



# Sell Cash Bushels and Buy Call Option

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## Call Option



- A call option is the right, but not the obligation to buy a futures contract. The buyer of the option pays a premium for “price insurance” to the upside.
- Market Lower: Call premium is the only cost
- Market Higher: Call option gains value.



## Sell cash bushels and buy call option strategy



- This is a re-ownership strategy.
- This is price risk management since the cash bushels are sold and the limited risk is the call option premium.
- Call option “replaces” cash ownership  
→ Strategy is not considered hedging by IRS.



## Sell cash bushels and buy call option strategy



- The call option tends to gain value as the market moves higher.
- Strategy is reasonable if conditions are right (avoid storage costs, good basis at harvest, lack of carrying charge).
- A “minimum price contract” includes the same mechanics as this strategy.



# Estimated Floor Price Calculation



**Cash Sale Price** **\$8.30**  
  
**less Premium Paid** **- 31¢ premium**  
 (to buy March \$9.20 call)  
  
**= Est. Floor Price\*** **= \$7.99**

*\*Option examples do not include commissions and interest*



# Sell Cash & Buy Call Option

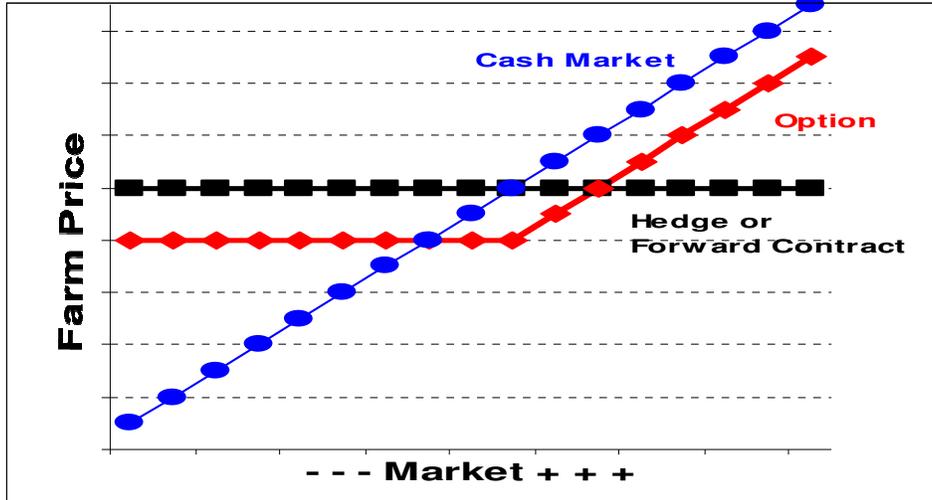


	Futures Market Outcome	Cash Sale Price	\$9.20 Call Option Worth	less Premium	equals Cash Estimate
+ 2.00	\$11.20	\$8.30	+2.00	-0.31	\$9.99
+ 1.50	\$10.70	\$8.30	+1.50	-0.31	\$9.49
+ 1.00	\$10.20	\$8.30	+1.00	-0.31	\$8.99
+ 0.50	\$9.70	\$8.30	+0.50	-0.31	\$8.49
Initial Futures	\$9.20	\$8.30	0.00	-0.31	\$7.99
- 0.50	\$8.70	\$8.30	0.00	-0.31	\$7.99
- 1.00	\$8.20	\$8.30	0.00	-0.31	\$7.99
- 1.50	\$7.70	\$8.30	0.00	-0.31	\$7.99
- 2.00	\$7.20	\$8.30	0.00	-0.31	\$7.99

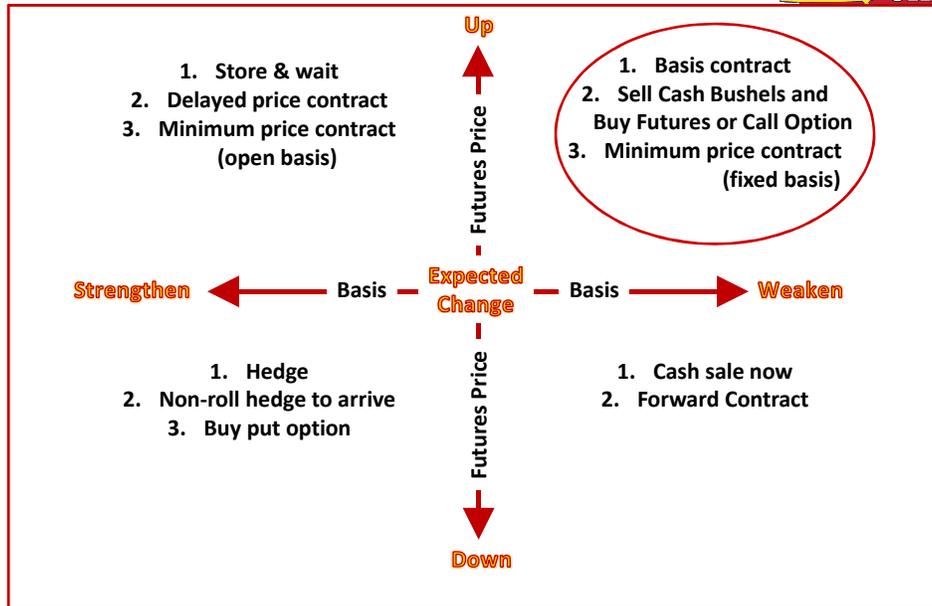
**Upside potential AND floor price**



# Comparing Marketing Alternatives



# Crop Marketing Matrix



# Key points:



## Sell cash bushels & buy call option strategy

- Re-ownership strategy: price risk transferred from cash market to call option.
- Minimum price: cash price is set and the call option has the limited risk of the premium.
- **Cash Sale Price – Premium = Floor Price**
- Consider when: want to avoid storage costs, basis is good, lack of carrying charge.

