

## Using Options for Price Risk Management

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## Futures, Options & Obligations

- Terminology can be confusing
  - Options on Feeders, Wheat, or Corn
  - December option
- Options are rights **but not obligations** to buy or sell a futures contract
  - Put = Sell and Call = Buy
- Futures contract carries a **joint obligation** for the buyer and seller
  - Seller must make delivery & The buyer must take delivery OR
  - **Offset contract**



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## Discussion of Terms

- CBOT Wheat Futures 12-1-10, \$7.42
- CBOT **Put** Strike Prices and **Premiums**, 12-1-2010

Strike	Session									Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt		
future	743 <sup>2</sup> / <sub>8</sub>	745 <sup>6</sup> / <sub>8</sub>	739	742	Nov 26, 16:00	742	3	1044	739	16166		
600	-	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	23 <sup>4</sup> / <sub>8</sub>	-2 <sup>3</sup> / <sub>8</sub>	1	25 <sup>7</sup> / <sub>8</sub>	1		
660	-	45	45	45	Nov 26, 16:43	45	-3 <sup>3</sup> / <sub>8</sub>	1	48 <sup>3</sup> / <sub>8</sub>	1		
680	-	54 <sup>1</sup> / <sub>8</sub>	54 <sup>1</sup> / <sub>8</sub>	54 <sup>1</sup> / <sub>8</sub>	Nov 26, 16:43	54 <sup>1</sup> / <sub>8</sub>	-3 <sup>4</sup> / <sub>8</sub>	1	57 <sup>5</sup> / <sub>8</sub>	1		
700	-	64	64	64	Nov 26, 16:43	64	-3 <sup>6</sup> / <sub>8</sub>	1	67 <sup>6</sup> / <sub>8</sub>	24		
730	-	80 <sup>5</sup> / <sub>8</sub>	80 <sup>5</sup> / <sub>8</sub>	80 <sup>5</sup> / <sub>8</sub>	Nov 26, 16:43	80 <sup>5</sup> / <sub>8</sub>	-4	1	84 <sup>5</sup> / <sub>8</sub>	1		
740	-	86 <sup>4</sup> / <sub>8</sub>	86 <sup>4</sup> / <sub>8</sub>	86 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	86 <sup>4</sup> / <sub>8</sub>	-4 <sup>1</sup> / <sub>8</sub>	1	90 <sup>5</sup> / <sub>8</sub>	1		

## Obligations With Options

- Depends on whether you are buying or selling options
- Put Option is the right **but not the obligation** to **sell** an underlying futures contract.
  - You can buy or sell put options
- Call Option is the right **but not the obligation** to **buy** and underlying futures contract.
  - You can buy or sell call options
- There is **no** joint obligation with options

## Buying vs Selling Options

- For every buyer, there is a seller.
- The typical producer will **most always buy** an option
- The buyer of an option has:
  - The right to exercise the option *but*
  - The seller can not force him to exercise the option.
- Buying Put = Right to Sell a futures contract
  - Put = Sell (**PS**)
  - A true hedger wants equal and opposite positions in the cash and futures market.



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## Put = Right to Sell Futures = Short Position

- But you **typically buy a put**
  - **Buy a right to sell** a futures contract
  - Put = Sell (**PS**)
- Protection from falling prices
- For **producers** of a commodity
  - Small grains, calves, ...

**Remember PS => (Put=Sell)**



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## Call = Right to Buy Futures = Long Position

- You typically buy a Call
  - Buy a right to buy a futures contract
  - Call = Buy (CB)
- Protection from rising prices
- For consumers of a commodity
  - Feeders that use grain
  - Feeders that purchase calves as an input

**Remember CB => (Call=Buy)**



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## Strike Price and Premiums

- Options are bought and sold at a specified Strike Price
  - Set by Exchanges and willingness of “option writer”
- The premium paid for the option is set by daily trading at each exchange
  - Very similar to insurance premium
- Once you pay the premium and transactions cost (brokerage fees), you have no more costs associated with an option contract.
  - You either Exercise/Offset or the option expires worthless



