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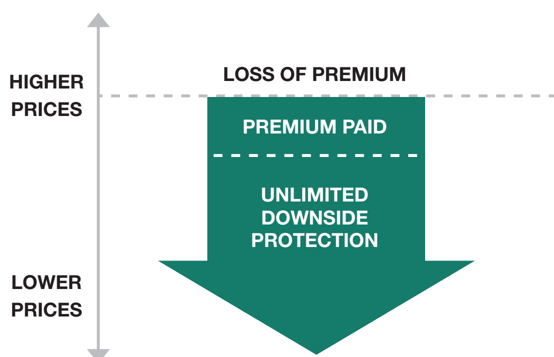
Minimum Price Strategies

Long Put / Put Spread

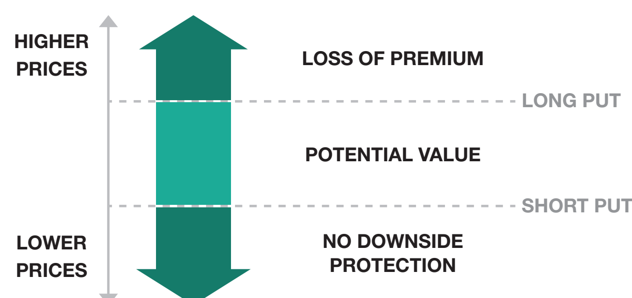
What are Minimum Price Strategies?

Minimum Price strategies protect or potentially enhance the price of your grain contract based on the values of options. If you are uncertain where the market will go or have a bearish market bias, Minimum Price Long Puts or Put Spreads can be simple ways to protect from market volatility through a guaranteed minimum futures price – also known as a floor.

MINIMUM PRICE LONG PUT provides downside protection by locking in a floor price for your contract.



MINIMUM PRICE PUT SPREAD provides the opportunity to benefit from a market decrease capped at a pre-determined level. In doing so this will reduce the cost compared to a single leg contract. A **Minimum Price Put Spread** is a combination of a long put with a higher price and a short put at a lower price, both with the same expiration date and futures reference month.



Should I use this contract?

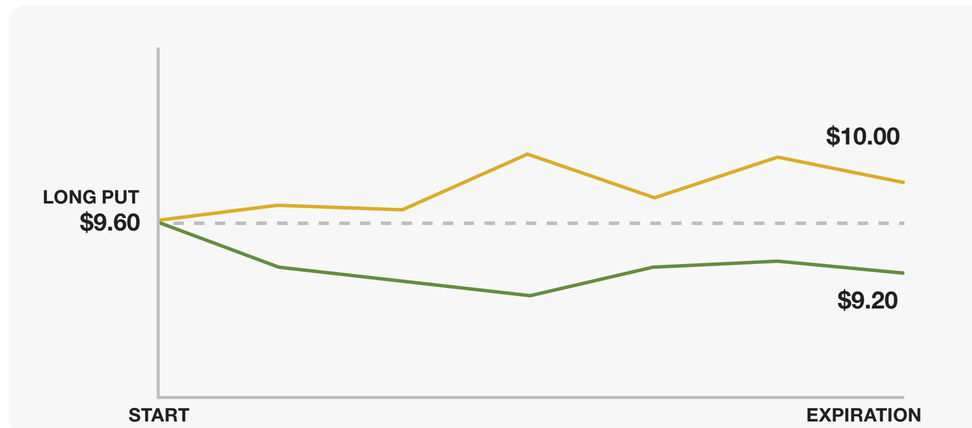
Yes, if you:

- Have a bearish market bias and are willing to pay a premium to lock in a floor price.
- Want to add value to a contract if the market goes lower.
- Are uncertain about where the market will go and want to protect current prices and maintain upside potential.
- Long Put Spread: Hope to benefit from a market decrease down to the short put level, essentially capping potential downside protection and reducing the cost compared to a single leg long put.

How Minimum Price Works

MINIMUM PRICE LONG PUT

You are getting ready for planting but are concerned that there may be a decline in prices between early spring and harvest and desire downside protection. The November soybean futures price is currently quoted at **$9.60/ bushel**. You decide to attach a **$9.60 long put** costing **$0.25** to an unpriced grain contract with the intent to lock in the contract's futures reference price at expiration.



