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
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

Margin Example

Sold 1 corn futures contract at $4.00 per bushel

<table>
<thead>
<tr>
<th>Day</th>
<th>Price</th>
<th>Change in Value</th>
<th>Computed Balance</th>
<th>Margin Call</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$4.00</td>
<td></td>
<td></td>
<td></td>
<td>$1,375</td>
</tr>
<tr>
<td>2</td>
<td>$4.02</td>
<td>–$ 100</td>
<td>$1,275</td>
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<td>–$1,000</td>
<td>$ 275</td>
<td>$1,100</td>
<td>$1,375</td>
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<tr>
<td>4</td>
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<td>+$2,000</td>
<td>$3,375</td>
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<tr>
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<td>–$ 900</td>
<td>$2,475</td>
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