# Futures Market Deliveries

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Among all the facets of futures market trading, probably the most misunderstanding surrounds the subject of making or taking delivery. Everyone recognizes that when May soybeans are purchased, for example, the position must be liquidated before final trading day for that contract or delivery will be made. From that point of understanding people generally show a total lack of knowledge about actual delivery situations, and usually make some joke about a truck dumping 5000 bushels of beans in the front yard.

It is customary for speculators and even most commercial trade interests, to liquidate futures positions ahead of final trading day. Most follow the more prudent rule of liquidating before first delivery day. The potential volatility during a spot delivery month is of serious concern to most speculators, and most hedgers have already secured the desired protection during previous months of trading.

This article is in no way intended to change market trading attitudes by either class of participants. Instead, it is presented for the purpose of promoting understanding in an area shrouded by deep, dark mystery in most people's minds.

### Clearing Members

The first point to keep in mind is that only Clearing Members can make delivery. Clearing Members are those firms or individuals who have offices in the Chicago Board of Trade Building, or close proximity, and have satisfied all the necessary requirements to obtain such privileges and handle the transactions involved. (Throughout this discussion we are talking about commodities traded on the Chicago Board of Trade; specifiically soybeans, soybean oil and soybean meal. Other exchanges have similar provisions with some modification to suit special needs of the other commodity industries involved.)

Customers of a Clearing Member can make deliveries, but they must be made through that member.

A speculator or commercial firm may hold a membership in the Board of Trade for various reasons, including reduced trading commission costs, but this is distinctly separate from the Clearing Membership function.

### What is Actually Delivered

The actual delivery transaction is a transfer of ownership from one party to another. This transfer is done by the exchange of a title document for a specified sum of money. For soybeans and soybean oil it is called a Warehouse Receipt. For soybean meal it is a Shipping Certificate.

Once this transfer is completed it simply means that the commodity has a new owner, which is specified on the document, and he assumes control of and responsibility for the items involved. He pays rent and other costs affiliated with ownership. He can keep or dispose of this ownership as he pleases.

The property was secured via the futures market instead of making a direct purchase in a straight cash transaction, but the results are the same. He will not get 5000 bushels of soybeans in his front yard unless he orders them to be loaded out of the storage elevator and trucked to his house.

### Where The Commodities Are Stored

Soybeans have to be in Chicago elevators (warehouses) certified for delivery purposes by the Chicago Board of Trade.

Soybean oil must be in storage tanks certified by the Board of Trade at a number of midwestern locations specified by the Board of Trade. These currently range from Nebraska to Indiana and from Minnesota to Kentucky.

Soybean meal may not actually have been produced yet. The document of ownership is not a warehouse receipt, but is a Shipping Certificate which in effect is a lien against future production. This is because of the inability of the industry to store large amounts for any length of time, both for reasons of bulk and spoilage. The Shipping Certificate may be issued only by crushers certified by the Board of Trade at a number of specified midwestern locations. These currently range from Iowa to Ohio and from Illinois to Kentucky.

Some of the current locations certified for delivery may later choose to withdraw from this privilege. Others may be added, within the geographic areas permitted.

The amounts certified for delivery from a given location cannot exceed percentages of loading and shipping capacities as determined by the Board of Trade.

### Public Notification of Delivery Potentials

Once a week the amount of Chicago deliverable stocks of soybeans is released for publication. This figure reveals how many soybeans are in certified elevator storage of sufficient quality to comply with futures delivery regulation and on which warehouse receipts have been authenticated by the Board of Trade. The actual elevator issuing the receipts is not revealed.

Soybean Oil Warehouse Receipts and soybean meal Shipping Certificates must also be similarly registered to make delivery. The total so registered is made public by posting notice on the trading floor, with changes noted when they occur. Once a week the quantities of such Receipts and Certificates at each location are published.

Sometimes receipts will be registered for the purpose of securing financing instead of for making delivery.

### How Delivery is Accomplished

A Clearing Member issues a Notice of Intention to Deliver, either for his own account or for a customer. The account must be short the futures contract by an equal amount. This notice is reported publicly in quantity only, never by name. On the following business day actual delivery of the Receipt or Certificate is made and full payment received.

