

MINIMUM PRICE CONTRACT

A contract to sell grain that establishes a minimum price while offering the flexibility to capture unlimited upside opportunity if the market improves.

HOW DOES IT WORK:

The producer agrees to sell a specific quantity of grain for a specific delivery period at a given price. The minimum price is determined by subtracting the cost of the upside participation from the contracted price. Upon delivery the producer will receive the pre-established minimum price, unless the market is above the participation level at delivery. The producer may receive some or all of the market improvement above the participation level.

WHEN TO USE:

- If downside risk is undefined or hard to define
- When current prices represent an opportunity to lock in a desired margin level
- Flexibility to participate in higher prices is desired
- Market volatility is low to neutral

ADVANTAGES:

- The contract establishes a floor price while retaining the ability to participate in higher prices if the market rallies.
- If the market continues to rally, the floor can be raised prior to delivery for additional costs that will be subtracted from the final price.
- Costs are deducted from delivery, not paid up front.
- The contract can be customized to a producer's individual situation with the ability to choose upside participation levels.
- The grain-selling decision is less stressful due to the ability to participate in higher prices.

THINGS TO CONSIDER:

- Prices may not improve before coverage expires, resulting in no gain.
- Prices may rise and fall before coverage expires, also resulting in no gain.
- Contract may not capture entire upside futures move.
- Costs may be higher during volatile markets.

ANTICIPATING ADJUSTMENTS AND BEST PRACTICES:

- If the market increases significantly, there might be an opportunity to capitalize the increase and raise the floor of your contract.
- To determine the value of raising your floor, compare the improvement in your floor to the improvement in the futures market.

The information concerning underlying, exchange traded positions on this page is for reference purposes only. You will not have any futures contracts or options, but rather you have one or more cash commodity transactions that are priced on the basis of the referenced futures contracts and/or options. Past performance is not indicative of future results.