CHS Cash Plus Conditional Contract

Cash Plus Contract Marketing Objective

The Cash Plus Contract offers a set premium for nearby-delivered corn in exchange for a commitment to offer the same quantity and quality of corn, at a maximum price, at a later delivery.

How does it work?

Under this contract, the producer receives an additional premium, minus a $0.05 service fee, above the local cash market for grain. In return, the producer guarantees the same quantity and quality of grain for later delivery if/when the Chicago Board of Trade (CBOT) reaches a predetermined price level.

Potential Outcomes Under the Cash Plus Contract

Outlined here are three possible outcomes using an example situation: On March 1, cash corn is bid $5.00 for March delivery at the local elevator. Under the Cash Plus Contract, a producer receives a $0.40 per bushel premium in exchange for a commitment to sell the same quantity and quality of bushels for later delivery at a maximum price ($5.70 futures price in this example). With a $5.70 December corn option, the following outcomes could be realized.

Outcome A If December futures are above $5.70 on option expiration, the producer must sell new crop at the $5.70 futures price, minus the local cash basis, minus the service fee – which can be priced out any time prior to expiration and/or delivery.

Outcome B If December futures are below $5.70 or below on option expiration, the producer is <u>not</u> obligated to deliver new crop. The producer's obligation to deliver is cancelled unless basis has already been priced. Once basis has been established, grain has been sold regardless of the futures level.

Outcome C If December futures are at or above $5.70 before option expiration, but drop below $5.70 on that date, the producer is not obligated to deliver new crop. This outcome, however, leaves uncertainty as to whether or not new crop is priced and may mean a missed marketing opportunity for the producer.

Advantages of the Cash Plus Contract

- There is an opportunity for a premium on nearby corn.
- Basis on deferred corn can be set any time prior to delivery.
- There is no obligation to deliver the new crop corn if futures remain below strike price, unless the basis has already been set.

Key Issues and Risks Under the Cash Plus Contract

- There is a predetermined maximum price regardless of whether or not futures rally.
- The deferred offer is not a guarantee that the new crop corn will be sold, unless basis is priced.
- Because the obligation decision on new crop is deferred, there is the potential of missed marketing opportunities or the chance of a producer selling more grain than was intended.
- The contract requires a 5,000-bushel minimum at sign up.

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