The Notice of Intention to Deliver is handled through the Clearing House. The actual delivery and cash payment is done between the Clearing Members involved. If the Clearing Member who receives delivery is acting for a customer, that customer's identity is not revealed.

### Who Gets Delivery

Once the Clearing House receives the Notice of Intention to Deliver, the records are checked to ascertain that said account is short futures. Then the records are checked to see which Clearing Member has had a balance of more long positions than short positions for the greatest length of time. The oldest net long receives the Notice.

Then the Clearing House takes note of which account has the oldest long position on its records and serves notice that delivery has been received.

Thus, it is possible for an account to have had a long futures position for many months but still not get delivery ahead of someone else who has had a long position for a much shorter time, providing that the Clearing Member in the first instance has been net short most of that time and the Clearing Member in the second instance has been net long farther back.

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**How Deliveries May be Redelivered**

If someone receives a delivery notice while the market is still open, he may promptly enter an order in the futures pit to sell short and re-tender the delivery notice to someone else. By so doing he escapes the responsibility of paying storage charges that would otherwise be incurred. Such a maneuver is not possible if the Notice comes after the market is closed.

This re-tendering action may sometimes happen more than once during a trading day, and explains why on some days the re-tendering quantity exceeds the actual number of original Notices.

It may also be seen why frequently the bulk of Thursday deliveries are made after the market closes. In this way those who tender Notices late Thursday make actual delivery on Friday. Those who receive delivery on Friday and put out delivery intentions notices cannot possibly escape paying storage charges through the weekend, since actual delivery cannot be made until the following business day. When there is a holiday in conjunction with a weekend, an extra day of charges will be incurred making this an even more attractive maneuver for the short who intends to eventually get the deliveries back.

**Having Someone Else Pay the Rent**

Under some circumstances it is possible that a trader, either commercial or speculator, does not want to lose ownership of a commodity, but would like to get someone else to pay some of the storage costs for a while. He can attempt to accomplish this by making delivery early in the month and then buying futures in the same month's contract, expecting to eventually get back the same Certificates or Receipts later in the month.

Sometimes this works as planned and sometimes it does not. For example, a firm with elevator space in Chicago may put out deliveries of soybeans, expecting to get them back. Instead, those Receipts may be held by another firm which needs beans to export via the Great Lakes but which does not have elevator space there. So instead of the delivering firm getting back its own Receipts, it gets Receipts from another elevator and has to pay rent to that other firm and at the same time has lost control of its own beans.

**Demand Certificates for Soybean Oil**

In the case of soybean oil, an attempt to get someone else to pay the rent such as described above can get into even further complications. The one who received delivery may wish to hold ownership for several months if he feels the market will advance further. Among the reasons for doing so could be to achieve long-term capital gains or to defer profits until the following tax year.

But in the process of doing so, it is conceivable that the processor who has put out the Receipts will have almost all of his certified storage capacity encumbered in this manner, which effectively curtails his ability to sell oil from inventory.

To overcome this difficult situation it is permissible for the processor to issue Demand Certificates under certain conditions. Once this is done the holder of such Certificates has ten business days in which to load out the oil. If such action is not taken, then the processor may load out the oil and sell it for the account of the owner holding the Certificates.

**Delivery Liquidates Futures**

The function of making or taking delivery liquidates futures positions. When one who is short futures makes delivery, that short position is thereby eliminated. Likewise, when one who is long futures receives delivery, that long position is eliminated.

If someone receives delivery and does not want the ownership of the actual commodity, he has the privilege of passing the ownership to someone else via the futures market if the final day of trading for that month has not yet passed. To do so he simply instructs his broker to sell futures short and re-tender the Delivery Notice. This action first makes him short futures and then automatically eliminates the short position through the delivery process. No additional commission charge is assessed in this procedure.

If, however, delivery is not received until after the final day of trading, then the Receipts or Certificates must be sold in the cash market, if ownership is not desired, and a commission is charged for handling the cash transaction. Or, a person may choose to hold possession and make delivery on a following month of futures trading by selling short futures and issuing a Notice of Intention to Deliver in that month.

**First Notice Day and Last Trading Day**

The first day on which Delivery Notices may be made is always the last trading day prior to the month for which futures are traded.