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## Value of an Option

- Options derive their value from the strike price relative to the futures price for a specific commodity and time frame
- The premium paid for a particular strike price is set through daily bidding
- The premium established depends on how high or low the bidders thinks the futures price will get **relative to the strike price**.
- Value also depends on time to expiration and volatility of the market for a specific commodity



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## In the Money or Out of the Money

- **In the money** = An option who's strike price, if exercised, would give positive returns
- **Out of the money** = a strike price that if exercised would not produce positive returns
- **Puts** are in the money when **strike price greater than futures**
- **Calls** are in the money when **strike price less than futures**
- **At the money** (Strike price = Futures price)



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## Value of In the Money Option

- Has both **intrinsic value** and **time value**
  - Intrinsic value is the positive return it would generate if exercised
  - Time value is the value due to the chance it will change in value between now and when it is exercised
- Why would anyone want to buy an out of the money option?
  - Need to manage risk
  - Price expectations

## Mechanics of an Option

- How do you capture value?
- **Exercise the option**
  - Take the underlying position in the futures market
  - Once in the futures market, you offset the futures contract at the current futures price.
- **Offset the option** by selling (or buying) it back
  - The premium at the time the option is offset **should reflect its value.**
  - What happens if it does not?

## KCBT Sept 2011 **Puts** on 11-26-10

Strike	Session									Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt		
future	761 <sup>6</sup> / <sub>8</sub>	763 <sup>6</sup> / <sub>8</sub>	752 <sup>6</sup> / <sub>8</sub>	759 <sup>6</sup> / <sub>8</sub>	Nov 26, 14:27	759 <sup>6</sup> / <sub>8</sub>	3 <sup>6</sup> / <sub>8</sub>	475	756	8120		
720	-	66 <sup>4</sup> / <sub>8</sub>	66 <sup>4</sup> / <sub>8</sub>	66 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	66 <sup>4</sup> / <sub>8</sub>	-1 <sup>6</sup> / <sub>8</sub>	0	68 <sup>2</sup> / <sub>8</sub>	4		

Puts are **In The Money** when  
**Strike** price is > the Current **Futures** Price,

i.e. why would I exercise the right to sell at \$7.20 when the Futures are trading at \$7.60



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## Establishing A Floor Price Using a Put

Initial Conditions:

- KCBT **Puts** Strike Price \$7.10
- Plus Basis HRW, \$- .58
- Minus Trading cost per bushel \$ .02
- Minus Premium Cost for Put \$ .30
- Equals Estimated Floor Price Cash \$6.20




