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Via Electronic Submission

Christopher Kirkpatrick
Secretary of the Commission
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Position Limits for Derivatives (RIN 3038-AD99)

Dear Mr. Kirkpatrick:

The American Cotton Shippers Association ("ACSA" or "we") appreciates the opportunity to submit this comment letter in response to the Commodity Futures Trading Commission's ("CFTC" or "Commission") proposed rulemaking entitled "Positions Limits for Derivatives" (the "Proposal"). ACSA is a trade association primarily made up of cotton merchants founded in 1924. Collectively, our members handle the vast majority of U.S. cotton production and foreign growths traded globally. Our services consist of merchandising, delivery logistics, and risk management.

ACSA supports the Commission's efforts to issue a final position limits rule for several reasons. First, a final rule, provided that some revisions are adopted, will provide certainty to ACSA members and all market participants. Second, ACSA applauds the Commission's revisions to the bona fide hedging exemptions because they align more with how the cotton market operates and how ACSA members conduct their businesses. Finally, although ACSA broadly supports the Proposal, we believe the Commission should consider several revisions, which are discussed further below, related to unfixed-price sales, deliverable supply estimates, and non-spot month limits. That said, ACSA sincerely appreciates the efforts of Commission staff, individual Commissioners, and the Chairman to listen to our organization and others in the commercial end-user community. This Proposal incorporates those conversations and gives us confidence that the Commission wants to recognize true commercial hedging.

ACSA also writes in support of the comment letters submitted by its members, the National Cotton Council, the Commodity Markets Council, and the National Council of Textile Organizations, to the extent those letters are consistent with ACSA's comments herein.

Executive Summary

- Risk Management Exemptions – ACSA supports the revisions to the "Temporary Substitute Test" and the elimination of risk management exemptions for banks because outsized positions in physical commodity-focused indexes can have significant, adverse effects on futures market price dynamics.
- Enumerated Hedges – Although ACSA supports and appreciates the Commission's efforts to expand the list of enumerated hedges, we are concerned that the Proposal would not provide the exchanges the authority to grant hedge exemptions through the enumerated process that will allow merchants to properly manage calendar spread price risk and supply price risk associated with unfixed-price sales contracts. We recognize that there are multiple ways the Commission could address these risks associated with unfixed-price sales contracts. A few that we have identified for your consideration are as follows:

    - Utilize Anticipatory Merchandising
    - Modify the Definition for Hedges of Offsetting Unfixed-Price Cash Commodity Sales and Purchases
    - Create a New Enumerated Hedge Category

  ACSA realizes, however, that some of these approaches, although they address our concerns, could produce different outcomes in other markets. Therefore, we would be supportive of the Commission's utility of any of these pathways that would produce the best approach to addressing the above-described risks, while avoiding unintended consequences.
- Deliverable Supply – We disagree with the Commission's acceptance of the deliverable supply estimates for the U.S. Cotton No. 2 ("CT") contract. Deliverable supply estimates should be considered in terms of a product's quality and its legitimate, logistical availability for delivery. The estimates included in the Proposal do not reflect the cotton industry's historical ability to deliver the physical commodity.
- Federal Limits – ACSA objects to the proposed federal spot-month limit increase from 300 to 1,800 CT contracts and urges the Commission to maintain the current federal spot-month limit at 300 CT contracts. Moreover, ACSA disagrees with the Proposal's increase of the non-spot limits for the Intercontinental Exchange's ("ICE") CT Contract. However, if the Commission decides to increase the non-spot-month limits for this contract, the Commission should adopt lower single-month limits to prevent speculative activity from concentrating in a single contract month, which would likely jeopardize convergence.
- Exchange-Set Position Limits – The appropriate level of volume and liquidity is necessary for the CT contract to play its vital role in the global cotton ecosystem. These factors should

be taken into consideration before a revised exchange-set limit is established for the CT contract.

- Form 304 – ACSA supports the elimination of Form 204 and the proposed changes to Form 304; however, the Commission should go further with its plan regarding Form 304 and either: (1) eliminate Form 304 completely; or (2) if it has compelling reasons to continue collecting Form 304 data, stop publishing the data for public dissemination.

