



BUL 1135

Basics of Trading Grain Futures and Options

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Quick Facts

- IN 2016, only 2% of US farms used futures or options, yet they accounted for 11% of total production value. Among US corn and soybean farms, about 12% used futures, with most hedging 40%–50% of their output (Prager et al. 2020).
- A 2024 report on farmers in Illinois by Dhakal and Janzen (2024), based on 2023 survey data, found that the farms with the highest amount of income from crop sales (more than \$5 million) had the highest proportion of farms with a futures brokerage account (more than 40%).
- A recent survey in Idaho shows that 23% of wheat producers have used futures and options contracts (Nading 2025).

Introduction

Farmers can buy futures and options contracts to manage the risk of changing prices of the grain they are producing or have already harvested. A **futures contract** is an agreement to buy or sell a specific amount of grain, such as wheat or corn, at a set price on a future date. An **option contract** gives the right—but not the obligation—to buy a futures contract (a **call option**) or sell a futures contract (a **put option**) at a certain price by an expiration date. Prices in these markets change every day, based on what buyers and sellers think will happen to supply and demand in the physical raw commodity market in the future (CME Group 2019). This bulletin provides answers to frequently asked questions and explains key concepts needed to trade futures and options contracts.

Frequently Asked Questions and Key Concepts

Why Would Farmers Use Futures and Options Contracts?

- Track expected prices to guide selling decisions.
- Reduce exposure to price volatility.
- Protect farm income and profit margins.
- Improve marketing and cash-flow planning.

What Futures Exchanges Manage Grain Futures and Options Markets?

Futures exchanges are regulated marketplaces that facilitate the listing of contracts, the matching of buyers and sellers for trading, and guaranteeing settlement at the contract expiration date. There are three main exchanges in the United States for grains relevant to Idaho:

- **Chicago Board of Trade (CBOT):** corn and soft red winter wheat.
- **Kansas City Board of Trade (KCBT):** hard red winter wheat.
- **Minneapolis Grain Exchange (MIAX):** hard red spring wheat.

Clearinghouses are the entities in the futures exchange that process all trades, provide buyers and sellers with guarantees that each transaction has been recorded, and ensure that both parties meet their financial obligations. The futures exchanges are regulated by the Commodity Futures Trading Commission (CFTC), which is a federal agency tasked with providing oversight of futures exchanges to certify that futures and options markets are fair, transparent, and well-functioning.

What Do I Need to Do to Trade Futures and Options?

Step 1: Open a brokerage account.

Work with a licensed futures broker or commodity trading firm to open an account. The CME Group offers a list of registered futures brokerage firms that help producers locate a suitable broker (CME Group n.d.-a). Review each brokerage firm's account requirements because they may differ. Most firms offer free account applications.

Step 2: Provide the necessary documents and an initial deposit.

Submit identification and financial information as required by the selected broker. An initial margin deposit is often required as a good faith guarantee to secure trading positions.

Step 3: Choose a contract.

Select a commodity contract that matches a producer's crop and marketing goals. For wheat, there are five contracts each year: March, May, July, September, and December. Producers can choose to buy or sell, depending on their price expectations. Grain futures contracts typically represent 5,000 bushels per contract. Therefore, producers may wish to select a contract month that corresponds closely to their expected marketing period and choose a number of contracts that reasonably matches their anticipated production.

Step 4: Place trades.

Many brokers provide online trading platforms where producers can place orders directly. For those preferring more personalized guidance, trades can be placed by phone with assistance from a broker.

Step 5: Monitor the market and margin requirement.

Keep track of market prices and account balances regularly. Futures positions are settled daily; if the market moves against a current position, additional funds (known as a margin call) may be required to keep it open. Staying informed helps manage risk and supports timely marketing decisions.

Step 6: Offset or close the contract.

Most producers close out their positions before a contract expires. This allows them to lock in price changes without making or taking physical delivery of a commodity. Options that have no value can simply be allowed to expire.

Step 7: Review results.

After completing trades, producers should evaluate how well their hedging or marketing strategy performed relative to the cash market. Lessons learned help refine future marketing decisions.

What Are the Cost and Risk Considerations?

In addition to the cost of purchasing an actual contract, of which we provide detailed descriptions herein, there are also costs associated with engaging with a brokerage firm and/or financial advisor. These include, but are not limited to, brokerage fees or commissions that are commonly incurred on a per-trade basis. Charles Schwab, for example, has a futures and options commission of \$2.25 per contract for both online and broker-assisted trades (Charles Schwab n.d.). There may also be additional costs, such as data-feed fees for accessing current and historical futures price information (commonly used to generate technical charts and inform trading decisions), which can vary depending on whether brokers bundle these costs into overall trading fees or charge them separately (CME Group n.d.-b). There are also several important types of risk regarding that, outside of the costs just mentioned, the implementation of trades may result in lower income than not trading. For example, there is basis (the difference between futures price and cash price) risk that can occur if futures and/or cash prices evolve in an unexpected manner (Leibold et al. 2022). Indeed, a local mill could go out of business, likely causing the cash price to diverge from the futures price, which is determined more by national and global market conditions. There are also financial risks of losing money on trades, which can impact cash flow and the ability to repay operating loans.

Who Trades Futures and Options Contracts?

Market participants are generally divided into two groups based on their purpose for trading: **hedgers** and **speculators**.