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**Strike Prices**

KCBT  
July2011  
**Puts** on Nov.  
26, 2010

Put = Sell  
**(PS)**

**In the Money**





Strike	Session				Premiums			Pr.Day		Expiry Date	
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett		OpInt
future	750	756 6/8	745 6/8	752 2/8	Nov 26, 14:27	752 2/8	2 2/8	1436	750	49867	
440	-	1/8	1/8	1/8	Nov 26, 16:43	1/8	-	0	1/8	12	
480	-	4/8	4/8	4/8	Nov 26, 16:43	4/8	-0 1/8	0	5/8	10	
500	-	1 1/8	1 1/8	1 1/8	Nov 26, 16:43	1 1/8	-	0	1 1/8	31	
550	-	4 4/8	4 4/8	4 4/8	Nov 26, 16:43	4 4/8	-0 3/8	0	4 7/8	106	
570	-	7 1/8	7 1/8	7 1/8	Nov 26, 16:43	7 1/8	-0 3/8	0	7 4/8	61	
600	-	12 6/8	12 6/8	12 6/8	Nov 26, 16:43	12 6/8	-0 5/8	43	13 3/8	374	
620	-	17 7/8	17 7/8	17 7/8	Nov 26, 16:43	17 7/8	-0 5/8	0	18 4/8	22	
630	-	20 6/8	20 6/8	20 6/8	Nov 26, 16:43	20 6/8	-0 6/8	0	21 4/8	47	
640	-	24	24	24	Nov 26, 16:43	24	-0 6/8	0	24 6/8	384	
650	-	27 3/8	27 3/8	27 3/8	Nov 26, 16:43	27 3/8	-1	1	28 3/8	215	
660	-	31 2/8	31 2/8	31 2/8	Nov 26, 16:43	31 2/8	-0 7/8	0	32 1/8	238	
680	-	39 4/8	39 4/8	39 4/8	Nov 26, 16:43	39 4/8	-1 1/8	0	40 5/8	15	
690	-	44 1/8	44 1/8	44 1/8	Nov 26, 16:43	44 1/8	-1 1/8	0	45 2/8	248	
700	-	48 7/8	48 7/8	48 7/8	Nov 26, 16:43	48 7/8	-1 2/8	7	50 1/8	342	
720	-	59 3/8	59 3/8	59 3/8	Nov 26, 16:43	59 3/8	-1 3/8	0	60 6/8	32	
730	-	64 7/8	64 7/8	64 7/8	Nov 26, 16:43	64 7/8	-1 4/8	0	66 3/8	19	
740	-	70 6/8	70 6/8	70 6/8	Nov 26, 16:43	70 6/8	-1 3/8	0	72 1/8	28	
750	-	76 6/8	76 6/8	76 6/8	Nov 26, 16:43	76 6/8	-1 4/8	0	78 2/8	217	
760	-	82 7/8	82 7/8	82 7/8	Nov 26, 16:43	82 7/8	-1 4/8	0	84 3/8	18	
770	-	89 2/8	89 2/8	89 2/8	Nov 26, 16:43	89 2/8	-1 4/8	0	90 6/8	20	

## KCBT Sept. 2011 **Calls**, 11-26-10

Strike	Session							Pr.Day		Expiry Date	
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett		OpInt
future	761 6/8	763 6/8	752 6/8	759 6/8	Nov 26, 14:27	759 6/8	3 6/8	475	756	8120	
780	-	78 5/8	78 5/8	78 5/8	Nov 26, 16:43	78 5/8	1 5/8	0	77	3	

Calls are **In The Money** when  
**Strike** price is < the Current **Futures** Price,  
  
 i.e. why would I exercise the *right to buy* at  
 \$7.80 when the Futures are trading at \$7.60



