Using a Bull Call Spread

When to Use a Bull Call Spread

- When the marketer is bullish on a market up to a point
- Hedge an input cost such as corn
- Regain ownership of a commodity once the commodity has been sold on the cash market or forward contract

How a Bull Call Spread Works

- A bull call spread is created by buying a call option at some strike price and simultaneously selling a call option with a higher strike price

Table 1. March KCBT Call Option Premiums

Strike Price	Premium
$2.90	$0.28
$3.00	$0.22
$3.10	$0.17
$3.20	$0.14
$3.30	$0.12
$3.40	$0.10

Table 2. Costs to Implement Strategy[1]

Action	Income/Expense ($/Bushel)	Income/Expense (Total Dollars)
Buy KCBT March $3.00 Call Option	-$0.22	-$1,100
Sell KCBT March $3.40 Call Option	+$0.10	+$500
Total Expense	-$0.12	-$600

[1]Assumes no commission charges

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Table 3. Bull Call Spread Results[1]

March Settle Price	$3.00 Wheat Call	$3.40 Wheat Call	Initial Cost ($/bu)	Gain/Loss ($/bu)/($/contract)
$2.90	$0.00	$0.00	$0.12	-$0.12/-$600.00
$3.00	$0.00	$0.00	$0.12	-$0.12/-$600.00
$3.10	$0.00	$0.00	$0.12	-$0.02/-$100.00
$3.20	$0.00	$0.00	$0.12	$0.08/$400.00
$3.30	$0.00	$0.00	$0.12	$0.18/$900.00
$3.40	$0.00	$0.00	$0.12	$0.28/$1,400.00
$3.50	$0.00	$0.00	$0.12	$0.28/$1,400.00
$3.60	$0.00	$0.00	$0.12	$0.28/$1,400.00

[1]Assumes no commission charges

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