

## MINIMUM PRICE CONTRACT

### Protect the downside and capture the rally.

#### What is it?

A Minimum Price contact provides you the protection of a guaranteed minimum price and yet enables you to participate in a strong futures market rally.

#### How does it work?

You deliver a specific quantity and quality of canola for future delivery at a guaranteed minimum price. In exchange for payment of a premium, you select a futures strike price and contract month. This contract allows you to re-price the guaranteed minimum price at any time prior to the expiration of the contract to benefit from a run-up in the futures market.

#### What are the advantages of the Minimum Price contract?

- This contract provides downside price protection while preserving the opportunity to benefit from higher prices.
- You can write the contract for any quantity greater than 20 tonnes.
- Premiums are deducted from the contract price, not paid up front.
- Payment of the minimum contract price for the commodity is made at the time of delivery, even if that occurs prior to the re-pricing date.

#### What should you know?

- You may re-price only once, so timing becomes a critical consideration.
- Prices may not improve, or they may not improve until after the contract pricing deadline.
- The price may rise, then fall before you re-price the contract. In such situations, the premium is wasted.
- During volatile markets, the premiums for this contract can be very high.

#### When is it used?


Sellers generally use the Minimum Price contract when they want to protect what they believe to be a favorable cash price while still having an opportunity to benefit from future price increases. Sellers also use this contract as a substitute for storage, but only after a thorough analysis of basis, carry and interest.

#### Minimum Price contract case study

On May 3rd, Viterra posts a September basis of \$40 per ton under November futures. You enter into a Minimum Price contract with Viterra and select a \$550 call strike price for Nov. of that year, which incurs a premium of 50 dollars per tonne. Your contract pricing deadline is Oct 24.

#### Selling on a Minimum Price Contract

\$550 November Futures  
 (\$40) basis  
 (\$50) premium for Minimum Price contract  
 \$460 minimum cash price



This contract allows you to lock in a minimum price of \$460 per tonne. You may re-price the contract at any time between May 3 and October 24th.

If, for example on October 1<sup>st</sup> the Nov. futures price is \$650 per ton and the value of the Minimum Price contract is 100 dollars per tonne and you decide to price your grain, you would instruct the elevator to re-price your contract and price your grain. In this case, the futures gain of \$100 dollars per tonne would be added to your final cash price.

\$550	Nov futures
(\$40)	basis
(\$50)	premium
<u>\$100</u>	gain on Minimum Price
\$560	final total price

Both the minimum price and the benefit on the Minimum Price may be subject to service charges.

Note that if prior to your October 24th contract-pricing deadline you believe you no longer need downside protection, you may instruct Viterra to capture any remaining value on the Minimum Price. The remaining value of the premium would be added to the cash value of the contract. If you don't price your grain at the same time as re-pricing the Minimum Price contract, there is downside exposure.

If futures increase to the point that no value remains on the Nov. \$650 minimum price, you don't have to do anything. It will expire worthless and you should benefit from higher futures prices.

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