### KCBT July2011 Calls, 11-26-10

Strike	Session								Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt	
future	750	756 <sup>6</sup> / <sub>8</sub>	745 <sup>6</sup> / <sub>8</sub>	752 <sup>2</sup> / <sub>8</sub>	Nov 26, 14:27	752 <sup>2</sup> / <sub>8</sub>	2 <sup>2</sup> / <sub>8</sub>	1436	750	49867	
600	-	164 <sup>3</sup> / <sub>8</sub>	164 <sup>3</sup> / <sub>8</sub>	164 <sup>3</sup> / <sub>8</sub>	Nov 26, 16:43	164 <sup>3</sup> / <sub>8</sub>	1 <sup>5</sup> / <sub>8</sub>	0	162 <sup>6</sup> / <sub>8</sub>	29	
660	-	123	123	123	Nov 26, 16:43	123	1 <sup>2</sup> / <sub>8</sub>	0	121 <sup>6</sup> / <sub>8</sub>	68	
680	-	111 <sup>4</sup> / <sub>8</sub>	111 <sup>4</sup> / <sub>8</sub>	111 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	111 <sup>4</sup> / <sub>8</sub>	1 <sup>2</sup> / <sub>8</sub>	0	110 <sup>2</sup> / <sub>8</sub>	6	
700	-	101	101	101	Nov 26, 16:43	101	1 <sup>1</sup> / <sub>8</sub>	0	99 <sup>7</sup> / <sub>8</sub>	184	
750	-	79	79	79	Nov 26, 16:43	79	0 <sup>6</sup> / <sub>8</sub>	0	78 <sup>2</sup> / <sub>8</sub>	272	
770	-	71 <sup>4</sup> / <sub>8</sub>	71 <sup>4</sup> / <sub>8</sub>	71 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	71 <sup>4</sup> / <sub>8</sub>	0 <sup>5</sup> / <sub>8</sub>	0	70 <sup>7</sup> / <sub>8</sub>	13	
780	-	68 <sup>1</sup> / <sub>8</sub>	68 <sup>1</sup> / <sub>8</sub>	68 <sup>1</sup> / <sub>8</sub>	Nov 26, 16:43	68 <sup>1</sup> / <sub>8</sub>	0 <sup>5</sup> / <sub>8</sub>	0	67 <sup>4</sup> / <sub>8</sub>	22	
800	-	61 <sup>6</sup> / <sub>8</sub>	61 <sup>6</sup> / <sub>8</sub>	61 <sup>6</sup> / <sub>8</sub>	Nov 26, 16:43	61 <sup>6</sup> / <sub>8</sub>	0 <sup>5</sup> / <sub>8</sub>	0	60 <sup>5</sup> / <sub>8</sub>	240	
820	-	56	56	56	Nov 26, 16:43	56	0 <sup>5</sup> / <sub>8</sub>	0	55 <sup>8</sup> / <sub>8</sub>	16	
850	-	48 <sup>5</sup> / <sub>8</sub>	48 <sup>5</sup> / <sub>8</sub>	48 <sup>5</sup> / <sub>8</sub>	Nov 26, 16:43	48 <sup>5</sup> / <sub>8</sub>	0 <sup>3</sup> / <sub>8</sub>	0	48 <sup>2</sup> / <sub>8</sub>	425	
860	-	46 <sup>3</sup> / <sub>8</sub>	46 <sup>3</sup> / <sub>8</sub>	46 <sup>3</sup> / <sub>8</sub>	Nov 26, 16:43	46 <sup>3</sup> / <sub>8</sub>	0 <sup>2</sup> / <sub>8</sub>	3	46 <sup>1</sup> / <sub>8</sub>	174	
900	-	38 <sup>6</sup> / <sub>8</sub>	38 <sup>6</sup> / <sub>8</sub>	38 <sup>6</sup> / <sub>8</sub>	Nov 26, 16:43	38 <sup>6</sup> / <sub>8</sub>	0 <sup>2</sup> / <sub>8</sub>	0	38 <sup>4</sup> / <sub>8</sub>	742	
1000	-	25 <sup>5</sup> / <sub>8</sub>	25 <sup>5</sup> / <sub>8</sub>	25 <sup>5</sup> / <sub>8</sub>	Nov 26, 16:43	25 <sup>5</sup> / <sub>8</sub>	-	0	25 <sup>5</sup> / <sub>8</sub>	229	

**In the Money**

### CBOT Puts for Sept 2011 on 11-26-10

Strike	Session								Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt	
future	743 <sup>2</sup> / <sub>8</sub>	745 <sup>6</sup> / <sub>8</sub>	739	742	Nov 26, 16:00	742	3	1044	739	16166	
600	-	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	23 <sup>4</sup> / <sub>8</sub>	-2 <sup>3</sup> / <sub>8</sub>	1	25 <sup>7</sup> / <sub>8</sub>	1	
660	-	45	45	45	Nov 26, 16:43	45	-3 <sup>3</sup> / <sub>8</sub>	1	48 <sup>3</sup> / <sub>8</sub>	1	
680	-	54 <sup>1</sup> / <sub>8</sub>	54 <sup>1</sup> / <sub>8</sub>	54 <sup>1</sup> / <sub>8</sub>	Nov 26, 16:43	54 <sup>1</sup> / <sub>8</sub>	-3 <sup>4</sup> / <sub>8</sub>	1	57 <sup>5</sup> / <sub>8</sub>	1	
700	-	64	64	64	Nov 26, 16:43	64	-3 <sup>6</sup> / <sub>8</sub>	1	67 <sup>6</sup> / <sub>8</sub>	24	
730	-	80 <sup>5</sup> / <sub>8</sub>	80 <sup>5</sup> / <sub>8</sub>	80 <sup>5</sup> / <sub>8</sub>	Nov 26, 16:43	80 <sup>5</sup> / <sub>8</sub>	-4	1	84 <sup>5</sup> / <sub>8</sub>	1	
740	-	86 <sup>4</sup> / <sub>8</sub>	86 <sup>4</sup> / <sub>8</sub>	86 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	86 <sup>4</sup> / <sub>8</sub>	-4 <sup>1</sup> / <sub>8</sub>	1	90 <sup>5</sup> / <sub>8</sub>	1	