The last trading day for futures is always calculated by counting back eight trading days from the end of the month. On that day trading ceases at noon Chicago time for that contract only.

All remaining open positions in futures after trading ceases must be liquidated by delivery within two business days for soybean meal, while soybeans and soybean oil must be handled by the last business day of the month.

**Settlement Prices**

The actual price at which a futures contract is liquidated via delivery is the settlement price for the day prior to issuance of the Notice of Intention to Deliver. For example, let's assume that the 3rd, 4th and 5th days of a given month are all business days. A Notice is issued on the 4th with actual delivery on the 5th. The settlement price of the 3rd is the price at which delivery is made.

The settlement price is established by the closing price; the last price traded when the market closes. If the close is a range of prices, the settlement is within the range. In the case of soybeans which trade in increments of 1/8 of a cent, the settlement price is established at the appropriate 1/4 cent increment within the range.

When delivery is beyond the final trading day by more than one day, the settlement price at which the contract ceased trading is used.

**Storage Cost**

When a Delivery Notice is received and re-tendering is not made on the same day, either by choice or because the market had already closed, there is a charge made against the new owner to compensate the warehouse or processor for storage costs. In the case of soybeans it is $3.00 per contract of 5000 bushels per day. For soybean oil it is 90 cents per contract of 60,000 lb. per day. For soybean meal it is $2.00 per contract of 100 short tons per day.

Some interesting trading opportunities can develop on occasions where the spot month futures drop below the next futures month by an amount equal to these storage charges or more. Such a situation can entice a speculator to buy a spot futures contract and sell the next futures month, for it is obvious that storage costs are covered.

For example, if on December 10 the December soybean meal futures can be bought at 60 cents under January and the January simultaneously sold, there is a low risk transaction which has a built-in hedge even if delivery is received. There are approximately 20 days on which storage would have to be paid at 2 cents per day until delivery could be made on the January contract, the actual amount depending on what day of the week New Year's Day falls. Thus it can be seen that the 60 cents more than covers storage costs and allows something for interest on the money involved. Meanwhile, if December moves up sufficiently to return a profit before trading ceases, the spread position can be liquidated without ever receiving delivery.

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**Short Positions Control Deliveries**

A final point of consideration is that the trader who is short controls the delivery situation. He has total discretion on what date deliveries are made and the location from which they will be made.

This, of course, works to the disadvantage of the long who may want to take delivery for actual use of the commodity. The long never knows if he will get delivery on the first of the month or any time until the end of the month. Nor does he know from what location delivery will be made. For the user of cash commodities who needs a steady flow from favorable origins, this presents an inventory control problem. This is why it is seldon advisable for commercial firms to buy futures for the sole purpose of receiving delivery. Instead, they usually buy futures for price protection only, and liquidate futures once purchases are made from usual cash supply sources where inventory flow procedures are more readily controlled.

# Biochemical Pathology Short Course: Membrane-Bound Enzymes

Several membrane-bound enzymes owe their unique properties to their lipid-protein interaction. A course on Biochemical Pathology, Membrane-Bound Enzymes, to be held at Indiana University, June 9–11, 1971, will focus attention on the special features of membrane-enzyme complexes and their importance in cellular events during various physiologic and pathologic phenomena. Membranes are generally considered to be inert lipid-protein cellular components; however, the course will demonstrate that these membrane-protein complexes are requisite for specific cellular phenomena, such as transport of ions, "transducers" of hormone action, essential co-factors for the action and specificity of some enzymes, maintenance of membrane integrity, recognition of cellular components in phagocytosis and pinocytosis, and the maintenance of some enzymes in their most active physical configuration. Derangements in these membrane-enzyme relationships often interfere with cellular metabolism and may lead to irreversible pathogenic processes.

This program emphasizes the ultrastructural sites of membrane-bound enzymes and their histochemistry at the electron microscope level; the identification of membrane enzymes, their unique properties, and the role of these proteins in specific pathologic phenomena. Specific enzyme-membrane systems to be discussed in detail will include: adenosine triphosphatase, carnitine acyl transferases and other lipid synthesizing systems, cyclic 2,3 and 3.5 AMP phosphohydrolases, acetyl cholinesterase, 5′nucleotidase, glucose-6-phosphatase, succinate-cytochrome reductase, UDP galactose transferase and other membrane associated enzymes. Working techniques applicable in studying these enzyme-membrane phenomena will be presented, including electron microscopic histochemistry, subcellular isolation techniques, enzyme assay procedures, active transport of cations in cells and membrane systems, isolation and identification of membrane proteins and lipids.

