Preston

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 minus the local basis will be the set cash price of the double obligation.**

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 $3.40 for January delivered corn, so your cash price, regardless of the firm offer outcome, is $3.40+$0.10 = $3.50 cash paid upon delivery in January.

Here's the math:

▪Selected CK8 Target price of $4.90 futures

Current Price: $3.60 H7

-$0.20 basis (for Jan. Delivery)

$3.40 Cash

+$0.10 CK Target Premium

$3.50/bu paid out for Jan. Delivery

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

Scenario #2:

Strike Price: $4.90

Strike Date: 4/20/2018

On April 20th, 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 CK futures minus the current basis

Scenario #1

Strike Price: $4.90

Strike Date: 4/20/2018

May futures are less than $4.90 on the close on April 20th, 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 20th 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 expiation date.
- You will establish basis on or before delivery.

POET Preston
701 Industrial Drive N
Preston, MN 55965