<http://www.tfccharts.com/menu.html>




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**In the Money**

Strike	Session								Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt	
future	743 <sup>2</sup> / <sub>8</sub>	745 <sup>6</sup> / <sub>8</sub>	739	742	Nov 26, 16:00	742	3	1044	739	16166	
720	-	96 <sup>6</sup> / <sub>8</sub>	96 <sup>6</sup> / <sub>8</sub>	96 <sup>6</sup> / <sub>8</sub>	Nov 26, 16:43	96 <sup>6</sup> / <sub>8</sub>	-0 <sup>7</sup> / <sub>8</sub>	1	97 <sup>2</sup> / <sub>8</sub>	23	
800	-	67 <sup>7</sup> / <sub>8</sub>	67 <sup>7</sup> / <sub>8</sub>	67 <sup>7</sup> / <sub>8</sub>	Nov 26, 16:43	67 <sup>7</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	4	69 <sup>2</sup> / <sub>8</sub>	35	
850	-	54 <sup>7</sup> / <sub>8</sub>	54 <sup>7</sup> / <sub>8</sub>	54 <sup>7</sup> / <sub>8</sub>	Nov 26, 16:43	54 <sup>7</sup> / <sub>8</sub>	-1 <sup>5</sup> / <sub>8</sub>	1	56 <sup>4</sup> / <sub>8</sub>	1	
860	-	52 <sup>2</sup> / <sub>8</sub>	52 <sup>2</sup> / <sub>8</sub>	52 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	52 <sup>2</sup> / <sub>8</sub>	-1 <sup>5</sup> / <sub>8</sub>	2	54 <sup>2</sup> / <sub>8</sub>	2	
960	-	35 <sup>2</sup> / <sub>8</sub>	35 <sup>2</sup> / <sub>8</sub>	35 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	35 <sup>2</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	25	36 <sup>6</sup> / <sub>8</sub>	25	
970	-	33 <sup>7</sup> / <sub>8</sub>	33 <sup>7</sup> / <sub>8</sub>	33 <sup>7</sup> / <sub>8</sub>	Nov 26, 16:43	33 <sup>7</sup> / <sub>8</sub>	-1 <sup>5</sup> / <sub>8</sub>	5	35 <sup>4</sup> / <sub>8</sub>	5	
980	-	32 <sup>2</sup> / <sub>8</sub>	32 <sup>2</sup> / <sub>8</sub>	32 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	32 <sup>2</sup> / <sub>8</sub>	-1 <sup>5</sup> / <sub>8</sub>	10	34 <sup>2</sup> / <sub>8</sub>	10	
990	-	31 <sup>4</sup> / <sub>8</sub>	31 <sup>4</sup> / <sub>8</sub>	31 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	31 <sup>4</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	15	33	15	
1000	-	30 <sup>2</sup> / <sub>8</sub>	30 <sup>2</sup> / <sub>8</sub>	30 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	30 <sup>2</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	1	31 <sup>7</sup> / <sub>8</sub>	52	
