

How to Establish a Futures Account

Author:

Gary Thome, Riverland Community College

Reviewer:

Mike Swan, Washington State University

Introduction

The use of futures to establish hedges for inputs and pork sales can be a very valuable tool for a producer to use to stay competitive in today's swine industry. The use of futures and options contracts will allow producers to establish input purchases and pork sales well ahead of when actual physical products are used or sold.

Establishing a Futures Account

1. Educate yourself as to what futures trading is and how it works.
 - Futures contracts, months / size
 - Options – calls and puts
2. For several weeks plot the futures for the commodities you would use futures for to determine feasibility.
3. Locate a broker and firm that you are comfortable with.
4. Complete the forms needed to open a futures account.
5. Establish a hedge loan account with your lender.
6. Record daily basis levels.
7. Calculate your cost of production.
8. Set futures prices at which to sell or purchase.
9. Lift futures when you sell cash hogs or purchase inputs.