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Using a Bear Put Spread

When to Use a Bear Put Spread

- A Bear Put Spread should be used when the marketer is bearish on a market down to a point.

- The strategy can be used when a producer wants to protect a price for a growing commodity or protect a stored commodity. Yet, the producer feels there is a known level of support where futures will not fall below this support.

How a Bear Put Spread Works

- A Bear Put Spread is created by buying a put option at some strike price and simultaneously selling a put option with a lower strike price in the same contract month

Table 1. December CBOT Corn Put Option Premiums, June 1

Strike Price	Premium
$2.40	$0.22
$2.30	$0.17
$2.20	$0.12
$2.10	$0.08
$2.00	$0.05
$1.90	$0.03

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Table 2. Costs to Implement Strategy[1]

Action	Income/Expense ($/Bushel)	Income/Expense (Total Dollars)
Buy CBOT December $2.30 Put Option	-$0.17	$850
Sell CBOT December $2.00 Put Option	+$0.05	+$250
Total Expense	-$0.12	-$600

[1]Does not include commission costs.

Table 3. Bear Put Spread Results

Dec. Settle Price	$2.00 Corn Put	$2.30 Corn Put	Initial Cost ($/bu.)	Gain/Loss1 ($/bu.) ($/contract)
$2.40	$0.00	$0.00	$0.12	-$0.12 -$600.00
$2.30	$0.00	$0.00	$0.12	-$0.12 -$600.00
$2.20	$0.00	$0.10	$0.12	-$0.02 -$100.00
$2.10	$0.00	$0.20	$0.12	$0.08 $400.00
$2.00	$0.00	$0.30	$0.12	$0.18 $900.00
$1.90	$0.10	$0.40	$0.12	$0.18 $900.00
$1.80	$0.20	$0.50	$0.12	$0.18 $900.00

[1]These values do not include commission costs

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Table 4. Net Price Received from Cash Price and Bear Put Spread Gain/Losses[1]

Dec. Settle Price	Cash Price[2]	Spread Gain or Loss	Net Price Received
$2.50	$2.40	-$0.12	$2.28
$2.40	$2.30	-$0.12	$2.18
$2.30	$2.20	-$0.12	$2.08
$2.20	$2.10	-$0.02	$2.08
$2.10	$2.00	$0.08	$2.08
$2.00	$1.90	$0.18	$2.08
$1.90	$1.80	$0.18	$1.98
$1.80	$1.70	$0.18	$1.88

[1]These values do not include commission costs
[2]A basis of $0.10 under December futures.

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