Margin Flows

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Futures Contracts

Advantages
- Flexibility, ease of entry and exit
- Reduces price risk
- Can improve basis

Disadvantages
- Must understand margin calls
- Commissions
- Basis risk

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Margin Account

Margin money is “good faith” money that is deposited into the futures account.

- Performance bond
- Money that covers changes in the value of the contract position
- Minimum margins are set by the exchange
- Additional margin can be collected if the futures contract is losing value for the user

Key Margin Levels

There are two key margin levels:

- Initial margin
- Maintenance margin

The initial margin is the amount you have to deposit to participate in the futures market.

The maintenance margin is the amount you have to keep as a minimum balance.

Key Margin Levels

Current maintenance margins are:

Corn: $1,250 per contract

Soybean: $2,600 per contract

Initial margins are set at 110% of maintenance

Corn: $1,375 per contract

Soybean: $2,860 per contract

Let's go through an example

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Margin Example

Sold 1 corn futures contract at $4.00 per bushel

Day	Price	Change in Value	Computed Balance	Margin Call	Ending Balance
1	$4.00				$1,375
2	$4.02	–$ 100	$1,275		$1,275
3	$4.22	–$1,000	$ 275	$1,100	$1,375
4	$3.82	+$2,000	$3,375		$3,375
5	$4.00	–$ 900	$2,475		$2,475

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