I. Background

a. The Role of Merchandisers and ACSA Members

ACSA provides benefits and services to cotton producers, cooperatives, mills, manufacturers, and supply chain participants. Traditionally, growers desire to market their entire crop, consisting of a wide variety of qualities, at one time, at the highest price possible, receiving payment in full. Conversely, mills and manufacturers desire to purchase at the lowest possible price, as they consume throughout the year, in very specific quality specifications, paying as they go. Neither party traditionally manages the delivery logistics. The merchant's role is to harmonize the needs of the producers and consumers and assume their price risk and other risks. Merchants effectively bridge the gap between timing mismatches of supply and demand fundamentals in the global marketplace. As a result, merchants will often sell commodities in advance of purchasing the commodities, responding to the needs of their customers.

Cotton producers can benefit greatly from custom-tailored ACSA services. ACSA members offer flexible purchase options, including the potential for a grower to sell their entire crop with 100 percent cash against delivery, creating immediate cash flow. ACSA members often create services to individually address the risk management needs of their producer customers, governed by their customers' guidance concerning costs and risks. A good example of ACSA members absorbing risk on behalf of producers is when ACSA members allow their customers to market cotton at a fixed price or unfixed-price basis, determining volume based on historical production, absorbing the risk for fluctuating production yield.

ACSA members offer a large array of services to cotton buyers around the world. First and foremost, members provide expert risk management services for everything from price to timing, quality, currency, and logistics. Because today's markets are increasingly volatile, sophisticated strategies to mitigate risk become more and more important. This is why ACSA members handle more than 70 percent of U.S. cotton shipments domestically and abroad.

b. How ACSA Members Use CFTC-Regulated Markets

ACSA members use CFTC-regulated markets, particularly ICE's CT contract, to manage risks for themselves and their customers, which include U.S. cotton producers, U.S. cooperatives, foreign

cotton producers, U.S. textile manufacturers, and foreign textile manufacturers. These risk management plans are not generic and are governed by consideration of the domestic support and market access programs that are unique to various producing and consuming countries in the global cotton trade.

c. The Importance of Futures Markets and a Proper Position Limits Rule to Advance Hedging Needs

For commercial hedgers like ACSA members—who use the futures market to both manage risks through hedging and fulfill their obligations to procure and deliver physical commodities throughout the year—there is no tool more fundamental, prerequisite, or important for our industry to adequately harmonize the needs of producers and consumers of physical commodities than futures contracts. This can only occur with sound oversight and regulation of participants and exchanges by the Commission concerning both the opportunity to engage in bona fide hedging of physical commodities and the maintenance of reasonable speculative position limits.

II. The Proposal's Definitions

a. Bona Fide Hedge Elements

ACSA supports the Commission's efforts to revise the "Temporary Substitute Test," one of the five key elements of the bona fide hedge definition. The revised text would eliminate the need for risk management exemptions for banks, a result ACSA generally supports, because outsized positions in physical, commodity-focused index funds can have significant, adverse effects on futures market price dynamics.

b. The Expanded List of Enumerated Hedges

A large portion of the underlying physical agricultural commodities produced in the U.S., upon which the legacy agricultural futures contracts are based, are exported to other countries through sales contracts between merchants and end-users. A smaller portion of the agricultural commodities produced in the U.S. are consumed by domestic users. When merchants enter into sales contracts with end-users, either domestic or internationally, merchants are obligated to deliver physical commodities to a specified destination by a specified date. Most sales contracts are typically executed as unfixed-price contracts, and the end-user determines when the sales contract is fixed. Merchants are subject to material calendar spread price risk and potentially supply price risk associated with these unfixed-price sales contracts.

These are standard risks, applicable to merchants on a daily basis; therefore, merchants should not be forced to go through the non-enumerated process to obtain hedge exemptions to manage

these risks. The non-enumerated process should be reserved for unique risks that are relevant to individual market participants.

Calendar Spread Price Risk & Supply Price Risk

Merchants typically fulfill sales contracts by purchasing physical commodities in the interior of the country and moving these commodities to domestic consumers or to ports for export to international consumers. This process typically takes between two and three months to complete. Merchants are thus forced to purchase the physical commodities indexed to a prior futures month from the one indexed to the sales contracts. As a result, merchants are exposed to calendar spread price risk and need to have the ability to hold a spread position in the futures market to manage this risk. As mentioned above, merchants effectively bridge the gap between timing mismatches of supply and demand in the global marketplace; therefore, merchants will often sell a commodity for future delivery in advance of purchasing the commodity to fulfill the sale.

