CHS Min-Max Contract

Min-Max Contract Marketing Objective

The Min-Max Contract establishes a floor price for corn at a reduced cost. It also allows the producer to participate in potential market increases up to a predetermined price.

How does it work?

Under this contract, a producer agrees to deliver a specific quantity and quality of corn for either nearby or future delivery at an established floor price. The contract leaves the potential to increase the cash price up to a ceiling price. The producer also chooses a minimum and maximum futures strike price. The premium is deducted from the contract base price and there is a service fee of $0.05 per bushel. The following example illustrates how the Min-Max Contract might calculate.

Example: Min-Max Contract

	Minimum Price	**Maximum Price**
December Futures	$5.70	$7.00
Local Basis (**example only**)	-0.50	-0.50
Cash Price	$5.20	$6.50
Net Premium ($5.70 put-$7.00 call)	-0.10	-0.10
Service Fee (per bushel)	-0.05	-0.05
Net Minimum Price	$5.05	$6.35

Potential Outcomes Under Min-Max

Outcome A If the futures price is above the maximum strike price on the option expiration date, the producer receives the maximum predetermined price. Using the above example with a future price on the option expiration above $7.00, the producer receives $6.35.

Outcome B If the futures price is below the minimum strike price on the option expiration, the producer receives the minimum predetermined cash price. Using the above example with a futures price on the option expiration below $5.70, the producer receives $5.05.

Outcome C If the futures price is above the set minimum strike price on the option expiration, the producer will receive the spread between the minimum strike and that day's futures price – up to the maximum futures strike price. Using the above example with December futures settling at $6.25, the final cash price would calculate as follows:

December Futures	$6.25
Local Basis (**example only**)	-0.50
Premium Paid	-0.10
Service Fee	-0.05
Net Price	$5.60

Advantages of the Min-Max Contract

- There is the ability to participate in a market rally at option expiration.
- Premiums are deducted from the contract price, not paid up front.
- The producer determines what minimum and maximum strike prices will be, and always knows where the minimum price will land.
- Producers can price out the basis at any time prior to delivery.
- Producers reduce the cost of establishing a floor price for their corn.

Key Issues and Risks Under the Min-Max Contract

- Premiums are surrendered if the market does not rally by option expiration.
- There is a single "window of time" to take advantage of a market rally, but prices may rise and fall during the period, resulting in receipt of the minimum price at option expiration.
- If the market goes above the predetermined maximum strike price, the producer only receives the maximum strike price.
- This contract requires a 5,000-bushel minimum at sign up.
- Futures will be priced on option expiration date.

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