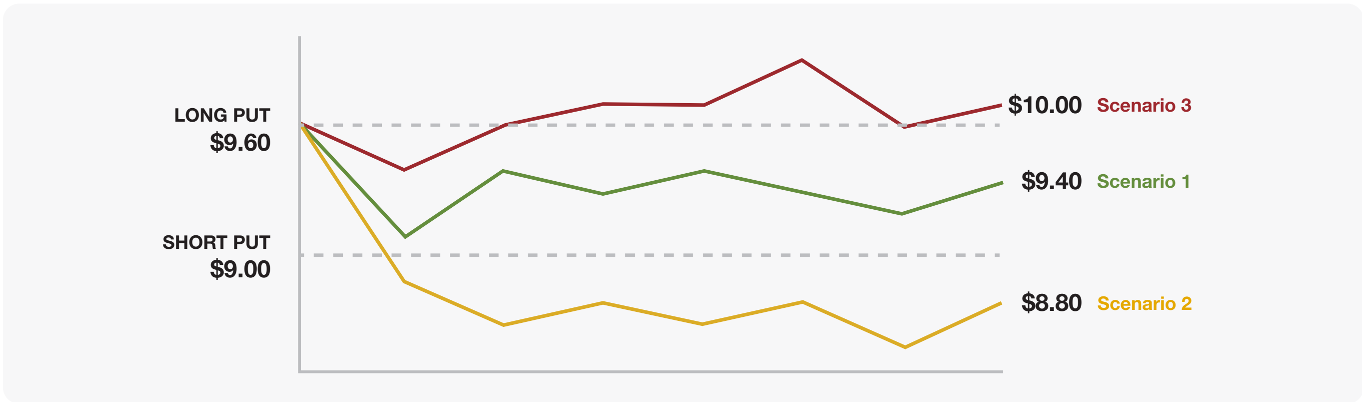
Potential final price scenarios at expiration*

Initial Cost	Futures Price*	Final Value	Net Price Adjustment	Net Futures Equivalent
($0.25)	$9.20	$0.40	$0.15	$9.35
($0.25)	$10.00	$0	($0.25)	$9.75

MINIMUM PRICE PUT SPREAD

In order to lower the cost of the strategy, you decide to attach a put spread to the unpriced grain contract, using a **$9.60 November Long Put** and a **$9.00 November Short Put**. This Minimum Price strategy caps downside protection at **$0.60** for a total cost of **$0.15**.

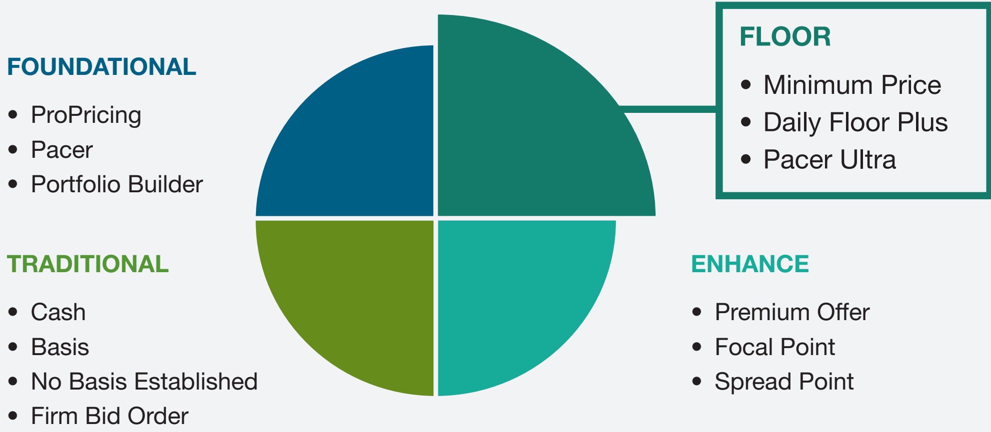
Put Spread Cost Calculation	
$9.60 Long Put Initial Cost	**($0.25)**
$9.00 Short Put Initial Value	**$0.10**
Total Cost	**($0.15)**



Potential final price scenarios at expiration*

Initial Cost	Futures Price*	Final Value	Net Price Adjustment	Net Futures Equivalent
($0.15)	$9.40	$0.20	$0.05	$9.45
($0.15)	$8.80	$0.60 (max)	$0.45	$9.25
($0.15)	$10.00	$0	($0.15)	$9.85

How does it fit in your grain marketing plan?



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