As futures contracts approach delivery, merchants must have the ability to maintain the calendar spread price risk hedge in order to provide supply price risk protection, if needed. A merchant will procure its needed supply in the most economically appropriate manner so that it may fulfill its sales commitments. If the most economically appropriate means of procuring supply is through the futures delivery process, merchants must be able to do this. Allowing merchants to take delivery via the futures delivery process is essential to maintaining functioning agricultural markets, price discovery, and convergence. Please see Scenarios 1 and 2 in the Appendix for detailed examples.

Importance of Unfixed-Price Contracts

The majority of all contracts are executed as unfixed-priced contracts. This contract format best facilitates the needs of the producer and end-user while significantly reducing the performance and credit risks for all participants. Forcing merchants to enter into fixed-priced contracts would drastically increase performance and credit risks. Subsequently, this would negatively impact both producers and end-users by increasing risk premiums through the supply chain, widening bid/offer spreads, reducing liquidity, and ultimately lowering prices to producers, while increasing consumer prices.

Suggested Changes

ACSA encourages the Commission to consider making one of the changes listed below to the Proposal to ensure that exchanges have the authority to grant hedge exemptions through the enumerated process that will allow merchants the ability to properly manage calendar spread price risk and supply price risk associated with unfixed-price sales contracts.

1. Utilize Anticipatory Merchandising

The Proposal includes hedges for anticipatory merchandising in the list of enumerated hedges, and the text of the rule imposes reasonable requirements for a merchant to qualify for this exemption. However, the comments associated with footnote 105 in the Proposal bring into question whether a merchant can utilize a hedge exemption for anticipatory merchandising to manage the calendar spread price risk and supply price risk associated with unfixed-price sales contracts.

Therefore, the final rule should clarify that a merchant, who meets the requirements set forth in Part 150 and Appendix A, has the flexibility to take into consideration risks associated with unfixed-price sales contracts when deciding whether to utilize a granted hedge exemption for anticipatory merchandising.

2. Modify the Definition for Hedges of Offsetting Unfixed-Price Cash Commodity Sales and Purchases

The Proposal includes hedges of offsetting unfixed-price cash commodity sales and purchases in the list of enumerated hedges to address calendar spread price risk. However, a market participant must execute both legs of the transaction prior to utilizing a bona fide hedge exemption for offsetting unfixed-price cash commodity sales and purchases. Because merchants often sell commodities in advance of purchasing the commodities, a merchant needs the ability to hedge the calendar spread price risk exposure associated with any unfixed-price sales. In these situations, merchants have the exact same calendar spread price risk exposure as merchants that have executed both unfixed-price legs of the transaction, because any futures market calendar spread convergence or divergence will affect both scenarios in the exact same manner.

As illustrated in Scenarios 1 and 2 of the Appendix, a merchant is exposed to calendar spread price risk after executing only the unfixed-price sale leg of the transaction, and the merchant could maintain this exposure for a significant period before executing the purchase leg of the transaction.

Therefore, the final rule should alter the definition for this enumerated hedge to read: long and short positions in commodity derivative contracts to hedge the time differential between cash commodity purchases and sales that do not exceed in quantity the amount of the contract's underlying cash commodity that has been either sold **or** bought by the same person at unfixed prices.

3. Create a New Enumerated Hedge Category

The final rule should include an additional enumerated hedge that would allow merchants to hold calendar spread positions in the futures market that do not exceed in quantity the total amount of the contract's underlying cash commodity sold by the merchant, whether the sales are fixed or unfixed.

c. Guidance on Measuring Risk

Overall, ACSA supports the Commission's belief that a one-size-fits-all approach is not the appropriate way to measure risk across an entire organization. While it may seem reasonable to assume that one should generally net positions to reduce risk, there are many times when market conditions and circumstances dictate that positions would be more accurately characterized under a gross approach, due to time, quality, location, and other differences. In our current environment of ever-changing market access dictated by global trade agreements and the impact of domestic support programs like the U.S. Marketing Assistance Loan Program, the Indian Minimum Support Price, and the Chinese Reserve's purchasing power, there are many scenarios that would require participants in global markets to utilize both gross and net hedging calculations.

III. Federal Limit Levels

ACSA favors the use of position limits. We also value the liquidity that speculative trading introduces into the marketplace; however, we believe that the volume of speculative trading must be maintained at a level that allows the contract to function for its designed purpose without unnatural influence from excessive speculative trading.

