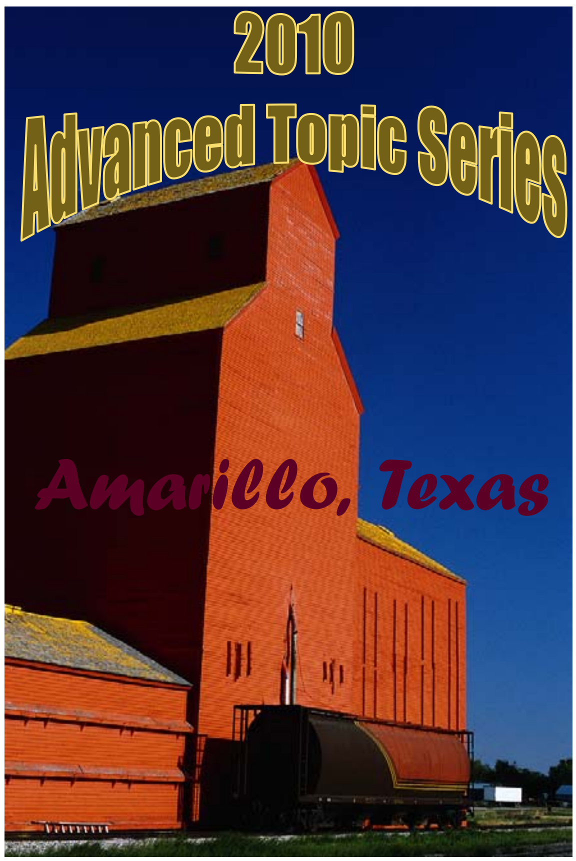
Advanced Marketing Tools And Strategies For Producers



Presented by:
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Advanced Marketing

February 26, 2010

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MARGIN UNDERSTANDING

What is margin as it deals with future?

- Performance bond
- Money that is used to cover changes in the value of a contract.
- They can change based on overall value and volatility

Margin Examples

Suppose you sell a July KC wheat futures contract at $5.25 on March 1. You already have $2500 in your account. The initial and maintenance margin for KC wheat for your hedge account is $1400 per contract. The contract is 5,000 bus and the commission and fees for a round turn is $70.00 per contract, but half is charged to your account on the first transaction and the other half on the offset of the contract.

1) On March 5, what is your account balance if July KC wheat closes at $5.40?

   Are you on Margin call? If so how much will you have to send?

2) On March 15, July KC wheat closes at $5.45 and you also sell another July KC wheat at $5.45.

   What is your total initial margin requirement?

   What is your account balance?

   What is your average short position?

   What is our liquidating value?

Are you on margin call? If so how much is the margin call?

Is there excess equity? If so how much?

3) On April 1, July KC wheat closes at $5.60. September KC wheat closes at $5.75. You purchase a $5.25 September KC wheat put option for $.30 per bushel.

Are you on margin call? If so how much is the margin call?

Is there excess equity? If so how much?

4) On May 9, July KC wheat closes at $5.12 and September KC wheat closes at $5.26.

Are you on margin cal? If so how much is the margin call?

Is there excess equity? If so how much?

5) On July 5, you offset your July wheat futures $4.87. September KC wheat closes at $5.00 and you sell your option for $.45 per bushel?

What is your account balance when these transactions are complete?

How much money did you make on these transactions in the futures and options market?

Use Margin money movement to calculate your answer.

Marketing Philosophy

- Make sure you develop one
  - Driven by your strengths and weaknesses
  - Driven by your financial goals and restrictions
  - One you can implement
  - One you can understand and believe in
  - Don’t let it take over your life and inhibit the production management side of your business

Marketing Commodities vs Differentiation

- Within the "commodity" industry, the only differentiation is freight.
- The mistake in marketing is not recognizing that fact.
- The larger and more concentrated this industry becomes, the more this fact becomes reality.
- Significant $$ to be made in the branded business, but that move requires significant capital ($$).

What is common about "Strong Marketers"

- Strong Managers
  - Understand their Operation
  - Understand their Industry
- Good Grasp of the Big Picture
  - Not caught up in the emotion
  - Understands economics, but not a "day-to-day trader.

What is common about "Strong Marketers"

- Focus on Marketing
  - Allocates proper time
  - Or makes sure that it is being done by someone (reverts back to strong management)
- Not afraid to make a mistake
  - Understands that key events that impact commodity markets are most of the time "not predictable.
  - Long-term economics are somewhat predictable and manageable.

What is common about "Strong Marketers"

- Uses Basic Logic for Decision Making
  - Not following a pre-designed formula put together by someone else.
- Driven by Profit
  - Understands how marketing decisions impact the entire business (positively and negatively).
  - Productive efficiency and other key aspects of the operation also very important.

A Cross Between a Leopard and a Hawk

- A Leopard is always hungry.
- Will attack when at any signs of opportunity.
- And is always looking for an opportunity.
- A Hawk sees the big picture. Aware of pending dangers, but also takes of advantage of opportunities.

A Cross Between a Leopard and a Hawk

- But the Hawk knows there are always new opportunities if you stay aware.
- Both hunters take risks, but understand the bigger risk of not hunting and staying on the offensive
- The more risk there is in an operation the more you need to be a Leopard.

Pulling the “right” trigger!!

- Look for many opportunities.
  - Don’t do “main event” marketing.
  - Understand the big picture

- Don’t look for opportunities to completely eliminate your risk.
  - You should be looking for chance to manage your risk, not eliminate.
  - Eliminating risk may mean eliminating profit.

Pulling the “right” trigger!!

- The “crowd” makes lots of mistakes
  - 20009 US Corn Crop for example

- Futures and Options markets can be extremely dangerous
  - Completely understand the risk and rewards of each move
  - There is no “perfect” strategy.

Lender’s Role

- Very Delicate
- Bankers love options!!
- The “working capital” challenge
- Truly understand the alternatives
- Communication
  - Margin calls vs Forward Contracting
  - Trust

PROPER SIDE OF THE MARKET

- MOST IMPORTANT ASPECT OF GOOD MARKETING
- ALLOWS FLEXIBILITY
  - Use all of the marketing tools
- ALLOWS VARIATION IN RISK
- BUT KEEPS YOU OUT “DOUBLE DIP TROUBLE”

WHAT IS THE PROPER SIDE OF THE MARKET???

- DEPENDS ON WHAT YOU DO?
- WHAT IS THE PROPER SIDE FOR A COTTON PRODUCER?
- WHAT IS THE PROPER SIDE FOR BAKER?
- WHAT IS THE PROPER SIDE FOR A CATTLE FEEDER?