The course is intended for medical research workers, chemists, biologists and pathologists. The faculty will include R. J. Barrnett, Department of Anatomy, Yale University; G. I. Drummond, Department of Biochemistry, The University of British Columbia; W. R. Finnerty, University of Georgia; Sidney Fleischer, Vanderbilt University; Arthur Karlin, Columbia University; R. L. Post, Vanderbilt University; A. N. Siakotos, Indiana University; Julien Van Lancker, University of California at Los Angeles; and Wolfgang Zeman, Indiana University.

Registration fee is $150, course registrants limited to 25 (Postgraduate Medical Education, Indiana University Medical Center, 1100 W. Michigan Street, Indianapolis, Indiana 46202).



## • *Local Section News*

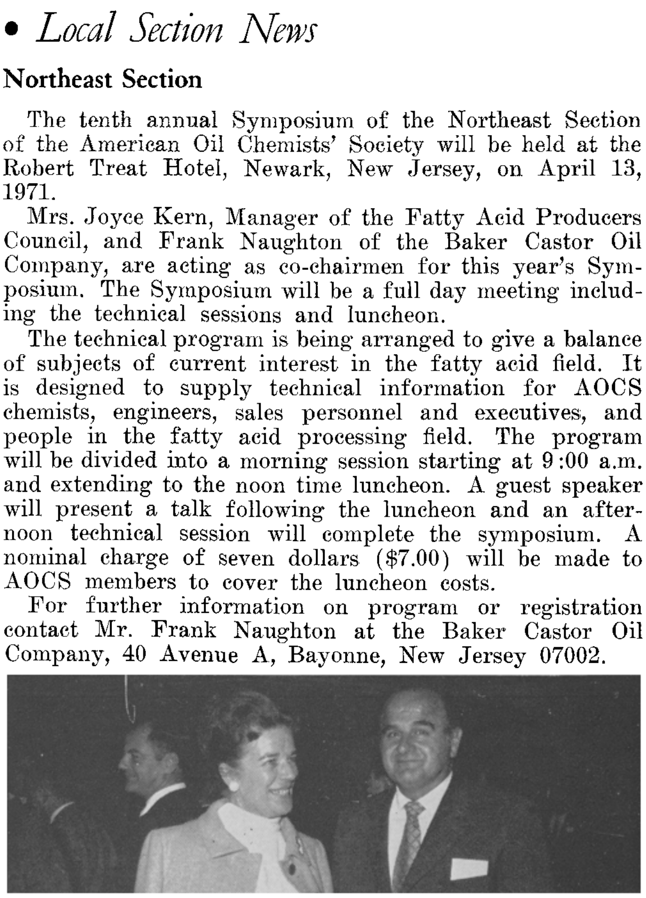
### Northeast Section

The tenth annual Symposium of the Northeast Section of the American Oil Chemists' Society will be held at the Robert Treat Hotel, Newark, New Jersey, on April 13, 1971.

Mrs. Joyce Kern, Manager of the Fatty Acid Producers Council, and Frank Naughton of the Baker Castor Oil Company, are acting as co-chairmen for this year's Symposium. The Symposium will be a full day meeting including the technical sessions and luncheon.

The technical program is being arranged to give a balance of subjects of current interest in the fatty acid field. It is designed to supply technical information for AOCS chemists, engineers, sales personnel and executives, and people in the fatty acid processing field. The program will be divided into a morning session starting at 9:00 a.m. and extending to the noon time luncheon. A guest speaker will present a talk following the luncheon and an afternoon technical session will complete the symposium. A nominal charge of seven dollars ($7.00) will be made to AOCS members to cover the luncheon costs.

For further information on program or registration contact Mr. Frank Naughton at the Baker Castor Oil Company, 40 Avenue A, Bayonne, New Jersey 07002.



**Left to right: Mrs. Joyce Kern, co-chairman, and Frank Naughton, co-chairman, of the April, 1971, Northeast Section Symposium.**