

FAQ

MINNEAPOLIS GRAIN EXCHANGE

MGEX Agricultural Index Futures and Options

Since December 2004, MGEX has made it possible to trade financially settled futures on corn, soybeans and three major classes of wheat—all on a single electronic trading platform.

MGEX has listed Hard Red Spring Wheat Index (HRSI), Hard Red Winter Wheat Index (HRWI), Soft Red Winter Wheat Index (SRWI), National Corn Index (NCI) and National Soybean Index (NSI) futures on the Chicago Board of Trade's electronic trading platform—e-cbot powered by LIFFE CONNECT. These index futures will be financially settled to a three-day average of the spot indexes, calculated by DTN.

Following is a list of frequently asked questions about the MGEX index futures and options contracts. If you have unanswered questions after reviewing those listed below, please contact Joe Albrecht at 612-321-7151.

Who is DTN?

DTN is the leading business-to-business provider of real-time market, news and weather information services to agriculture, energy trading markets and other weather-sensitive industries. The company delivers on-demand market information, commodity cash prices, industry news and in-depth analysis, and location-specific weather to over 120,000 subscribers through DTN for agriculture, refined fuels and trading markets, and DTN/Meteorlogix.

What are the settlement indexes?

Selection of the index used for financial settlement of futures contracts is critical. The index must contain prices that are truly reflective of the cash market for a specific, defined commodity and there must be broad representation of cash market participants. Most importantly, there must be no possibility of index manipulation by market participants.

DTN collects nearly 400 bids each day for hard red winter wheat, 230 bids for hard red spring wheat, 350 bids for soft red winter wheat, 1,700 bids for corn and 1,600 bids for soybeans with representation from elevators around the country.

Where can I find the daily DTN agricultural indexes?

DTN publishes the NCI and NSI daily in the "Grains" section of their data delivery system. The daily indexes and the number of bids contained in the indexes are posted on the Minneapolis Grain Exchange web site at www.mgex.com.



What makes indexes futures different from traditional futures?

- *Financial Settlement*—When index futures and options expire they settle to a financial value, eliminating deliveries. As a result, there are no delivery specifications, storage costs, grade differentials or load-out costs.
- *Simultaneous Expiration*—At the end of each month, futures and options settle based on a simple average of the index value for the last three trading days of that month. This means an options bought or sold for September expires at the end of September, not August like traditional options.
- *Index based, country-origin pricing*—DTN collects elevator bids daily, and in turn, calculates indexes upon which MGEX agricultural index futures and options are settled.
- *All Calendar Months Traded*—All months are listed so traders can more accurately hedge their needs and pay options premiums for only the months needed.
- *Hedging*—MGEX index futures and options more closely track country prices because local basis is, in part, a portion of the futures contract settlement price. For hedgers, this means their futures position will better reflect their cash position and provide a more accurate hedge.
- *Exclusively Electronic*—MGEX agricultural indexes trade on an electronic platform that offers market transparency, instant execution and extended trading hours, while providing a broader market base for improved liquidity.

What are some possible trading strategies?

MGEX options are a natural fit for spread and basis traders. A trader can create a synthetic basis position using options by simply buying or selling an index option and executing the opposite trade in the deliverable counterpart.

With traditional deliver-settled wheat futures, there are three markets and three unique spreads. The addition of three MGEX wheat index-based futures contracts actually results in a fivefold increase in the number of unique spreads available to traders and hedgers.

What is the advantage of index options?

MGEX index contracts represent country elevator prices, whereas most delivery-settled contracts represent terminal market pricing. Therefore, deliver-settled contracts include a component in their price to transport the product from the country elevator to the terminal market. With all other factors being equal, this means deliver-settled options simply cost more than comparable MGEX index options.

Because MGEX index options expire monthly, traders can more closely match the option expiration with cash transaction dates, obtaining a better hedge and avoiding purchase of unneeded time value.

The simultaneous expiration of index contracts creates trading advantages and can provide traders with new spread trading opportunities between index options and traditional options.

Indexes are calculated by:



SMARTER DECISIONS