The Commission is proposing to significantly increase the federal limit levels. These increases are based on new deliverable supply estimates submitted by the exchanges in the spot month and an increased consideration of open interest in calculating non-spot-month limits. ACSA is concerned with ICE's estimates and opposed to the adoption of higher federal limits. ACSA fears that these proposed increases are too large, compromising the CT contract's primary purposes of price discovery, convergence, and creating a forum for dependable risk management. ACSA also believes that these increases deviate from the Commission's prescribed authorization for utilizing speculative limits: to protect futures markets from excessive speculation that can cause unreasonable or unwarranted price fluctuations.

a. Deliverable Supply Estimates

ACSA disagrees with the Commission's acceptance of ICE's CT contract deliverable supply findings. The concept of deliverable supply should be considered in terms of a product's quality and its legitimate, logistical availability for delivery. The deliverable supply estimates for the CT contract do not reflect the cotton industry's historical ability to deliver the physical commodity.

ICE's current determination of cotton's deliverable supply has only once been realized with actual deliveries: in December 2008 during the financial crisis. Average deliveries in periods of significant demand are much lower than the current determination of deliverable supply, which ACSA believes clearly demonstrates the absence of adequately considering delivery logistics in the quantification of deliverable supply.

b. Spot-Month Limit

The Commission is proposing to raise the CT contract's federal spot-month limit six-times its current level from 300 to 1,800 contracts. In a smaller market like cotton, such a drastic increase and high limit will cause excessive volatility and hinder convergence in the spot month. Not only does ACSA object to the proposed position limit increase, we believe the negative impacts will be compounded if the increased amount of speculative trading is allowed to exist in a single month, whether in the spot month or otherwise.

ACSA would support the Commission reducing the percentage of deliverable supply considered in the calculation of the CT contract's spot-month limit to a level significantly lower than 25 percent, in a fashion similar to other agricultural commodity contracts, to address the collective concerns regarding the impacts of limit increases in this small market.

c. Non-Spot-Month Limits

ACSA disagrees with the Commission's proposed increase of the non-spot-month limits for the ICE CT contract. ACSA believes that increasing the non-spot-month limits will have a negative impact on the smaller legacy agricultural contracts, specifically the ICE CT contract. However, if the Commission decides to increase the non-spot-month limits for these smaller contracts, ACSA believes that it is essential that the Commission adopt lower single-month limits, particularly for markets like cotton. The Commission could do so by setting the single-month limits at the current levels or at 50 percent of the combined all-months limit.

If the Commission increases the non-spot-month limits and does not adopt lower single-month limits, a large amount of speculative activity could concentrate in the front month, which could overwhelm the market or at the very least send uneconomic signals to commercial participants. Such an event would be devastating for the cotton market (or another smaller market commodity) and prevent convergence.

IV. Exchange-Set Position Limits

The CT contract is unique because it is used by the global cotton community to appropriately hedge its commercial risks; therefore, the appropriate level of volume and liquidity is necessary for the contract to retain this crucial role. These factors, however, should be balanced with the

need to curtail unnecessary volatility. Should ICE decide to increase its limits, particularly in tandem with the federal limit levels, ACSA believes these factors, as well as the others discussed herein, should be taken into consideration before a revised exchange-set limit is established for the CT contact.

V. Part 19 and Related Provisions – Reporting of Cash-Market Positions

ACSA supports the elimination of Form 204 and changes to Form 304; however, we believe the Commission should go further regarding changing Form 304. Below are ACSA's responses to the Proposal's four questions related to Form 304, and we commend the Commission for asking these relevant questions.

(46) To what extent, and for what purpose, do market participants and others rely on the information contained in the Commission's weekly cotton on-call report?

> *ACSA's Response:* Market participants analyze the cotton on-call reports, but we believe most review the report to understand commercial positions in the market. While supporters of this report will cite transparency or equal access to market information to justify its continuance, ACSA does not believe that one market participant should have access to another market participant's proprietary information. Access to this information enables market participants to view the positions of producers and consumers of the physical commodity, which have been sold or purchased on-call, and anticipate the producers' or consumers' requirement to fix by a known time. This creates an opportunity to trade against these publicly disclosed fixations.
>
> Furthermore, the cotton market has many of the same characteristics from a commercial market participant's risk management perspective as other tradable commodities such as corn, soybeans, or wheat, yet on-call reports are unique to cotton. We see no reasonable policy explanation for the continuance of this report for cotton only. If the Commission finds the information necessary for surveillance purposes in cotton, why is it not necessary for other commodities.
>
> A primary reason for ACSA's policy that calls for eliminating the cotton on-call report is the negative impact it has on our textile mill customers, both domestically and abroad. Since being negatively impacted by the Uruguay Round of World Trade Organization negotiations, the U.S. textile industry has shrunk to 25 percent of its previous volume and capacity. Because ACSA merchandises and manages the risks and logistics for the vast majority of the U.S. cotton production, it is critical that we support our customers and the viability of the U.S. textile industry.
>
> The following example demonstrates how the report has harmed the U.S. textile industry:

In addition to our concerns about the report's impact on domestic textile mills, ACSA recognizes the impact this report has on the global competitiveness of U.S. cotton. The U.S. currently exports more than 85 percent of its cotton production. Because of the recent China-related trade challenges, the U.S. cotton industry has focused on growing its market share in alternative markets like Turkey, Bangladesh, Vietnam, Indonesia, and others.

As previously mentioned, ICE's CT contract is used in hedging export sales. Our consuming customers in the global market have informed us that this reporting creates additional risk and cost for them when purchasing U.S. cotton compared to foreign growths. Because ACSA uniquely merchandises both the majority of U.S. cotton and the balance of globally-traded foreign growth cotton, we have particular insight into the comparative value of U.S. cotton to other growths.

We believe that the publication of the on-call report is another challenge, among others listed herein, leading to the erosion of U.S. cotton's value in the export market. Since the Proposal's release and its discussion regarding the publication of the cotton on-call report, multiple foreign textile mills have indicated that terminating the report would be valuable to them when sourcing U.S. cotton. ACSA believes that ending the publication of the cotton on-call report will have a beneficial impact on U.S. cotton's competiveness compared to foreign growths.

(47) Does publication of the cotton on-call report create any informational advantages or disadvantages, and/or otherwise impact competition in any way?

ACSA's Response: The report definitely creates an advantage for market participants who desire to trade based on the use of proprietary information belonging to other market participants. Access to this information enables market participants to view the positions of producers and consumers of the physical commodity, which have been sold or purchased on-call, and anticipate their requirement to fix by a known time. This creates an opportunity to trade against these publicly disclosed fixations.

Much of the U.S. cotton crop is hedged using "on-call" contracts, and unfixed-price positions show market positions that need further futures market activity and give market participants a sense of the size and timing of the producers' and consumers' requirements for future action in order to fix their respective prices. Publication of the on-call information allows market participants an opportunity to trade against the needs of producers and consumers. This is particularly well-explained for cotton consumers within the comments submitted to the Commission by The National Council of Textile Organizations.

In our opinion, this transparency is not helpful. It creates disadvantages for producers and consumers using the ICE CT contract. ACSA disagrees with divulging one market participant's proprietary information to another market participant, enabling the previously described trading activity. We know of no other industry where market participants are required to report their proprietary information to the public. It is unfair and inconsistent with the Commission's surveillance and oversight of other markets, as well as detrimental to producers and consumers, both of which are ACSA's customers.

(48) Should the Commission stop publishing the cotton on-call report, but continue to collect, for internal use only, the information required in Part III of Form 304 (Unfixed-Price Cotton "On Call")?

ACSA's Response: As previously stated, we question the need for the Commission to collect this information for the cotton market but not for other commodity markets, many of which are similar to cotton. Should the Commission have a compelling reason for continuing the collection of this data, we would strongly support not publishing this data.

(49) Alternatively, should the Commission stop publishing the cotton on-call report and also eliminate the Form 304 altogether, including Part III?

ACSA's Response: Yes, we believe the Commission should eliminate Form 304 altogether. Should the Commission believe there is a compelling reason to maintain the report in either private or public form, we respectfully request that the Commission be transparent in justifying its decision and the policy rationale for requiring, or requiring and publishing, this report for cotton only.

VI. Conclusion

Sophisticated commercial hedging is as important today as ever, particularly because of the marketplace volatility. Successful hedging ultimately benefits the general public by reducing the volatility of consumers of commodities such as cotton. We appreciate the Commission's consideration of our views on this critical issue.

Sincerely,

/s/ William Allen

William H. "Buddy" Allen
President and CEO
American Cotton Shippers Association

Appendix

Scenario 1

During the month of December, Merchant ("M") enters into a contract to sell cotton to a textile mill ("T") in Indonesia on a Cost, Insurance, Freight ("CIF") basis, to be shipped in the month of April, at a floating price basis to the May cotton futures contract. T has the right to fix its floating price at any time prior to First Notice Day on the May futures contract, which is in late April.