REMEMBER IT ELIMINATES DOUBLE TROUBLE!!

- DOES NOT TAKE AWAY FLEXIBILITY
- A CATTLE PRODUCER IS EITHER SHORT THE LIVE CATTLE MARKET OR IS OUT.
- A BAKER IS EITHER LONG THE WHEAT MAREKT OR OUT.

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Marketing Strategies

Synthetic Put:

A cotton producer sells 1 contract of December cotton at 72.50 on March 1. July Cotton is trading at $78.50. By April 1 cotton has slipped back to a couple of dollars and a decision is made to purchase an $80 July cotton call option for $2.95.

Scenario 1: Producer sells cotton in November at $64.00. Buys back the December futures at $67.00 and July cotton was $75.00 when the July option expired. What is the net price for the cotton produced?

Scenario 2: Producer sells cotton in November at $68.00. Buys back the December futures at $71.00 and July cotton was $84.25 when the July option expired. What is the net price for the cotton produced?

Scenario 3: Producer sells cotton in November at $85.00. Buys back the December futures at $89.00 and July cotton was $98.00 when the July option expired. What is the net price for the cotton produced?

Scenario 4: Producer sells cotton in November at $78.00. Buys back the December futures at $80.50 and July cotton was $79.50 when the July option expired. What is the net price for the cotton produced?

Synthetic Call

A flour miller buys 1 contract of December KC at $5.50 on March 1. May KC wheat is trading at $5.28. By March 15 wheat has moved $.30 higher and a decision is made to purchase a May KC $5.25 put at $.22 per bushel.

Scenario 1: Miller buys wheat in November at $6.00. Sells back the December KC wheat futures at $6.40 and May wheat was $5.90 when the option expired. What is the net price for the wheat purchased?

Scenario 2: Miller buys wheat in November at $4.20. Sells back the December KC wheat futures at $4.50 and May wheat was $4.85 when the option expired. What is the net price for the wheat purchased?

Scenario 3: Miller buys wheat in November at $6.50. Sells back the December KC wheat futures at $6.75 and May wheat was $6.00 when the option expired. What is the net price for the wheat purchased?

Scenario 4: Miller buys wheat in November at $3.50. Sells back the December KC wheat futures at $3.75 and May wheat was $5.28 when the option expired. What is the net price for the wheat purchased?

Window for Producer

On January 5, a cattle feeder purchases an 86 April cattle put for $2.50 and sells a $94.00 April cattle call to protect cattle that will be ready the last week of March. April cattle futures are trading at $90.00.

Scenario 1: On April 1, the cattle are sold in the cash market at $87.00 and April futures are at $88.50.

What is net price for the cattle with the window strategy?

What would the net price have been if the producer had just purchased the $86 put?

What would the net price have been if it would have been a straight hedge?

Scenario 2: On April 1, the cattle are sold in the cash market at $97.00 and April futures are at $98.50.

What is net price for the cattle with the window strategy?

What would the net price have been if the producer had just purchased the $86 put?

What would the net price have been if it would have been a straight hedge?

Scenario 3: On April 1, the cattle are sold in the cash market at $81.00 and April futures are at $83.50 .

What is net price for the cattle with the window strategy?

What would the net price have been if the producer had just purchased the $86 put?

What would the net price have been if it would have been a straight hedge?

Scenario 4 : Cattle rallied in February due to bad winter weather and the producer got tired of margin calls on the short call option. When April cattle hit $95.50, the producer bought back the $94 call for $4.00. On April 1, the cattle are sold in the cash market at $85.00 and April futures are at $87.50.

What is net price for the cattle with the window strategy? What went wrong?

What would the net price have been if the producer had just purchased the $86 put?

What would the net price have been if it would have been a straight hedge?

Writing Options

On April 10, a corn producer decides to sell a $4.30 December corn call option for $.20 per bushel. December corn is trading at $3.85 per bushel. A December corn $3.50 put option is trading at $.24 per bushel.

Scenario 1: On November 5, the cash corn is sold at $3.10 per bushel and December futures are at $3.02.

What is the net price of the corn?

What would have been the net price of a straight hedge?

What would have been the net price if the producer had purchased the $3.50 corn put?

Scenario 2: On November 5, the cash corn is sold at $3.55 per bushel and December futures are at $3.51.

What is the net price of the corn?

What would have been the net price of a straight hedge?

What would have been the net price if the producer had purchased the $3.50 corn put?

Scenario 3: On November 5, the cash corn is sold at $5.10 per bushel and December futures are at $5.30.

What is the net price of the corn?

What would have been the net price of a straight hedge?

What would have been the net price if the producer had purchased the $3.50 corn put?

Writing Options with Short Futures or Forward Contract

A corn producer forward contracts 10,000 bushels of corn for November at $3.80 per bushel on May 5. December corn is trading at $4.00. December corn $3.60 put is .24. A December corn $3.30 put is $.12. The producer decides to sell two $3.30 puts for $.12 per bushel.

Scenario 1: Cash corn is trading at $3.45 and December futures are $3.55.

What is the net price of the corn forward contracted?

What would the net price of a straight hedge have been?

What would have been the net price if a December corn $3.60 put was purchased?

Scenario 2: Cash corn is trading at $2.85 and December futures are $2.95.

What is the net price of the corn forward contracted?

What would the net price of a straight hedge have been?

What would have been the net price if a December corn $3.60 put was purchased?

Scenario 3: Cash corn is trading at \$4.75 and December futures are \$4.68.

What is the net price of the corn forward contracted?

What would the net price of a straight hedge have been?

What would have been the net price if a December corn \$3.60 put was purchased?

Market Strategies

- Synthetic Put

  Combine a short futures position (or a forward contract with the purchase of a call option.

  Key Aspects

  Needs to be legged on to take full advantage

  Usually done to reduce to cost of a "put position". Do you understand this?

Market Strategies

- Synthetic Put (contd) Key Aspects

  Want to lower cost by purchasing a call that does not expire when the futures expires

  Taking advantage of reduced time value and the belief that market moves will occur within the expiration of the option.

Market Strategies

- Synthetic Put

Advantages

-- Reduces cost of "put position"

-- Legging on position can be advantageous

-- Peace of mind

Disadvantages

-- Market can move higher after option expiration

-- Legging it on can result in "failure to implement"

Market Strategies

- Synthetic Call

Combine a long futures position (or a forward contract with the purchase of a put option.