Hedgers are typically farmers, grain elevators, grain processors, and agribusinesses. They use futures and options markets to manage price risk and protect profits. Farmers can sell futures contracts before harvest to lock in a price. Buyers (processors and agribusinesses) can buy futures contracts to control costs. Gains or losses in the futures market offset price changes in the cash market. Farmers can also buy put options to protect against falling prices while

keeping the chance to benefit if prices rise. Buyers can buy call options to guard against rising prices for future purchases while keeping the chance to benefit if prices decline.

Speculators are individual traders, hedge funds, money managers, and investment firms. They try to profit from price changes and diversify their portfolios of other tradable assets (e.g., stocks, bonds). Some individuals and businesses trade grain futures and options purely for speculative purposes. In doing so, they take long or short positions without having an underlying cash commodity position. Importantly, by taking positions opposite those of hedgers, they assume price risk that hedgers are trying to avoid. In this way, speculators help provide liquidity and facilitate risk transfer in the market.

Where Can I Find Information on Traders' Positions?

The CFTC publishes weekly reports on trader positions, which show how different groups of market participants are positioned in the market (Commodity Futures Trading Commission n.d.). If speculators hold more long positions, it may indicate expectations of rising prices. Conversely, more short positions may suggest that traders anticipate prices could fall.

What Are the Key Terms Associated with a Brokerage Account?

brokerage account. A brokerage account to trade futures and options operates as a “margin account,” meaning that traders deposit a portion of the contract’s value as a performance bond rather than paying the full contract value upfront. Unlike buying or selling a physical commodity—for example, paying \$30,000 for 5,000 bushels at \$6 per bushel—a trader deposits only a small percentage of that amount. This margin is not a loan, but a good-faith deposit required by an exchange to ensure both parties meet their contractual obligations. The account must maintain a minimum balance to keep the futures position open.

initial margin. The minimum amount of funds required to buy or sell a futures contract. It is usually around 3%–12% of a contract’s value. One contract with a value of \$30,000 would have an initial margin

of at least \$900–\$3,600. While the CME Group sets the minimum initial margin, the specific amount may vary by broker.

maintenance margin. The minimum balance one must maintain in an account to keep a position open, typically 50%–75% of the initial margin. While the CME sets the minimum maintenance margin, the specific amount may vary by broker.

margin call. When an account balance falls below the maintenance margin, the broker requests that the account holder deposit additional funds to cover potential losses. If the account holder cannot add funds, the broker may reduce the position to bring the account back into balance. Additionally, daily price limits (“circuit breaks”) set by exchanges help prevent extreme price swings that could otherwise trigger excessive margin calls (CME Group n.d.-c)

mark-to-market. At the end of each trading day, gains and losses are settled in the margin account. For example, if a producer sells a wheat futures contract at \$6.00/bushel and the price rises to \$6.10/bushel, the account is debited \$500. If the price drops to \$5.90, it is credited \$500.

premium. For options contracts, buyers pay a premium upfront to obtain the right, but not the obligation, to buy or sell a futures contract at a later date. Because the premium is paid in full when an option is purchased, buyers do not face margin requirements. However, option sellers (writers) receive the premium and must post margin to ensure they can meet potential obligations if the option is exercised.

How Does It Work for a Farmer to Trade a Futures or Options Contract?

A grain futures contract typically represents 5,000 bushels for delivery at a future date and prices are quoted in cents per bushel. Thus, at \$6.00/bushel, the contract has a total value of \$30,000 ($\$6.00/\text{bushel} \times 5,000 \text{ bushels}$). However, the full \$30,000 is not needed to buy the futures contract; rather, farmers need to post enough to cover the initial margin requirement.

Example: Suppose it is January. A July futures contract for wheat could be bought or sold on futures exchange and the contract displayed on

the exchange as “Wheat July 650” (in commodity–date–price format), which means wheat futures contract for July delivery is priced at \$6.50 per bushel. If the price changes to 654, the total contract value has increased by \$200 ($\$0.04/\text{bushel} \times 5,000 \text{ bushels}$). If the farmer had purchased the contract at 650, their brokerage account value would reflect the \$200 increase. A \$200 decrease would be realized if the price decreased to 646.

If a producer **sells (goes short)** a futures contract, they can later **buy (go long)** the same contract to close their position without involving the delivery of physical grains. The profit or loss depends on the difference between the selling and buying prices.

In options markets, producers pay a premium (option price) upfront for the right to sell (put option) or buy (call option) a futures contract at a set strike price by a certain expiration date.

Example: “Wheat July 650 Call–\$0.20” means a call option contract on July wheat futures with a \$6.50 strike price can be purchased by paying 20 cents per bushel. One such call options contract costs \$1,000 ($\$0.20/\text{bushel} \times 5,000 \text{ bushels}$).

If futures prices rise, the call option gains value. If futures prices fall, the put option gains value. When the futures price is above the strike price at expiration, a call option has value, and a put option expires worthless. Conversely, when the futures price is below the strike price, a put option has value, and a call option expires worthless. Producers can sell the option before expiration, exercise it, or let it expire if it has no value.

Further Reading

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Risk Disclaimer

Trading futures, options on futures, and futures spreads involve risk of financial loss and are not suitable for all traders and investors. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Consult your broker and/or financial advisor for additional information and professional guidance before trading.

Acknowledgment

This work is supported by the United States Department of Agriculture National Institute of Food and Agriculture Critical Agriculture Research and Extension program (Grant #: 2023-69008-39276) and the Idaho Wheat Commission.

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