

PREMIUM PLUS

What is a premium plus contract?

The **POET Premium Plus** contract pays a per bushel premium on the initial quantity of Corn, when you commit to sell a like quantity in a deferred delivery period, at a specified target price.

Should the target price trigger on the market close of the strike date, then the target offer becomes a contract for the agreed upon delivery period.



Advantages:

- Good option if you think the market is headed sideways or downward
- You choose the Target price and date
- Take your premium upfront
- Potentially price future deliveries above the current market price
- If price is below target price on the market close at the target date then there is no additional bushels required to be delivered and no repayment of premium

Disadvantages:

- There is a double obligation tied to this contract
- The only time the target price can be set is on the Target date if the market closes at or above the set Target price
- Regardless of how high the futures go, the initial target price plus/minus the local basis will be the set cash price

How it works:

You enter into a Premium Plus contract to sell 5,000 bushels of corn for January delivery. You receive a premium of 10 cents above the current bid in exchange for your firm offer to sell an additional 5,000 bushels of grain for \$4.90 May Futures with a strike date of April 21st .

The local cash bid is \$3.63 for January delivered corn, so your cash price, regardless of the firm offer outcome, is $\$3.63 + \$0.10 = \$3.73$ cash paid upon delivery in January.

Here's the math:

▪Selected CK7 Target price of \$4.90 futures

Current Price: \$3.60 H7
 +\$0.03 basis (for Jan. 2017 Delivery)
 \$3.63 Cash
 +\$0.10 CK7 Target Premium
 \$3.73/bu paid out for Jan. 2017 Delivery

Once the contract is established, two different scenarios could play out:

Scenario #2:

Strike Price: \$4.90

Strike Date: 4/21/2017

On April 21st, May futures close at \$5.00 then you would owe a like amount bushels.

A new contract will be established with a set \$4.90 CK7 futures

Scenario #1

Strike Price: \$4.90

Strike Date: 4/21/2017

May futures are less than \$4.90 on the close on April 21st, then you owe nothing and the double obligation commitment is done.

Keys to Remember:

- If the May futures are \$5.20 at the close on the April 21st strike date, the like amount of bushels is still owed at the locked \$4.90 futures.
- You are looking for this to happen on one date, and one date ONLY—The option expiration date.
- You will establish basis on or before delivery.