Key Aspects

Needs to be legged on to take full advantage

Usually done to reduce to cost of a "call position". Do you understand this?

Market Strategies

- Window Strategy

Purchase of a put and selling a call to cover the price of something you are going to produce.

Key Aspects

Purchasing a put results in a floor price, while selling the call result is ceiling, but it also raises the put floor by the amount you receive for the call option.

Market Strategies

- Window Strategy

--Advantages

-- Reduces the theoretical cost of the call

-- Does create a floor price higher than a straight put"

-- Is very good in a general sideways market.

-- Disadvantages

-- Does require a lot of margin money

-- Legging out of position can be very dangerous

Market Strategies

- Do you understand how a window strategy would work for someone wanting to buy something?

-- Buying a call and selling a put??

Market Strategies

- Writing Options

  Selling a call to cover something that you are going to produce.

  Key Aspects

  This is done with the idea that if the market goes up, there is more to market and if the market goes down you keep the value of the call option.

Market Strategies

- Writing Options

--Advantages

-- Perfect for someone who plans to do no other forward pricing and will feel fine if the market goes up.

-- Good if you are writing less (volume) of call options that you will sell

--Disadvantages

-- There is no downside price protection, other than the call option adding to revenue, which is a limited amount.

Market Strategies

- Writing Options

Selling a put to cover something that you are going to purchase

--Who would use this?

-- There are some real advantages for manufactures, what are they?

-- Once again, no upside protection!!!

Market Strategies

- Writing Put Options with Short Futures (or forward contract)

-- Why would you do this?

-- What are the advantages and disadvantages?

-- Is used by speculators a lot. Why??

Market Strategies

- Writing Call Options with Long Futures (or forward contract)

-- Why would you do this?

-- What are the advantages and disadvantages?

Market Strategies

- Over the Counter (OTC)

  The newest market

- This is where
  - Accumulators come from
  - Combined OTC with Traditional Exchange Products
  - Make sure you fully understand
  - Best opportunities are in low volume specific commodities.

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Market Presentation

"Fundamentals and Technicals"

The Big Picture

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ARE YOU A BULL OR BEAR?

INFLATION,
INFLATION,
INFLATION

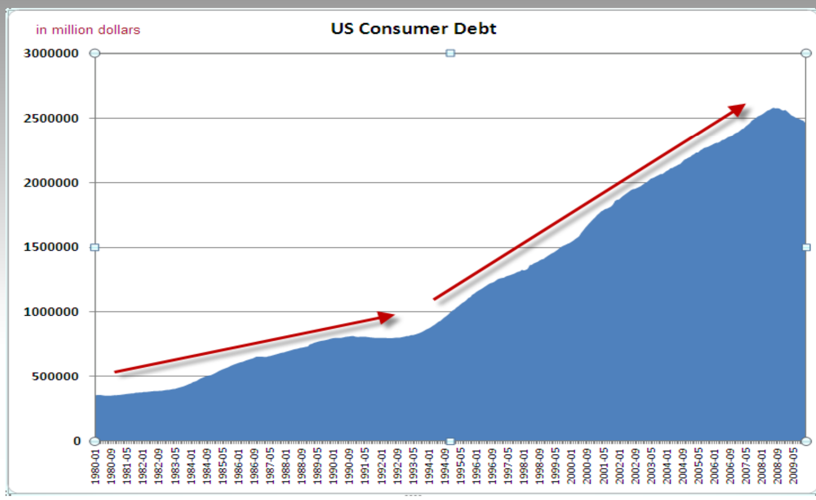
THERE IS NO WAY AROUND IT.
SO BUY COMMODITIES, BECAUSE THE US $$ IS WORTHLESS

ARE YOU KIDDING ME? DOUBLE DIGIT UNEMPLOYMENT, SLOW ECONOMIC GROWTH AND NO VELOCITY TO MONEY.
DEFLATION NOT INFLATION!

Macro Markets and Inflation Psychology Driving these Markets

- But What is the True Underlying Market Realities
  - Unemployment Levels
  - Small Business Stagnant
    - Worried About Rising Regulations, Taxes and Cost
  - Enormous Debt Levels (Public and Private)
  - Resulting in Slow Personal Consumption Levels
    - Have Lost the Impact of Rising Home Equity

US Consumer Debt



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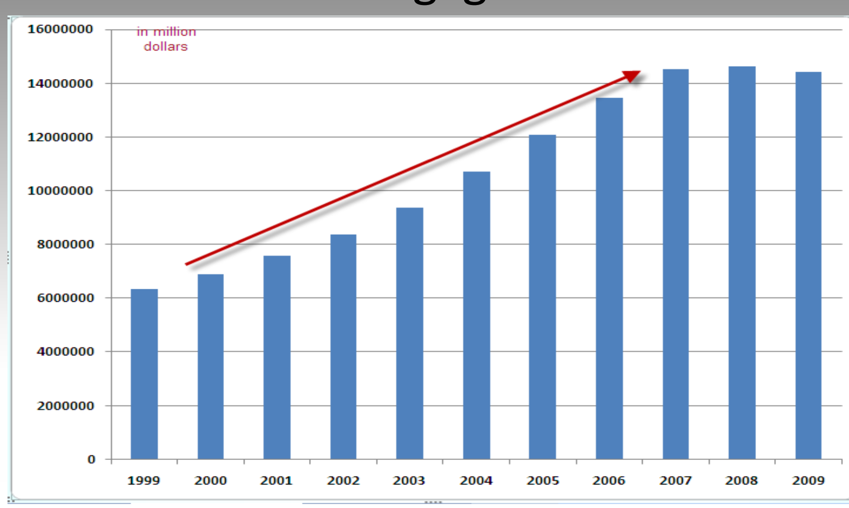
US Mortgage Debt



