



MGEX WHEAT INDEX PRODUCTS: OPPORTUNITIES FOR SPECULATORS

MGEX (Minneapolis Grain Exchange) offers financially settled agricultural index futures contracts for the Hard Red Winter Wheat (HRWI), Soft Red Winter Wheat (SRWI), and Hard Red Spring Wheat (HRSI). The index-based futures contracts represent an important advancement to traders interested in expanding their trading opportunities.

Financial Settlement

The MGEX agricultural index futures contracts financially settle to a three-day average of the underlying cash indices as calculated by DTN. National spot index prices for all three wheat contracts are compiled daily based on a DTN survey of country elevator grain bids. MGEX futures contracts settle to an average of the DTN calculated National Spot Index price over the last three trading days of the contract month. The financial settlement process is unique in the grain futures industry. Unlike delivery-based contracts, positions in the MGEX futures are not subject to delivery concerns. Positions can be held until the last trading day (last business day of the expiring month).

Trading Opportunities

With traditional delivery-settled wheat futures contracts, there are three markets and three unique spreads. MGEX index-based futures contracts result in a total of six wheat futures markets. So, the number of spread choices increases to 15. The additional three MGEX index-based wheat futures contracts result in a fivefold increase in the number of spreads available to traders.

MGEX grain index products reflect interior elevator bids. As such, they are representative of the country-level price. Therefore, the index – delivery contract spread (e.g., SRWI – CME Wheat) reflects the average country-level soft red winter wheat basis. A trader who has an opinion on a strengthening country basis can create a long basis position with a long SRWI – CME Wheat spread. Conversely, a short basis position is achieved by selling the SRWI and buying CME Wheat.

Figures 1 through 3 show the volatility and price behavior of the three spreads between the index products and their corresponding delivery-based contracts.

As illustrated, the spreads provide ample opportunity for speculators to anticipate changes in the national average basis levels. As an example, the national average soft red winter wheat basis (Figure 2) declined precipitously in 2007 due in part to the rapid increase in overall price levels. A trader anticipating a stronger basis as we move into 2008 could take a long basis position by purchasing the SRWI and selling CME wheat.

Because MGEX's wheat index products provide a multitude of spread opportunities, traders can investigate these spreads as a way to leverage their market insights.

Figure 1. The National Average Hard Red Winter Wheat Basis, 2000-2009.

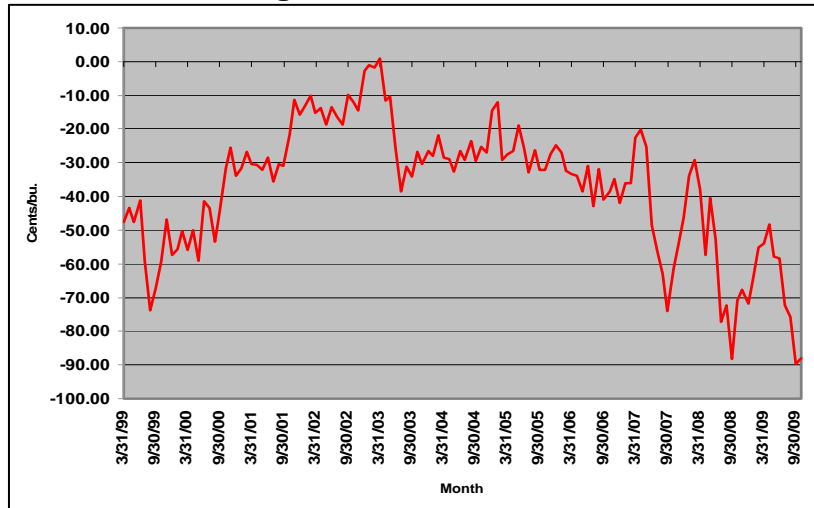


Figure 2. The National Average Soft Red Winter Wheat Basis, 2000-2009.

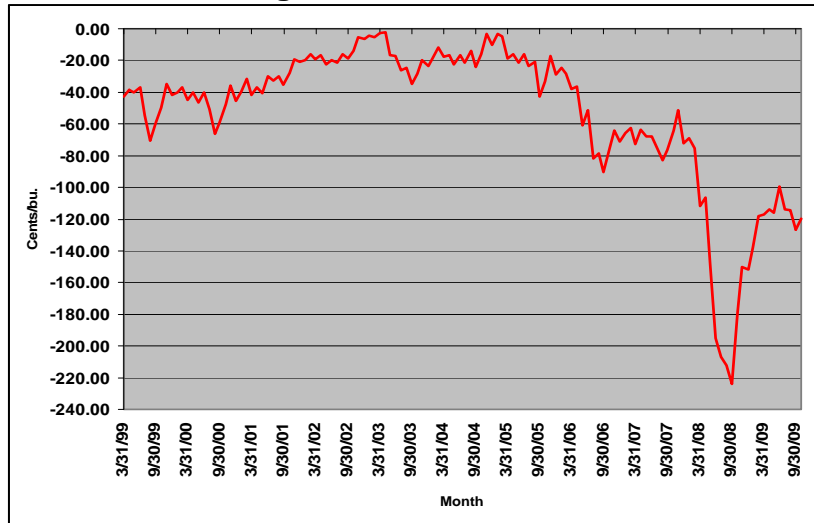
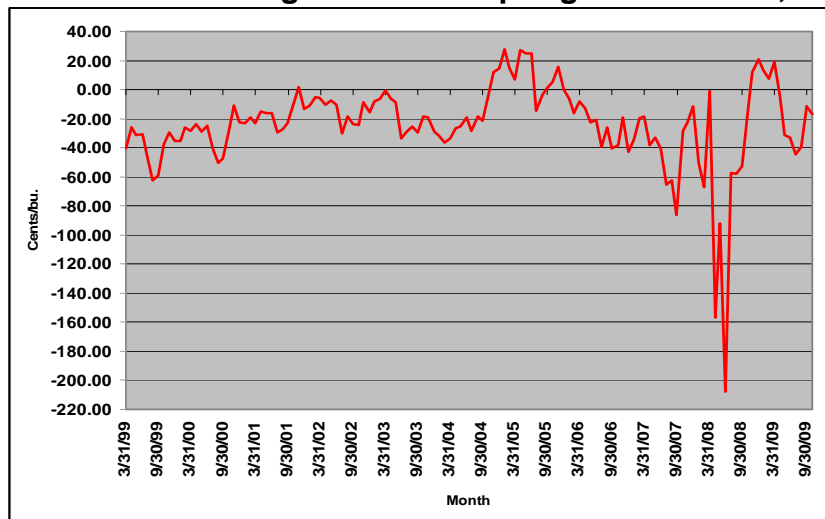


Figure 3. The National Average Hard Red Spring Wheat Basis, 2000-2009.



Nothing herein should be construed as a trading recommendation of MGEX. Information in this publication is taken from sources believed to be reliable but is not guaranteed by MGEX as to accuracy or completeness and is intended for the purpose of information and education only. The Rules and Regulations of the Exchange should be consulted as the authoritative source on all Exchange issues.