Jewell

Premium plus

July 22, 2020

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 lower**
- **You choose the target price and date**
- **Take your premium (market gain) upfront**
- **Potentially price future deliveries above the current market price**
- **If price is below target price on the market close of 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**

How it works:

*Write a Premium Plus contract to sell 5,000 bushels of corn for February delivery. You receive a premium above the current bid in exchange for your firm offer to sell an additional 5,000 bushels of corn for **$3.80 May 2021 Futures** with a strike date of **4/23/2021**

The local cash bid is $3.03 for July delivered corn, so here's an example of how that would work with the additional premium:

▪Selected CK1 Target price of $3.80 futures

Current Price:		3.27	Nearby Futures (board price)
	+	-0.24	Nearby Delivery Basis
		3.03	Cash Price
	+	0.07	Target futures premium
		3.10	Cash Price with Premium

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

Scenario #1

Strike Price: $3.80

Strike Date: 4/23/2021

March futures are less than $3.80 at the close on 4/23/2021, then you owe nothing and the double obligation commitment is done.

Scenario #2:

Strike Price: $3.80

Strike Date: 4/23/2021

On April 23rd, May 2021 futures close at $3.80 then you would owe a like amount of bushels. A new contract will be established with a set $3.80 CK1 futures.

Keys to Remember:

- For example, if May futures are $3.80 at the close on the 4/23/2021 strike date, **the like amount of bushels is still owed at the locked in $3.80 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 if the second obligation fills.

POET Grain Jewell
2601 320th St
Jewell, IA 50130
515-827-6017