

Dunkerton Co-op

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Tradition of Quality

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Bonus Premium Contracts

Give nearby prices a boost with the Bonus Premium contract

With the Bonus Premium contract, Dunkerton Co-op pays you a premium on a nearby grain sale in exchange for a firm offer to sell the same amount and quantity of grain for new crop delivery at an established price if the corresponding futures contract (December for corn and November for beans) closes at or above the reference price on July 1st. This contract works well for you if you want to increase the price of a nearby grain sale and are willing to extend a firm offer to sell new crop delivery grain.

What are the advantages of the Bonus Premium contract?

- Allows you to capture a premium on nearby grain.
- No matter if your offer is hit or not, you keep the premium.
- By using a July 1st expiration date, you will know well before harvest if your grain is sold.

What are the risks and disadvantages of the Bonus Premium contract?

- Regardless of how high the futures price may exceed the firm offer price on July 1st, you will be locked in at the firm offer price.
- The firm offer does not guarantee the sale of the deferred delivery grain.
- You will not know until July 1st, if your new crop bushels are priced or not.
- Must be done in 5,000 bushel increments. (We may be able to split this up with enough interest.)

Example: You sell 5,000 bushels of corn for \$3.50 with a Bonus Premium of \$0.15 for a price of \$3.65 on your nearby sell. You offer to sell 5,000 bushels of grain for October delivery at \$3.85 if on July 1st, 2010, December futures close at \$4.20 or greater. (\$4.20 futures - \$.035 basis= \$3.85 cash price)

Possible scenarios:

Scenario #1: On July 1st, December futures close at \$3.95, below the \$4.20 firm offer price. You will have no obligation to deliver 5,000 bushels of grain for October delivery.

Scenario #2: On May 20th, December futures rally to \$4.50. The grain on firm offer cannot be priced since it can only be priced on July 1st.

Scenario #3: On July 1st, December futures close at \$4.65. Your firm offer for new crop delivery will be done at \$3.85. (\$4.20 - \$0.35 basis)

The premium paid fluctuates on a daily basis. Please call with any questions and for the latest premium quote.