



## Agricultural Index Futures and Options

# MGEX Agricultural Index Futures and Options provide a variety of ways to manage price risk and take advantage of opportunities in the marketplace.

MGEX (Exchange) Agricultural Index Products provide benefits to traders across the marketplace. These products provide extensive spread trading opportunities, price advantages in options, and the ability to hedge basis.

MGEX offers 5 different agricultural index products:

- Hard Red Spring Wheat Index (HRSI)
- Hard Red Winter Wheat Index (HRWI)
- Soft Red Winter Wheat Index (SRWI)
- National Corn Index (NCI)
- National Soybean Index (NSI)

Telvent DTN calculates the national average, or spot price, for each index, taken from thousands of elevator bids around the country. The index products track prices at the cash market more closely than traditional delivery-based contracts. This provides a myriad of ways to trade between markets, establish synthetic basis trades and accurately hedge positions in the country.

All index products trade exclusively electronically on CME Globex® and are backed by the full integrity of MGEX, a provider of risk management services since 1881.

MGEX agricultural index options contracts provide benefits to all market participants, from producers to speculators, offering spread trading opportunities, flexibility and price advantages over traditional delivery options.

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## Benefits of Index Products

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### Financial settlement, no deliveries

When index futures and options expire they settle to a financial value. Financial settlement is more representative of the national spot price of the underlying commodity versus traditional delivery contracts. No delivery also means no delivery specifications, storage costs, grade differentials or load-out costs.

### All calendar months are traded

With contracts in all months, traders can accurately hedge their needs in a wheat index futures contract, or if you are using options, pay a premium for only the months you need.

### Simultaneous expiration

At the end of each month, futures and options settle to the average of the index value for the last three trading days of that month. Meaning, an option bought or sold for September expires at the end of September, instead of August as traditional options do.

### Hedging

MGEX index futures and options closely track country prices because local basis is a portion of the futures contract settlement price. For hedgers, this means their futures position will better reflect the cash position and provide a more accurate hedge.

### Index based, country-origin pricing

Telvent DTN collects country origin bids daily, and in turn, calculates indexes used to settle the MGEX agricultural index futures. Thousands of bids are gathered, with the indexes provide an average of the prices in the country. This results in more accurate hedges and the ability to hedge basis.

### Electronic Trading

MGEX agricultural indexes trade on CME Globex®, offering market transparency, instant execution and extended trading hours, while providing a broad market base for improved liquidity.

## Basis, Spreads and Indexes

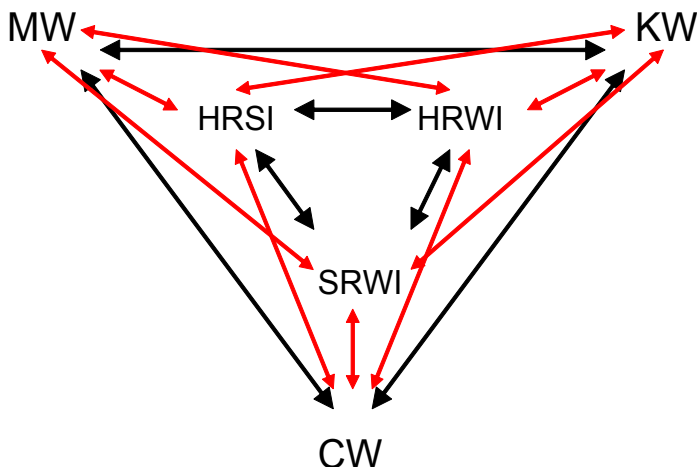
The introduction of MGEX index futures and options provides opportunities for basis and spread trading.

MGEX index-based wheat futures contracts increase the number of possible wheat spreads from three to fifteen. The myriad of potential spreads present a number of unique opportunities to traders and hedgers. The country-level index contracts can be spread against the traditional terminal-level delivery contracts to replicate basis positions. Spreads between classes using the index contracts can be used to manage cross-class risks, such as protein premiums. With the large increase in available spreads, traders will undoubtedly find many unique ways to manage their procurement risk.

Index futures and options make it possible to spread an MGEX country-origin contract versus a terminal-level delivery contract to replicate basis positions.

In addition, wheat processors can manage risk between wheat classes, such as protein premium levels, by spreading wheat index contracts. The delivery process does not affect these contracts and their prices represent a well-defined commercial quote for the underlying commodity.

Spreads Available With Index Products



## Hedging Basis

MGEX index futures and options create opportunities for traders of wheat, corn and soybeans to better manage the basis by using futures to create synthetic basis positions between two different contracts.

Country origin prices can vary widely for the same commodity because of differences in local demand, freight costs and other factors. This price is often pegged to a futures price. The difference between the two is considered the basis.

