonperformance. To assist producers in the use of Accumulator Contracts consider the following:

1) for new crop bushels, combine the use of crop insurance revenue tools that guarantee bushels of production and price determined by the higher of spring or fall December corn futures
2) the use of a commodity brokerage account for futures and/or options strategies in order to defend the Accumulator selling price
3) a basis objective and the use of various strategies to capture a "good basis" on bushels priced and committed to the actual delivery of grain against the contract

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