# Minimum Price Contracts

**What It is:** A Minimum price contract sets a floor (or minimum price) for a fee, but allows you to stay in the market to take advantage of futures board rallies after grain delivery.

**How it works:** To set the floor we buy a call. Buying a call allows you to lock in a floor price and still remain in the market. The call will have a strike price and a expiration date tied to it. The value over the strike price is penny for penny your money above the futures price (Intrinsic Value). Not the Time Value.

**Advantages:**
Eliminates risk of price decline or basis widening
Unlimited upside CBOT potential
Money is available upfront
Cost is easily identifiable
Safe
Fees are based on CBOT futures options

**Disadvantages :**
Fees can be higher than storage costs
Basis locked; doesn't allow for participation in basis improvements
Requires 5000 bushel increments
Pricing must be done before deadline or premium is forfeited

# Minimum Price Example

**FS HOTLINE 316-609-3966**

2/27/17 8:55 AM — *indicates last traded price; No bid/ask available

| | | | Minimum Price | | Premium Plus | | MP+ vs JUL 17 - 430 | | MP+ vs SEP 17 - 430 | | Min/Max | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FARMER COST (est) | | | | MIN PRICE | DO/Str | DO/Prem | MIN Price w/DO | | MIN Price w/DO | | Limited Particip | |
| MAY 17 | 369.25 | C K7C | 370 | 14.00 | 410 | -1.50 | 8.25 | *vs JUL 17* | 0.75 | *vs SEP 17* | | *370/410* |
| MAY 17 | 369.25 | C K7C | 380 | 10.00 | 420 | -2.00 | 4.50 | *vs JUL 17* | -3.25 | *vs SEP 17* | | *380/420* |
| JUL 17 | 377 | C N7C | 380 | 21.50 | 430 | 2.50 | | | 8.25 | *vs SEP 17* | 15.75 | *380/430* |
| JUL 17 | 377 | C N7C | 390 | 17.75 | 440 | 0.75 | | | 4.50 | *vs SEP 17* | 14.00 | *390/440* |
| SEP 17 | 383.25 | C U7C | 380 | 32.50 | 430 | 10.25 | | | | | 19.25 | *380/430* |
| SEP 17 | 383.25 | C U7C | 390 | 28.25 | 440 | 8.25 | | | | | 17.00 | *390/440* |
| DEC 17 | 390 | C Z7C | 390 | 35.00 | 440 | 13.25 | | | | | 18.75 | *390/440* |
| DEC 17 | 390 | C Z7C | 400 | 31.25 | 450 | 11.00 | | | | | 17.00 | *400/450* |

# Minimum Price Example

**CORN**

USDA has adjusted the calculations of LDP data.
Click here for more information.

| Delivery | Cash Price | Futures Month | Futures Price | Futures Change | Basis |
|---|---|---|---|---|---|
| Feb 17 | 3.49 | @C7H | 363'6 | -0'2 | -0.15 |
| Mar 17 | 3.49 | @C7H | 363'6 | -0'2 | -0.15 |
| Apr 17 | 3.56 | @C7K | 371'2 | 0'4 | -0.15 |
| May 17 | 3.56 | @C7K | 371'2 | 0'4 | -0.15 |
| June 17 | 3.58 | @C7N | 378'4 | 0'2 | -0.20 |
| July 17 | 3.58 | @C7N | 378'4 | 0'2 | -0.20 |
| Aug 17 | 3.63 | @C7U | 384'6 | 0'2 | -0.22 |
| Sep 17 | 3.60 | @C7U | 384'6 | 0'2 | -0.25 |
| Oct 17 | 3.61 | @C7Z | 391'2 | 0'2 | -0.30 |
| Nov 17 | 3.71 | @C7Z | 391'2 | 0'2 | -0.20 |
| Dec 17 | 3.71 | @C7Z | 391'2 | 0'2 | -0.20 |
| Jan 18 | 3.75 | @C8H | 399'6 | 0'2 | -0.25 |

Price as of 02/27/17 07:32AM CST.

Ex. If we choose April 2017 as our delivery period and buy a July'17 $3.80 call, the expiration date will be June 23, 2017. Your minimum price contract will read as follows. $(3.71 futures) - (.15 basis) = $3.56 (-) ($.215 cost of the call option) = $3.345. This is your guaranteed minimum price. You can't go any lower than that and any time the July'17 futures go over $3.80 between now and June 23, 2017 which is the expiration date you can start earning a premium on the contract.

POET