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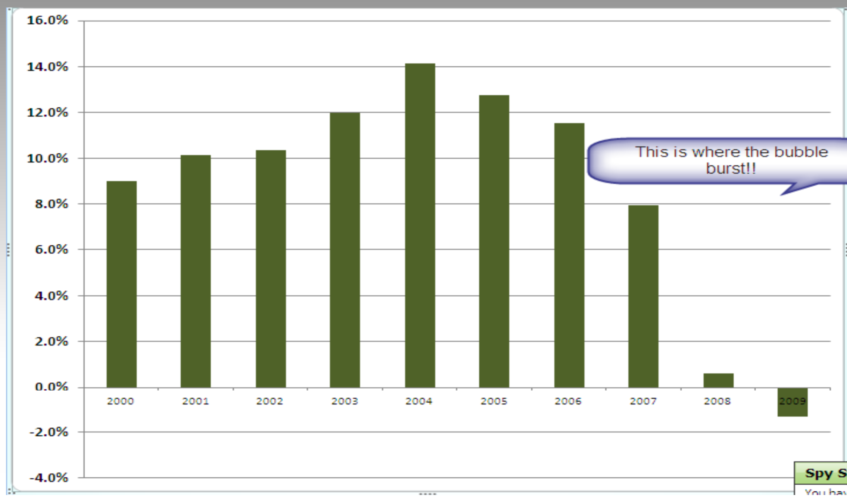
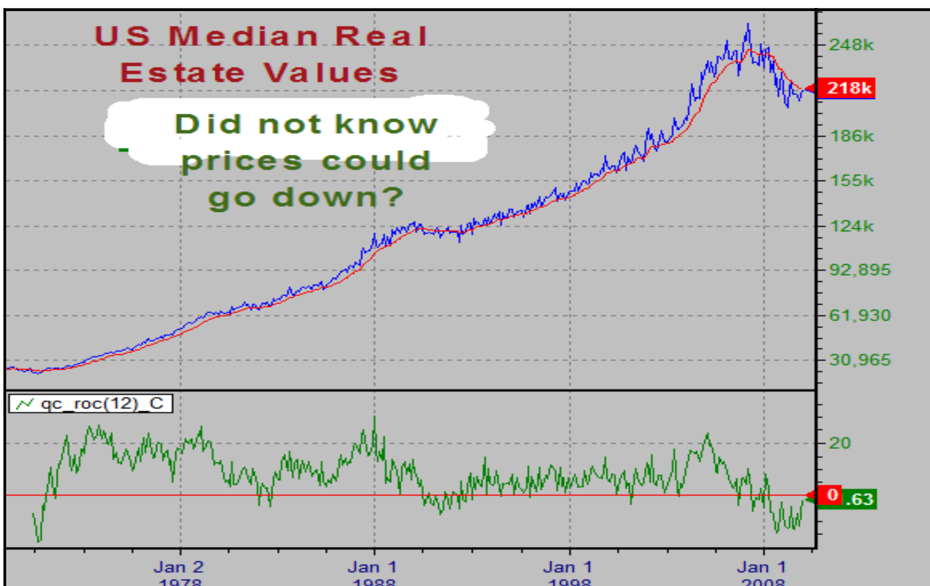
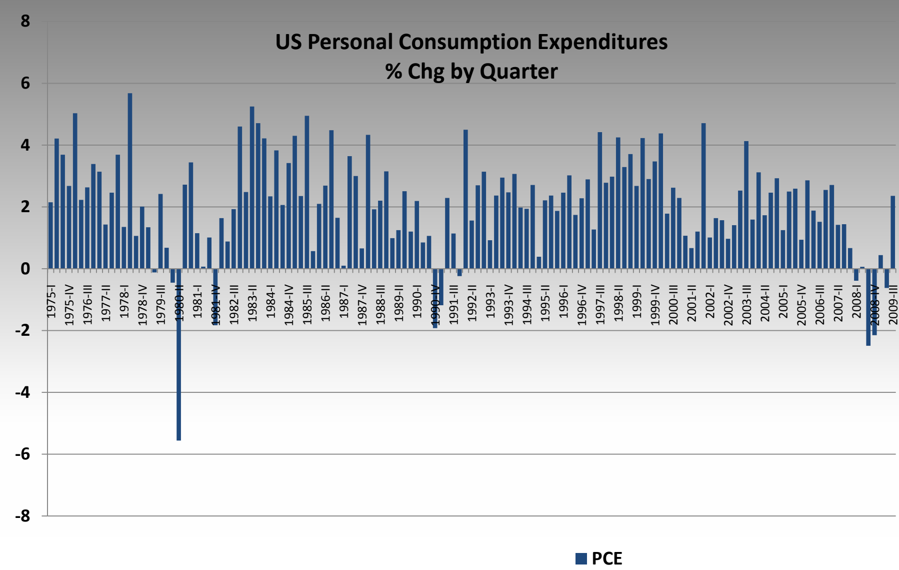
US Mortgage Debt % Chg Yr Over Yr







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Debt is the Concern

- How do we get out from under this debt?
- Inflate/Issue More Debt?
- Take the Medicine?
- Hope for the Best/ Economic Growth?
- Deflate Values? Write down Debt?

  -- Take substantial losses

  -- Is it time for another depression?

  --What is a depression??

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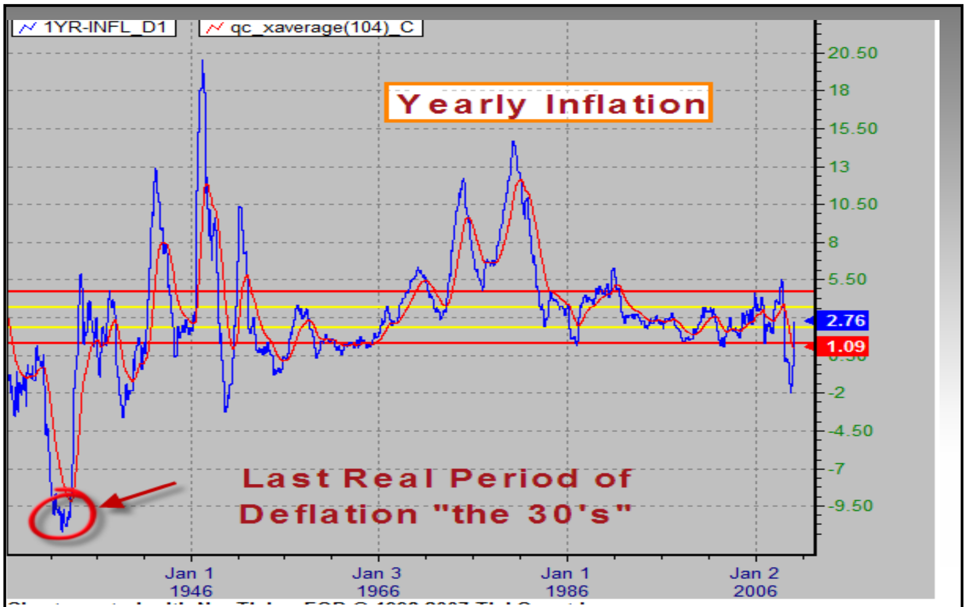

