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Minimum Price Contract

- A minimum price contract allows you to select a minimum price while maintaining upside opportunity and the power to price out at any time prior to expiration
- Option costs are either deducted from the cash price or paid out of pocket
- The option will be maintained in the elevator's hedge account so there is no need to set up your own hedge account
- The futures price may not rally before the expiration of the option, meaning the option will expire worthless and you would be "out" the value of the premium

Example: Assume that today the cash price for fall delivered corn is $3.50/bushel ($3.80 futures and a -30 cent basis). A producer decides to secure that price for part of his crop. The producer also knows there could be upside opportunities because of potential changes in planting intentions or weather delays and does not want to miss that possibility. Therefore, the producer decides to sell his grain today with a minimum price contract. If a December $4.20 call costs 15 cents today, the producer's cash price is written at $3.35 ($3.50 cash price – 15 cent option cost). If December futures increase to $4.50/bushel at expiration, the producer can exercise his option and his final cash price would increase to $3.65/bushel, which is 15 cents higher than today's price. Likewise, if the December futures decrease in value, the producer's option would expire worthless and his cash price would remain at $3.35.