MIN-MAX PRICE CONTRACT

A contract to sell grain that establishes a minimum price while offering the flexibility to capture limited upside opportunity if the market improves.

HOW DOES IT WORK:

The producer agrees to sell a specific quantity of grain for a specific delivery period at a given price. The minimum price is determined by subtracting the cost of a range of upside participation from the contracted price. Upon delivery the producer will receive the pre-established minimum price, unless the market is within the participation range at delivery. The producer may receive some or all of the market improvement within the participation range.

WHEN TO USE:

- If downside risk is undefined or hard to define
- When current prices represent an opportunity to lock in a desired margin level
- Flexibility to participate in higher prices is desired
- Market volatility is neutral to high

ADVANTAGES:

- The contract establishes a floor price while retaining the ability to participate in a customized range of higher prices if the market rallies.
- If the market continues to rally, the top and bottom of the participation range can be raised prior to delivery for additional costs that will be subtracted from the final price.
- The cost is less than a Minimum Price Contract.
- Costs are deducted from delivery, not paid up front.
- The grain-selling decision is less stressful due to the ability to participate in higher prices.

THINGS TO CONSIDER:

- Prices may not improve before coverage expires, resulting in no gain.
- Prices may rise and fall by coverage expiration, also resulting in no gain.
- Prices may rise above the ceiling incurring an opportunity cost.
- Costs may be higher during volatile markets.

ANTICIPATING ADJUSTMENTS AND BEST PRACTICES:

- If the market increases significantly, there might be an opportunity to capitalize the increase and raise the floor.
- To determine the value of raising your floor, compare the improvement in your floor to the improvement in the futures market.
- In a falling market, it might make sense to remove the Max ceiling for additional cost to provide unlimited upside participation.

For More Information:
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