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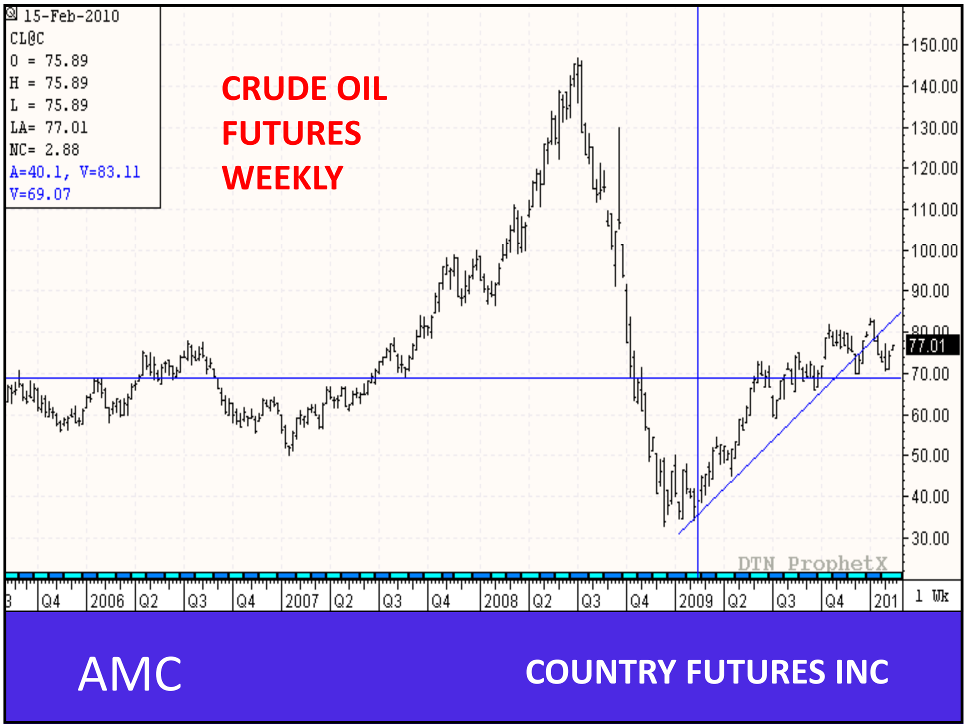
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WEEKLY
DTN ProphetX
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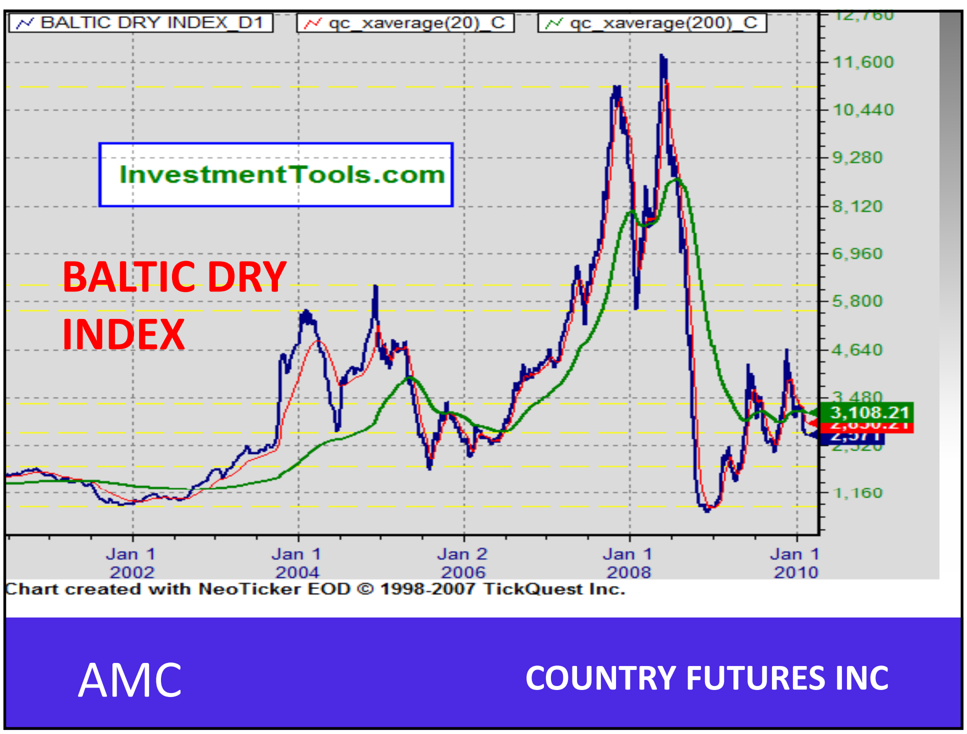
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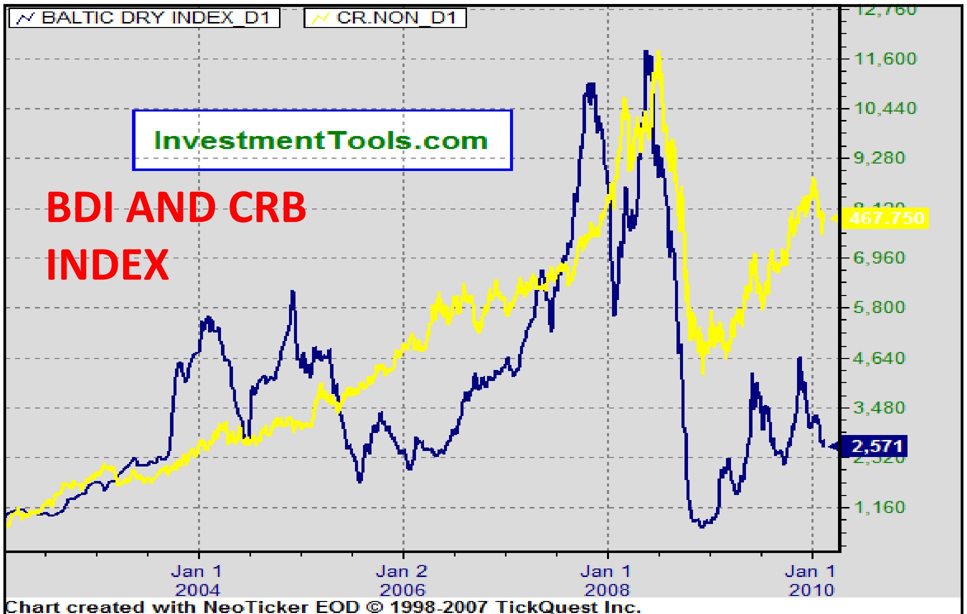