1010	-	29 <sup>2</sup> / <sub>8</sub>	29 <sup>2</sup> / <sub>8</sub>	29 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	29 <sup>2</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	7	30 <sup>6</sup> / <sub>8</sub>	23	
1020	-	28 <sup>1</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>8</sub>	Nov 26, 16:43	28 <sup>1</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	5	29 <sup>2</sup> / <sub>8</sub>	15	
1030	-	27 <sup>1</sup> / <sub>8</sub>	27 <sup>1</sup> / <sub>8</sub>	27 <sup>1</sup> / <sub>8</sub>	Nov 26, 16:43	27 <sup>1</sup> / <sub>8</sub>	-1 <sup>4</sup> / <sub>8</sub>	1	28 <sup>2</sup> / <sub>8</sub>	12	
1040	-	26 <sup>2</sup> / <sub>8</sub>	26 <sup>2</sup> / <sub>8</sub>	26 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	26 <sup>2</sup> / <sub>8</sub>	-1 <sup>3</sup> / <sub>8</sub>	5	27 <sup>2</sup> / <sub>8</sub>	14	
1050	-	25 <sup>2</sup> / <sub>8</sub>	25 <sup>2</sup> / <sub>8</sub>	25 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	25 <sup>2</sup> / <sub>8</sub>	-1 <sup>3</sup> / <sub>8</sub>	5	26 <sup>2</sup> / <sub>8</sub>	217	
1060	-	24 <sup>3</sup> / <sub>8</sub>	24 <sup>3</sup> / <sub>8</sub>	24 <sup>3</sup> / <sub>8</sub>	Nov 26, 16:43	24 <sup>3</sup> / <sub>8</sub>	-1 <sup>3</sup> / <sub>8</sub>	5	25 <sup>6</sup> / <sub>8</sub>	18	
1070	-	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	23 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	23 <sup>4</sup> / <sub>8</sub>	-1 <sup>3</sup> / <sub>8</sub>	5	24 <sup>7</sup> / <sub>8</sub>	17	
1080	-	22 <sup>6</sup> / <sub>8</sub>	22 <sup>6</sup> / <sub>8</sub>	22 <sup>6</sup> / <sub>8</sub>	Nov 26, 16:43	22 <sup>6</sup> / <sub>8</sub>	-1 <sup>2</sup> / <sub>8</sub>	4	24	13	
1090	-	22	22	22	Nov 26, 16:43	22	-1 <sup>2</sup> / <sub>8</sub>	1	23 <sup>2</sup> / <sub>8</sub>	13	
1100	-	21 <sup>2</sup> / <sub>8</sub>	21 <sup>2</sup> / <sub>8</sub>	21 <sup>2</sup> / <sub>8</sub>	Nov 26, 16:43	21 <sup>2</sup> / <sub>8</sub>	-1 <sup>2</sup> / <sub>8</sub>	1	22 <sup>4</sup> / <sub>8</sub>	33	
1110	-	20 <sup>4</sup> / <sub>8</sub>	20 <sup>4</sup> / <sub>8</sub>	20 <sup>4</sup> / <sub>8</sub>	Nov 26, 16:43	20 <sup>4</sup> / <sub>8</sub>	-1 <sup>2</sup> / <sub>8</sub>	1	21 <sup>6</sup> / <sub>8</sub>	13	
1120	-	19 <sup>7</sup> / <sub>8</sub>	19 <sup>7</sup> / <sub>8</sub>	19 <sup>7</sup> / <sub>8</sub>	Nov 26, 16:43	19 <sup>7</sup> / <sub>8</sub>	-1 <sup>1</sup> / <sub>8</sub>	3	21	4	

