CHS Minimum Average Price Contract

Minimum Average Price Contract Marketing Objective

The Minimum Average Price Contact prices out a certain quantity of bushels, for a set delivery period on a daily basis. This achieves an average Chicago Board of Trade (CBOT) futures price for a specific time period in the marketing year. This contract also establishes a minimum floor to protect against an average price falling below predetermined levels.

How does it work?

Under this contract, the Minimum Average Price Contract prices a certain bushel quantity each day to achieve an average value over a predetermined time frame. There is a specific sign-up period, as well as a set delivery period for the contracted grain. Pricing takes place at the close of each CBOT trading day, during the established pricing period. There is a 5,000-bushel minimum, and, at time of booking, the cost to set a floor price is determined by a percentage of an at-the-money put, plus a $0.05 service fee.

Potential Outcomes Under the Minimum Average Price Contract

This sample situation illustrating potential outcomes under the Minimum Average Price Contract assumes December futures are trading at $5.50 on February 15. With this contract, the producer is guaranteed a futures price derived from the higher of either the $5.50 futures price or the average CBOT close during the set time period, minus deduction for local basis, service fee and a percentage of the applicable put.

Outcome A If, at the end of the pricing period, the calculated average futures price was $6.25, higher than the $5.50 price, the producer would receive a net cash price of $5.35 calculated as follows:

Average Futures Price	$6.25
% of Put	-0.35
Service Fee	-0.05
Local Basis (**example only**)	-0.50
Net Cash Price	$5.35

Outcome B If, at the end of the pricing period, the calculated average futures price was below $5.50, the producer would receive a net cash price of $4.60, calculated as follows:

Minimum Average Futures Price	$5.50
% of Put	-0.35
Service Fee	-0.05
Local Basis (**example only**)	-0.50
Net Cash Price	$4.60

Advantages of the Minimum Average Price Contract

- The minimum futures price is known, but the contract remains flexible to participate in a market rally.
- This strategy avoids the pitfall of pricing grain at marketing-year lows.
- This contract may work better in down markets.
- This type of contract typically takes the emotion out of marketing grain.
- Basis can be priced out any time prior to delivery.
- Premiums and service fees are deducted from the contract basis price, not paid up front.

Key Issues and Risks Under the Minimum Average Price Contract

- The producer remains exposed on basis until that level is set.
- This contract requires a 5,000-bushel minimum at sign up.
- Average futures price at the end of the pricing period may be lower than the current futures price.

Resources for enriching lives.

P.O. Box 64089
St. Paul, MN 55164-0089

800-232-3639
www.chsinc.com

©2008 CHS Inc.