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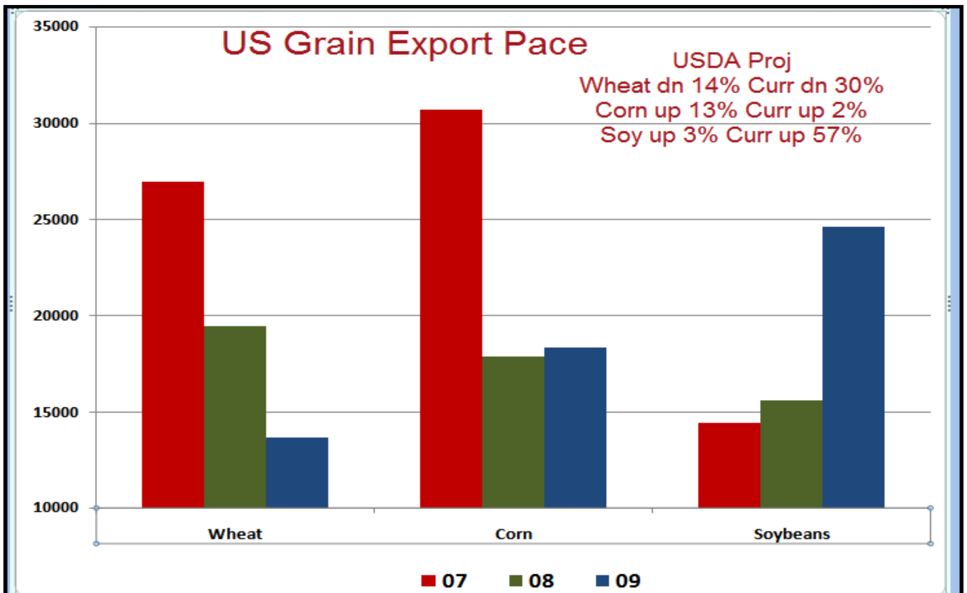
Macro Markets and Inflation Psychology Driving these Markets

- US Dollar Was Under Attack
  - Anticipation of Inflation??
  - Running to Gold?
  - Check Trade
  - The long gold and short dollar room was “very crowded”.
- Remember dollar valued against other currencies.
- What Impact did the weak US dollar have on US grain export? Was it just a “futures play”?

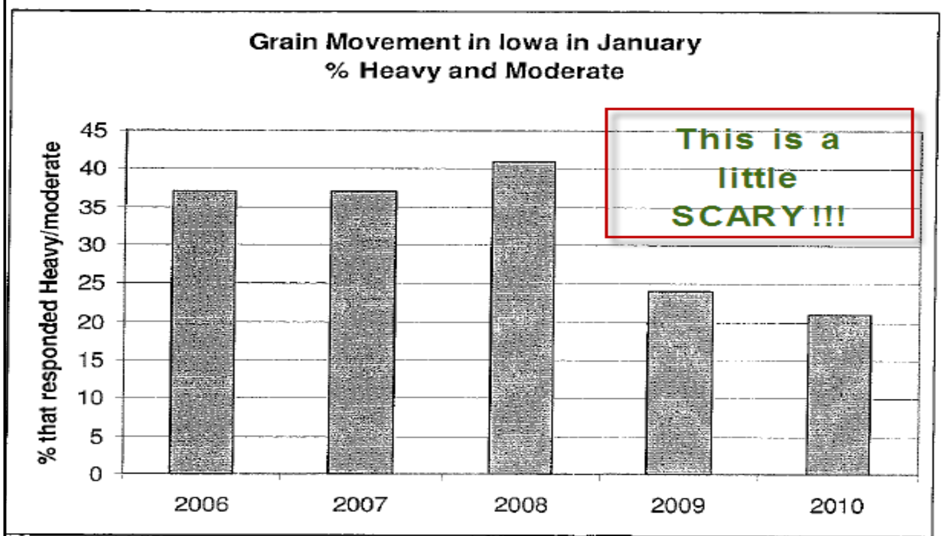


Macro Markets and Inflation Psychology Driving these Markets

- It doesn't matter how big the engine is if there is very little RPM!
- Don't confuse the stock market with true Economic Indicators.

Macro Markets and Inflation Psychology Driving these Markets

- Impact on Grains Markets Specifically
  - Funds Love to own Grains
    - Part of all Hedge Funds Portfolio
    - As their Inflation Play
- Grain Producers are Very Bullish!
- Rally in 4th Quarter May have been "worst thing"
- Stunted US Export Sales



