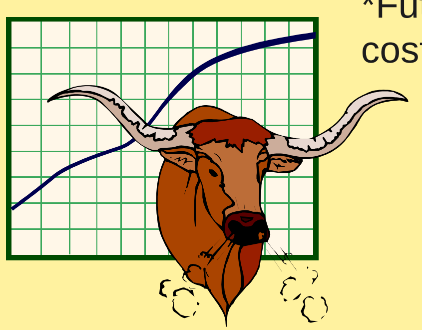
Minimum Price Contract

The goal of a minimum price contract is to allow producers to set a minimum price received while still having the opportunity to realize a gain in a rallying futures market. A minimum price can be set anytime from contract inception to a date specified in the contract. The minimum price is equivalent to the current cash price less the option premium and the service fee. A Minimum Price Contract gives the producer flexibility by allowing the producer to receive a 100% advance equivalent to the minimum price and the opportunity to realize a further gain with a positive futures market move. This type of contract is a good opportunity for producers who want to protect themselves against falling prices but still have the opportunity to take advantage of an increase in futures prices. Title of the grain passes upon application to the contract. **AgMark has X cent/bu service fee on Minimum Price Contracts and requires increments of 5,000 bushels.**

Benefits

*Stop storage and interest upon application
*Payment at delivery
*Risk is known up front
*Opportunity to gain from futures rally



Risks

*Futures not gaining enough to cover the cost of the call option.

Minimum Price Contract

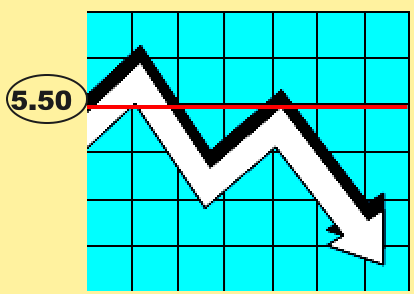
Futures: Dec 5.40, May 5.50

Example:
You have 5,000 bushels of corn in open store at Elevator A. You like the price today but think there is a good chance for corn futures to go up in the next couple of months. A minimum price contract is what you decide to go with. So you sell your corn for today's price at $5.00 and we buy an at-the-money call option for 32 cents. Your minimum price would then be paid to you at the time the grain is applied to the contract and the option is bought. You then have to make another sell decision between the time the option is purchased and when it expires. You have to decide when to sell the call. The expiration date will be printed on the contract for you to refer back to. The option will have to be sold during trading hours and you will be paid 100% of the value of that option.

$5.40	Dec Futures
-0.40	Elevator A Basis
$5.00	Cash corn price at Elevator A
-0.32	Cost of Call Option
-0.03	Service Fee
$4.65	**Minimum Price**

May Corn Futures

We purchased a 5.50 may call option that will expire on April 22. On March 15, May Futures are at 6.50 and you sell your call option for 105 cents. We would then write you a check the same day. Your final price you would have received for your corn would be $4.65 + 105 = **$5.70**.



If we purchased the same 5.50 May call option and the market never gives us the opportunity to sell for a profit, the option will expire on April 22 with no value. Your final price would be the **$4.65** you were paid in the beginning.

•Remember: The only guarantee you have is the minimum price. Make sure you will be satisfied with only receiving the minimum price.

Minimum Price Contract No Basis Established

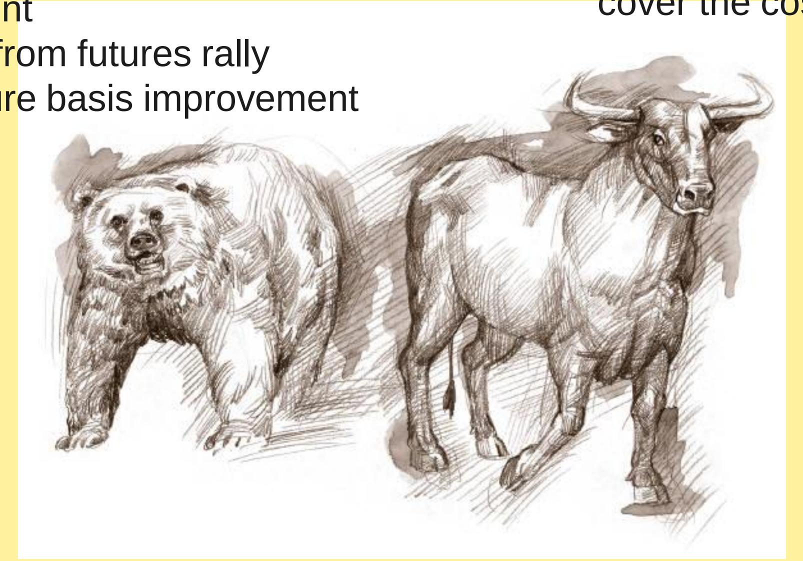
Minimum Price Contracts with no Basis Established allow producers to wait until a later date to establish their basis level. This contract also allows them to set their minimum futures price while still having the opportunity to realize a gain in rallying futures market. A delivery date, quantity and minimum futures price based on a specific month are determined at the time the contract is written. The basis does not need to be set on the entire contract quantity all at one time, instead it can be set in increments giving the producer more flexibility. The basis level must be set on or prior to the first date of delivery or the first notice day of the established futures month, whichever is earlier. Storage charges will not stop until a basis is set and bushels are applied to the contract. Title of the grain passes upon application to the contract. **AgMark has a X cent/Bu service fee on Minimum Price Contracts and requires increments of 5,000 bushels.**

Benefits

*Stop storage and interest upon application
*Payment at delivery
*Risk is known up front
*Opportunity to gain from futures rally
*Opportunity to capture basis improvement

Risks

*Futures and basis not gaining enough to cover the cost of the option.



Minimum Price Contract No Basis Established

Example:

You forward contract 5,000 bu of soybeans on a Minimum Price Contract with no basis established. We accomplish this by buying a $12.00 November Put option for 60 cents. This gives you a minimum futures price of $12.00. For reference, you could have forward contracted new crop soybeans on the same day for $11.25 ($12.00 Nov futures and -75 basis)

Futures Go Up

Basis Down

Scenario 1

One month after you establish your minimum price contract, November Futures go to $13.00 and you decide to lock in the futures at that level. So, your futures level is set at $13.00 but your basis has not been set yet. Closer to harvest you decide to set the basis and it has dropped to a -80. This now sets your cash price at **$11.60** ($13.00 futures – .60 put premium - .80 basis).

Futures Go Down

Basis Up

Scenario 2

Soon after you establish your minimum price contract the futures drop but the basis improves. You decide to lock in your basis at -50. This gives you a minimum price of **$10.90** ($12.00 futures - .60 put premium - .50 basis). Remember this is just your minimum futures price. You still have the opportunity participate in a rallying market until the put expires. When the put expires your futures will be set at $12.00. Once you have set the basis you know exactly what your minimum price will be.