Canola Contracting Definitions

Cash Price – The value of canola at a particular location, sometimes referred to as the spot price or the flat price. A cash price incorporates the canola futures price and the basis at any point in time.

Spot Contract – An agreement to sell canola for immediate delivery, at the current market price.

Forward Price – The value canola can be sold at today for delivery at a specified time in the future.

Deferred Delivery Contract or Forward Contract – An agreement to sell canola for delivery at a specified later date, at the forward market price. The price at which the canola changes hands is set at the time of contracting; physical delivery and payment occur later.

Target Price – A price, ideally above the cost of production, where a grower hopes to sell the canola.

Grain Pricing Order – A contract whereby canola is automatically priced/sold to the holder of the contract if and when the cash market reaches the seller's target price level.

Hedging – Trading futures or options in an effort to reduce or offset cash price risk. Hedging can be used as a temporary substitute for an anticipated future cash market transaction, such as selling a crop planted in spring for fall delivery.

Arbitrage – A trade that generates a risk-free profit without investment. When arbitrage opportunities arise, they tend to be exploited very quickly and then disappear.

Convergence – The equalization of cash and futures market prices upon expiry of a futures contract. In the month denoted by the contract on the board, futures market prices should come very close to cash bid prices for the same grade and quality of canola. This is achieved through the threat of delivery against futures.

Futures Price – The exchange-determined value of canola, according to its standardized contract specification. The futures price tracks the cash price; it is different from the cash price by the basis.

Basis – The difference between the cash price and the futures market price, the basis is made up of a number of costs incurred to transport and/or transform canola for sale into its next-use market. The canola basis can be positive or negative, depending on location and market conditions.

Call Options – An exchange-traded contract giving the holder the right to buy the underlying futures contract, within a certain time frame, at the specified 'strike' price.

Put Options – An exchange-traded contract giving the holder the right to sell the underlying futures contract, within a certain time frame, at the specified 'strike' price.

Option Premium – The cost to purchase a call or put option, i.e. the price it is trading at.

Liquidity – Refers to the number of players in, or how actively traded, a particular contract or market is. How liquid a futures contract is can be measured by the volume of trade or the open interest.

Open Interest – The total number of futures contracts outstanding (i.e. long or short positions held by traders) at a particular point in time. When a trader settles a position by liquidating an outstanding contract, total open interest declines by one.

Delivery Against Futures – To complete a futures contract, all positions must be closed out. If they are not, a long or short trader will either have bought or sold cash canola at the time of contract expiry, which is referred to delivering against, or taking delivery of futures.

Price Discovery – The function of netting out total world supply and demand to reveal information about future cash market prices, through the futures market.

Strike Price – An option contract's pre-determined transaction price, i.e. the price at which the holder of a call or put has the right to buy or sell the underlying futures contract.

Intrinsic Value – The value of an option if it were exercised immediately. Only in-the-money options have intrinsic value.