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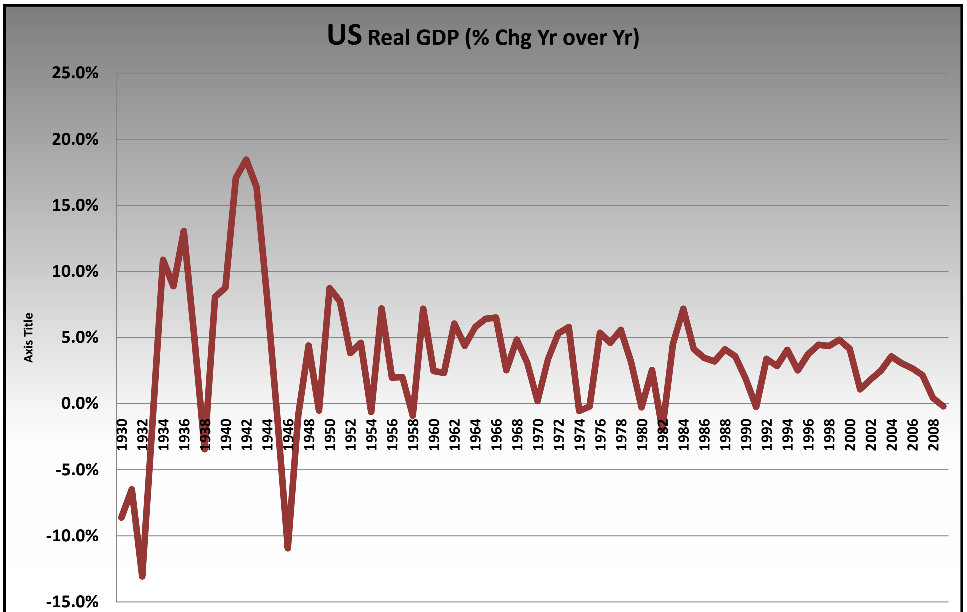
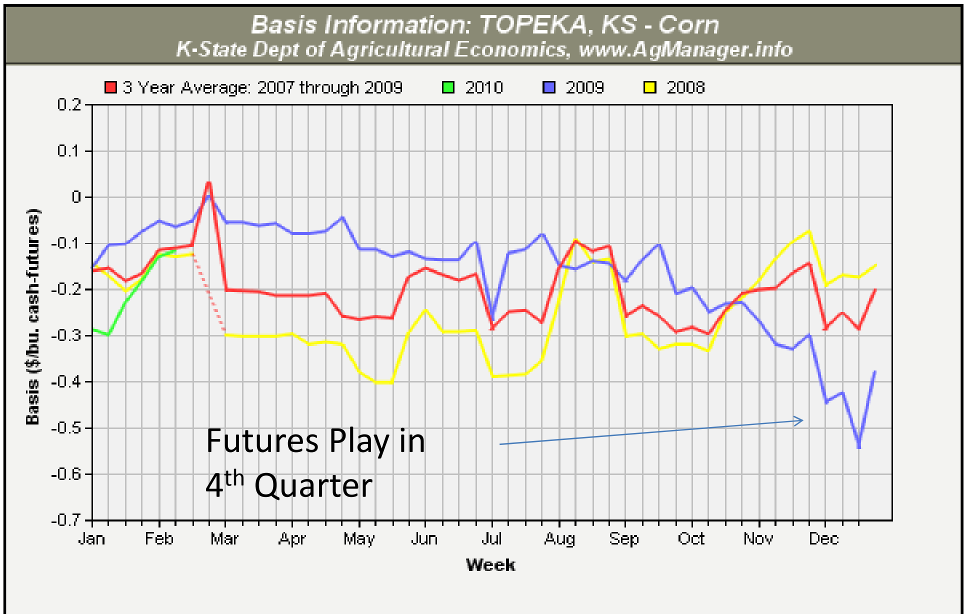


China Driving the World Economic Engine

- At Least For Now
- GDP Growth near double Digit
  - Big Reserves
  - Own US Treasuries
- Major Importers of Crude Oil and Soybeans
- Government Concerned about Inflation
- Taken recent steps to slow economy down
  - Increase interest rates and reserves
- They need us more than we need them!!
- Can we believe the data?



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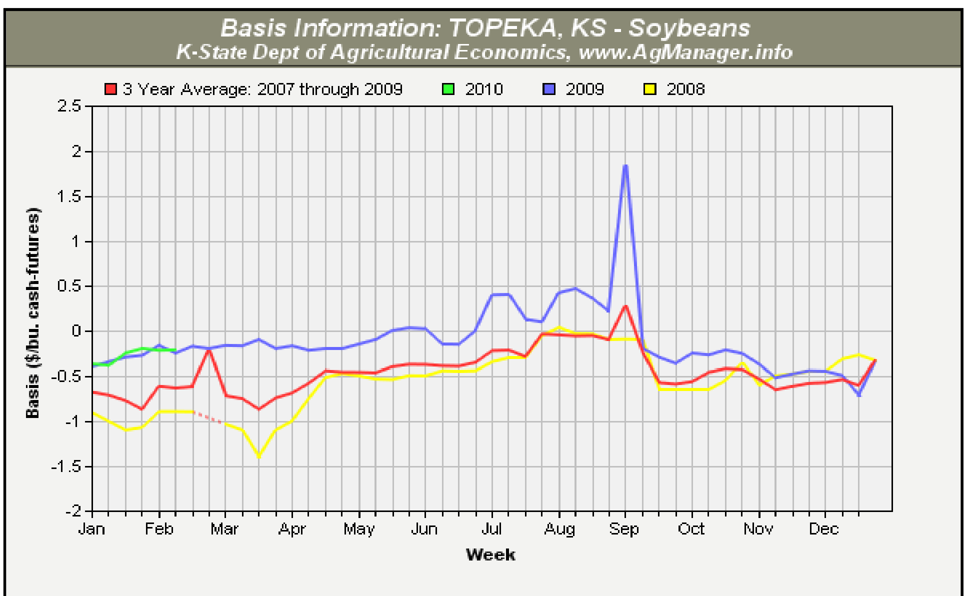

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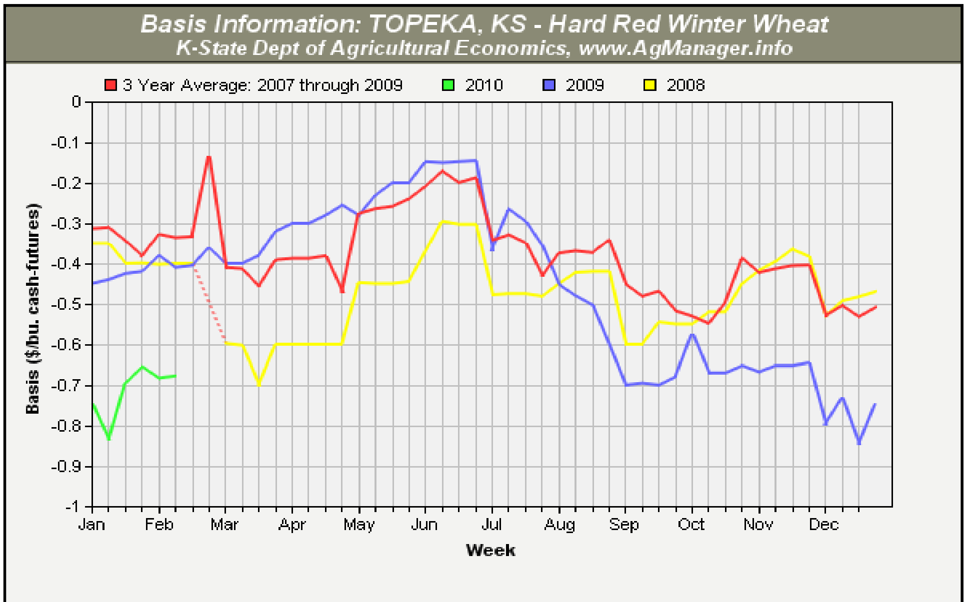

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Corn/ Feed Grains

- Corn is still the backbone of the strength
- Energy drives corn
  - Has been true since US Govt Initiative in Ethanol
  - RFS for Corn Ethanol not Likely to move above 15 billion gallons.
- High price of Inputs and Wet Spring Lowered US Corn Acreage
- Despite Issues, the US Corn Yields Continue to Grow.
  - Very Slow Harvest Pace and reduced test weight due to late season cool and wet. Western Corn Belt experiencing unbelievable yields