Because MGEX index products are correlated to their underlying cash markets, basis can be hedged by trading the spread between MGEX index futures and their corresponding deliverable counterparts.

| MGEX Index Futures and Deliverable Counterparts |                                  |
|---|----------------------------------|
| Index   | Deliverable Counterpart          |
| HRSI  | MGEX Wheat                       |
| HRWI  | Kansas City Board of Trade Wheat |
| SRWI  | CME Wheat                        |
| NCI   | CME Corn                         |
| NSI   | CME Soybeans                     |

- To create a synthetic long basis position, buy MGEX index futures and sell deliverable futures
- To create a synthetic short basis position, sell MGEX index futures and buy deliverable futures.

Options enter into this equation as well. For example, a trader may establish a long basis position by buying an at-the-money MGEX index call option while simultaneously selling an at-the-money call option in the deliverable counterpart. This protects the basis position, and generates a "credit" to the trader because of the lower price of MGEX options contracts.



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## **PURE PRICE ADVANTAGE**

When expiration dates and volatility are equal, MGEX index options have a pure price advantage over delivery-based options.

MGEX index contracts represent country origin prices, whereas most delivery-settled contracts represent terminal market pricing. Delivery-settled contracts include a component in their price to cover costs of transporting the product from the country elevator to the terminal market.

With all other factors equal, MGEX index options cost less than comparable delivery-settled options.

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## **FLEXIBILITY TO PURCHASE WHAT YOU NEED**

Because MGEX index options contracts expire monthly, traders can closely match option expiration with cash transaction dates. This results in a better hedge and eliminates the need to purchase unneeded time value.

For example, assume April 1 a trader wants to hedge a cash corn transaction expected to occur September 30. If the trader used the deliverable corn contract, the hedge would be placed in December because the September options contract expires in August. However, with NCI options, the September contract would be used.

In this example, the trader saves money by using the NCI September option because time value is an important component of an option's price. The further an option is from its expiration, the more it costs.

## **MARKET-TESTED PERFORMANCE**

Historical trading has proven that under equal market conditions, MGEX index-based options cost less and offer clear operational advantages as opposed to delivery-based options.

Research has shown MGEX index-based options provide a savings of one to four cents (around 10 percent) over comparable delivery-based options. Lower prices coupled with operational advantages makes MGEX options a preferred hedging vehicle.

A complete analysis of The Options Advantage can be found at [www.mgex.com](http://www.mgex.com), or you can request a copy by calling (800) 827-4746 or (612) 321-7101.

### **MGEX Agricultural Index Futures and Options**

- No delivery issues
- Accurate hedges
- Options pricing advantages
- Ability to reduce basis volatility



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## AGRICULTURAL INDEXES CONTRACT SPECIFICATIONS

### FUTURES

#### **TRADING HOURS**

NCI, NSI, HRWI, SRWI, HRSI

6:00 p.m. to 1:45 p.m. (CT) Sunday - Friday

#### **CONTRACT UNIT**

5,000 Bushels

#### **CONTRACT MONTHS**

All 12 Months

#### **UNDERLYING ASSETS**

NCI - Based on bids for U.S. No. 2 yellow corn

NSI - Based on bids for U.S. No 1 yellow soybeans

HRWI - Based on bids for U.S. No 1 hard red winter wheat

SRWI - Based on bids for U.S. No 2 soft red winter wheat

HRSI - Based on bids for U.S. No 1 hard red spring wheat

*All indexes are calculated and confirmed by TelventDTN*

#### **MINIMUM PRICE FLUCTUATION**

1/4 cent per bushel (\$0.0025) or \$12.50 per contract

#### **DAILY PRICE LIMIT**

##### **NCI**

35 cents per bushel; No limit in the spot month

##### **NSI**

80 cents per bushel; No limit in the spot month

##### **HRWI, SRWI, HRSI**

60 cents per bushel; No limit in the spot month

#### **POSITION LIMITS**

##### **NCI**

13, 500 single/settlement month; 22,000 all months combined; 25 reportable level

##### **NSI**

6,500 single/settlement month (except during the last 5 trading days when limit is 5,600); 10,000 all months combined; 25 reportable level

##### **HRWI**

5,000 single/settlement month; 6,500 all months combined; 25 reportable level

##### **SRWI**

5,000 single/settlement month (except during last 5 trading days when limit is 2,750); 6,500 all months combined; 25 reportable level

##### **HRSI**

5,000 single/settlement (except during last 5 trading days when limit is 3,400); 6,500 all months combined; 25 reportable level

#### **LAST TRADING DAY**

The last business day of the settlement month.

Final settlement occurs on the next business day following the last trade date.

#### **SETTLEMENT**

Cash settlement based upon the simple average of the NCI, NSI, HRWI, SRWI or HRSI prices published on the last three trading days of the settlement month using standard rounding techniques and rounded to the nearest 1/4 cent. (\$0.0025)

#### **TICKER SYMBOL**

NCI - IC

NSI - IS

HRWI - IH

SRWI - IW

HRSI - IP