M will need to procure cotton, have it stuffed into a container, and loaded on an ocean-going vessel prior to the end of April. Because of the inherent time lag between the sale to T and the timing of cotton procurement, M will need to utilize the March futures contract for supply price risk protection. Since M's best option for supply price risk protection is via March futures and the sale commitment is priced basis to May futures, M is exposed to calendar spread price risk. In order to hedge these risks, M needs to buy the March futures and sell the May futures.

As the March contract approaches delivery, M will evaluate whether: (i) it is more economical and appropriate under the circumstances to purchase cotton in the physical market and to liquidate the long March futures; or (ii) to source cotton by taking delivery of March futures. If M is able to purchase fixed-price cotton in the physical market, M will sell March futures, thereby exiting the long futures position that was established. However, as long as sourcing cotton through the delivery market is more economical and appropriate under the circumstances than purchasing cotton in the cash market, M needs the ability to continue to hold the March futures positions and to take delivery in order to fulfill its sale commitments.

Assume that M continues to hold its long March futures until delivery and sources cotton through the futures delivery process. In this case, M will be long physical cotton in March and will continue to be short May futures, as a hedge. M will begin the process to move the cotton so that it is loaded on an ocean-going vessel prior to the end of April. During mid-April, T decides to fix the contract price with M, and provides long May futures to M via an Exchange for Physical ("EFP") transaction executed through ICE. These long May futures cancel the short May futures that were used to hedge the inventory. Therefore, M is left with fixed-price inventory and a fixed-price sale. M will invoice T the fixed-price sale once the cotton is loaded on an ocean-going vessel.

Scenario 2

During the month of October, Merchant ("M") enters into a contract to sell soybeans to an international buyer ("B") at a floating price basis to the January soybean futures contract ("futures"). The contract is on an FOB Gulf (New Orleans) basis and stipulates that M must load soybeans on a vessel at an export facility in the Gulf and ship in mid-January. B has the right to fix its floating price at any time prior to December 15.

The soybeans will be loaded out of the Gulf in mid-January and will need to be sourced by purchasing soybeans shipped via barge, rail, or truck. Consequently, because of the inherent time lag between the procurement of soybeans and the sale to B, M will need to use the November soybean futures contract for supply price risk protection. However, since M's best option for supply protection is with November futures and the sale commitment is priced basis to January futures, M is exposed to calendar spread price risk. In order to hedge these risks, M needs to buy the November futures and sell January futures.

As the November contract approaches delivery, M will evaluate whether it is more economically appropriate to: (i) purchase soybeans in the physical market and liquidate the November futures; or (ii) source soybeans by taking delivery of November futures. If M is able to purchase fixed-price soybeans in the cash market, M will sell November futures, thereby exiting the long position that was established. However, as long as sourcing soybeans through the futures delivery market is more economical and appropriate than purchasing soybeans in the physical market, M needs the ability to continue to hold the November futures positions and to take delivery in order to fulfill its sale commitments.

Similar to Scenario 1, the sales contract to B remains unfixed until B decides to provide long futures to M via an EFP.

Scenario 3

The unfixed-price sale contract allows producers to independently fix fluctuating basis levels and underlying futures values at opportune levels consistent with their risk management plans, production costs, and delivery logistics or infrastructure.

Producer A utilizes a very basic but disciplined risk management and marketing strategy. His goal is to utilize his fixed infrastructure cost to allow him to sell his production in all four quarters of the calendar year, utilizing all available information and counsel, with the goal of attaining a higher-than-average selling price, while avoiding the impact of extreme market events throughout the year, delivering predictable cash flow, and meeting his logistical needs. Conversely, when fixing basis levels, Producer A weighs the impact of supply chain utility and timing-based premiums and discounts derived from flow levels in the Mississippi River and the blend ability of grain based on quality trends and offtake timing, and chooses to fix basis levels in broader increments during positive scenarios.

Utilizing the unfixed-price contract format allows Producer A to fix basis levels all at once or in a few large events, thus insulating risk from unforeseen factors like the impact of compromised barge shipping efficacy on basis levels. Simultaneously, Producer A can fix futures values throughout various delivery timeframes that meet his marketing strategy and delivery logistics.

By utilizing an unfixed-price contract, Producer A fulfilled his production marketing goals without the complexity of utilizing futures and options strategies, premium costs, or the margin maintenance risk on a small operation's cash flow.

Like merchants, when basis levels are set by Producer A, there is an obligation to meet his pledged delivery timeline and unmitigated price risk until the futures price component of the contract is fixed.