CHS Minimum Price Contract

Minimum Price Contract Marketing Objective

The Minimum Price Contract establishes a floor price for corn while offering the flexibility to participate in potential market increases.

How does it work?

Under this contract, a producer agrees to deliver a specific quantity and quality of corn for a set delivery period. The contract sets a minimum cash price, minus a $0.05 per bushel service fee; however, the producer enjoys the ability to select a specific futures strike price and contract month. The contract price deadline is the same as the option expiration chosen by the seller. If the producer has not set a price prior to option expiration, CHS reserves the right to price out on that date.

Potential Outcomes Under the Minimum Price Contract

In this example, at harvest time, the local elevator posts a cash bid of $5.50 per bushel for June delivery. The market, however, has upside potential before option expiration, so the producer purchases a $6.00 July corn call. The contract sets a minimum price of $5.10 for June delivery corn ($5.50 June cash less $0.35 option, less $0.05 service fee). If July futures are $6.50 on option expiration, the minimum price is calculated as follows: $5.10 plus $0.50 option value equals $5.60 final price.

If July futures are below $6.00 on option expiration, your minimum price remains at $5.10.

Example: Minimum Price Contract

Cash Price	$5.50
Call Option Premium	-.35
Fee	-.05
Minimum Price	$5.10

Advantages of the Minimum Price Contract

- The contract establishes a floor price for corn while retaining the ability to participate in market rallies.
- Premiums are deducted from the basis price, not paid up front.
- The contract can be customized to a producer’s individual situation with the ability to choose options (put or call) and strike price.
- The grain-selling decision is less stressful overall, with the ability to participate in market upturns.

Key Issues and Risks Under the Minimum Price Contract

- Prices may not improve before option expiration, resulting in net zero return for premiums paid.
- Prices may rise and fall by option expiration, also resulting in no gain for premium paid.
- The contract allows for pricing prior to option expiration, *but* pricing occurs only once.
- Premiums for strike price may be expensive during volatile markets.
- This contract requires a 5,000-bushel minimum at sign up.

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