**CBOT Calls For Sept 2011 on Nov. 26, 2010**

Call = Right to Buy **(CB)**





## CME Feeder Quotes, 11-26-10

Month	Session								Pr.Day		Options
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt	
Cash	-	-	-	109.930 *	Nov 24, 16:14	-	-	-	114.080	-	n/a
<a href="#">Jan 11</a>	118.750	119.100	118.600	118.750	Nov 26, 16:07	118.750	0.475	2109	118.275	15677	<a href="#">Call Put</a>
<a href="#">Mar 11</a>	119.125	119.500	119.125	119.375	Nov 26, 16:07	119.375	0.375	1318	119.000	8662	<a href="#">Call Put</a>
<a href="#">Apr 11</a>	119.575	119.700	119.575	119.700	Nov 26, 16:07	119.700	0.425	495	119.275	2510	<a href="#">Call Put</a>
<a href="#">May 11</a>	119.750	119.800	119.750	119.775	Nov 26, 16:07	119.775	0.425	310	119.350	3430	<a href="#">Call Put</a>
<a href="#">Aug 11</a>	120.200	120.500	120.200	120.500	Nov 26, 16:07	120.500	0.250	656	120.250	3028	<a href="#">Call Put</a>
<a href="#">Sep 11</a>	-	119.800	119.800	119.800	Nov 26, 16:07	119.800	0.300	20	119.500	188	<a href="#">Call Put</a>
<a href="#">Oct 11</a>	-	119.300	119.300	119.300	Nov 26, 16:07	119.300	0.300	9	119.000	41	<a href="#">Call Put</a>
<a href="#">Nov 11</a>	-	118.300	118.300	118.300	Nov 26, 16:07	118.300	0.300	2	118.000	2	<a href="#">Call Put</a>

Do you like volatility as a producer?

<http://www.tfccharts.com/menu.html>

## CME Oct. 2011 Feeder Puts, 11-26-10

Strike	Session									Pr.Day		Expiry Date
	Open	High	Low	Last	Time	Sett	Chg	Vol	Sett	OpInt		
future	-	119.300	119.300	119.300	Nov 26, 16:07	119.300	0.300	9	119.000	41		
1100	-	3.450	3.450	3.400	Nov 26, 16:00	3.400	-0.050	-	3.450	1		

## Option Sellers (Writer)

- You are exposed to added risk if you are an option seller
  - Margin calls just like the futures market
- A person buying the option you sold can force you to provide the underlying position in the futures market.
  - Margin account balance used to cover your losses
- Can sell Puts or Calls
  - Sell right to sell = put (PS)
  - Sell right to buy = call (CB)

## The Next Slide

- If you are loaded this PowerPoint for the first time, the next slide will appear blank, except for the wording at the bottom of the slide.
- The contents of the slide, interactive software, only appears in the slide show mode.



Mountains &amp; Minds

Introduction		Input Data	Futures	Options	SummaryResults	Margin Account	Cost of Prod.	Save, Load, Delete Scenarios
Click here to get futures/options quotes from the Web.								
<b>Production Information</b>		Crop Name/Description>			Winter Wheat			
		Expected Yield						
Yield (bu., Cwt, ...)		50.0						
Acres Price Protected		300						
Total Expected Production, Using APH Yield		15,000						
Unit Size of Single Contract for This Commodity		5,000						
Number of Contracts To Cover Expected Production		3.00			Number of contracts matches expected production			
Number of Futures/Options Contracts Purchased		3						
<b>Futures and Options Pricing Information --- at Purchase Time</b>								
		At Purchase (Enter Value Per Unit)						
Spot Harvest Time Futures at Time of Purchase		\$7.10						
Expected Basis at Harvest/Sale/Offset		(\$0.80)						
Basis = (Cash Price minus Futures Price)								
Put Strike Price Selected		\$6.60						
Put Premium Paid		\$0.30						
Call Strike Price Selected		\$7.80						
Call Premium Paid		\$0.30						
Marketing Costs-- Brokerage, Interest & Other Misc. Expense		\$0.02						
<b>Price and Yield Information at Harvest/Sale/Offset</b>								
Spot Futures Price at Harvest/Sale/Offset		\$7.10						
Actual Cash Price Received at Harvest/Sale Time		\$6.30						
Actual Basis at Harvest		(\$0.80)						
Actual Yield at Harvest		50.0						
Cost of Production Per Bushel		\$3.50						
Reset		Print						
<b>Winter Wheat Example: Futures, Options &amp; Margin Accounting</b>								

# Questions

