**Futures Trade Example**

**Day 1:** Think that the new crop (Dec) corn price is going to decline

**Step 1:** *Decide to Sell* a December corn futures contract by calculating expected price from hedging

<table>
<thead>
<tr>
<th>Futures bid</th>
<th>$2.34</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjust for basis</td>
<td>-.31</td>
</tr>
<tr>
<td>Subtract commission</td>
<td>-.01</td>
</tr>
<tr>
<td>Expected hedge price</td>
<td>$2.02</td>
</tr>
</tbody>
</table>
Futures Trade Example

Step 2: Call your broker and place order to sell Dec corn at the market

Step 3: Broker forwards order to CBOT where the broker's representative runs the order to the pit and tries to fill the order.
Futures Trade Example

Step 4: The order is filled at $2.34
Step 5: Broker calls to confirm fill
Step 6: Send margin money to broker
Must maintain at least $400 in margin account at end of each day
Futures Trade Example

Day 2: Closing price is $2.38

We sold at  $2.34

Market is  $2.38

We are behind by  -$0.04

On 5,000 bushels =  $200

Send broker $200 on Day 2
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At some later date we decide to offset our position

Last Day: Call broker and place order to buy Dec corn at the market

Two things could have happened

Prices are higher than initially

Prices are lower than initially
Futures trade example

- Case 1: Prices are higher => $2.56
- Calculate returns per bushels

Sold on Day 1 @ $2.34
Bought back later @ $2.56
Gross future return -$0.22
Commission @ $50/contract -$0.01
Net return per bushel -$0.23
Local cash price $2.25
Net price $2.25 - .23 = $2.02
Futures trade example

Convert to contract returns

Gross returns $-0.23
Contract = 5,000 bushels $-1,150

Because we settled the margin account every day the broker has this amount plus the $400 initial minimum margin. The $400 is returned to us.
### Futures trade example

- **Case 2:** Prices are lower => $2.20

**Calculate returns per bushels**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold Day 1 @</td>
<td>$2.34</td>
</tr>
<tr>
<td>Bought back later @</td>
<td>$2.20</td>
</tr>
<tr>
<td>Gross return</td>
<td>$0.14</td>
</tr>
<tr>
<td>Commission @ $50/contract</td>
<td>-$0.01</td>
</tr>
<tr>
<td>Net return per bushel</td>
<td>$0.13</td>
</tr>
<tr>
<td>Local cash price</td>
<td>$1.89</td>
</tr>
<tr>
<td>Net price</td>
<td>$2.02</td>
</tr>
</tbody>
</table>

**Notes:**

- The calculation assumes a specific cost structure and market conditions.
- The net price is calculated by adding $0.13 to the local cash price of $1.89.
Futures trade example

Convert to contract returns

Gross returns  +$0.13
Contract = 5,000 bushels  +$650

Because the margin account is settled every day the broker has this amount plus the $400 initial minimum margin. We are returned the $1,050.