Leuthold et al. (1989) on Types of Hedges

Borrowing liberally from Working (1962), Leuthold et al. (1989, p.145-6) provide a partial taxonomy of hedges in which two of the most important types, optimal hedges and natural hedges, are not identified.

Carrying-charge Hedge: A carrying-charge hedge associates with the storage of a commodity. A merchant purchases and stores the commodity, and hedges it to profit from storage. The merchant seeks to profit from changes in the price relationship (basis), rather than price level changes.

Operational Hedge: An operational hedge facilitates merchandising or processing operations. A merchant hedges to establish the price of an input or output, usually holding it for only a short time, often ignoring changes in the basis. The hedge protects the merchant against rapid change in price while a product is being processed or transported. Typical examples of an operational hedge include a flour miller, buying wheat futures to offset a forward sales contract of flour to a baker, or a shipper, exporter or importer selling futures against a cash purchase. These hedges act as temporary substitutes and are liquidated as soon as the trader takes a corresponding cash position.

Selective Hedge: The trader decides whether to hedge or not according to price expectations. The holder of the commodity hedges if prices are expected to fall, and does not hedge if prices are expected to rise. Selective hedging introduces an additional speculative element to hedging as traders hedge only under certain price expectations. This common hedging procedure is often done to prevent large losses, and it can relate to optimal hedging ...

Anticipatory Hedge: An anticipatory hedge is usually not matched or offset by an equivalent stock of goods or merchandising commitment. The anticipatory hedge serves as a temporary substitute for merchandising to be done later, that is, an expected future cash purchase or sale. The anticipatory hedge involves either the purchase of futures contracts against raw material requirements, or the sale of contracts by producers in advannce of the completion of production. For example, flour millers and soybean processors may buy futures contracts in anticipation of subsequent purchases of wheat and soybeans, respectively. Livestock feeders may sell live cattle and live hog futures long before the animals are ready for market. Similarly, grain farmers forward sell their crops before harvest ...

Cross Hedge: To cross hedge is to assume a futures position opposite an existing cash position, but in a different commodity. Typically, there is no active futures contract in the commodity corresponding to the cash position, so the trader must select a related commodity for hedging. To be effective, the prices and commodity values of the cash commodity and futures contract must have a fairly high positive correlation. Examples include hedging corporate bonds in the Treasury bond market, grain sorghum in corn, and boneless beef in live cattle.