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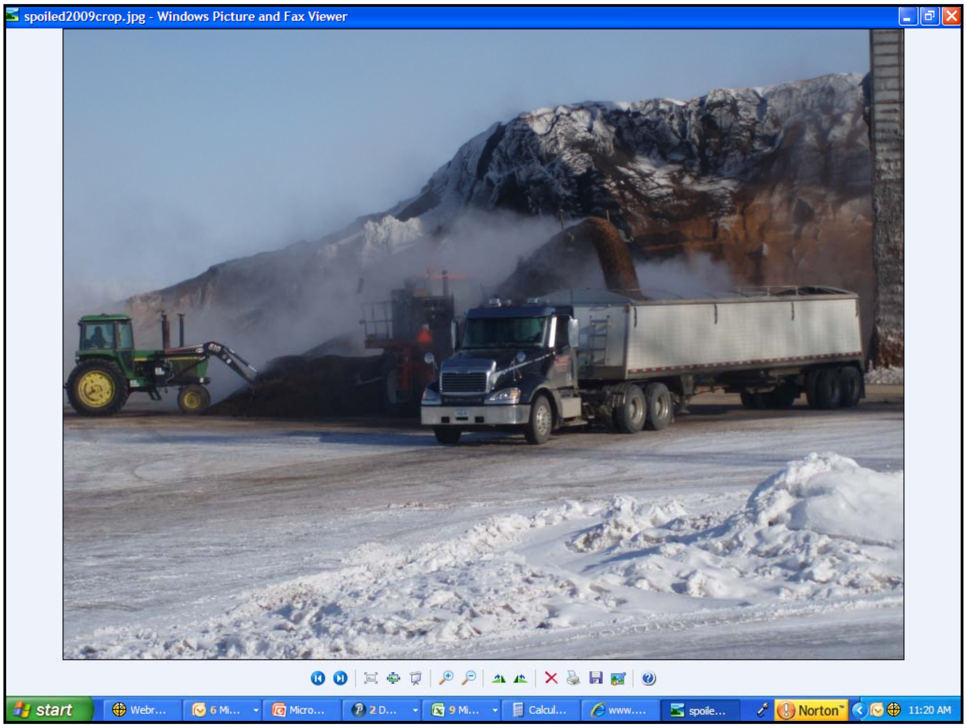
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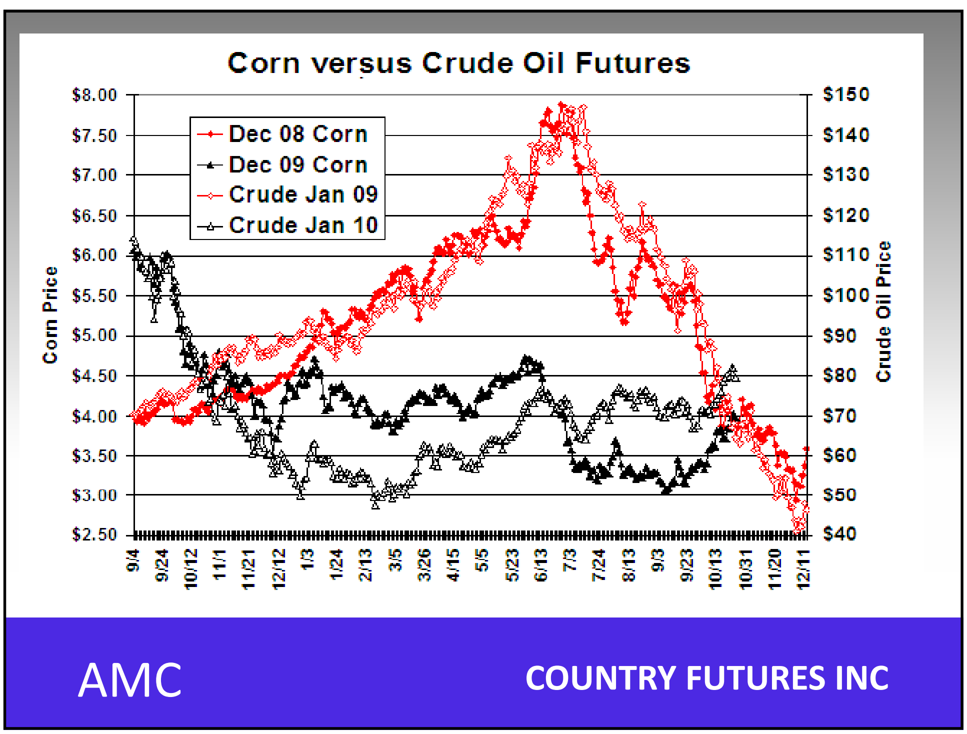
Corn versus Crude Oil Futures
Dec 08 Corn
Dec 09 Corn
Crude Jan 09
Crude Jan 10
Corn Price
Crude Oil Price
$8.00
$7.50
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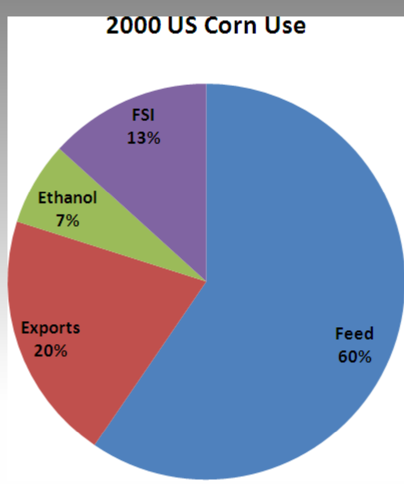

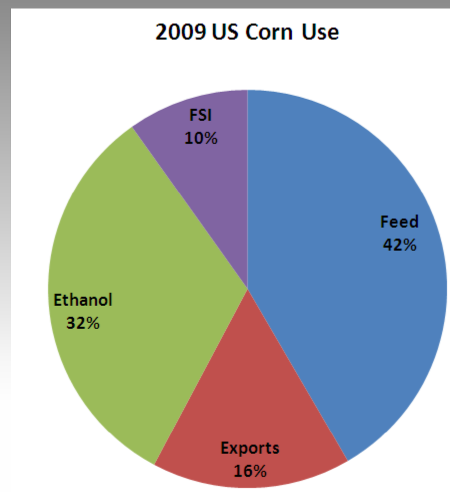

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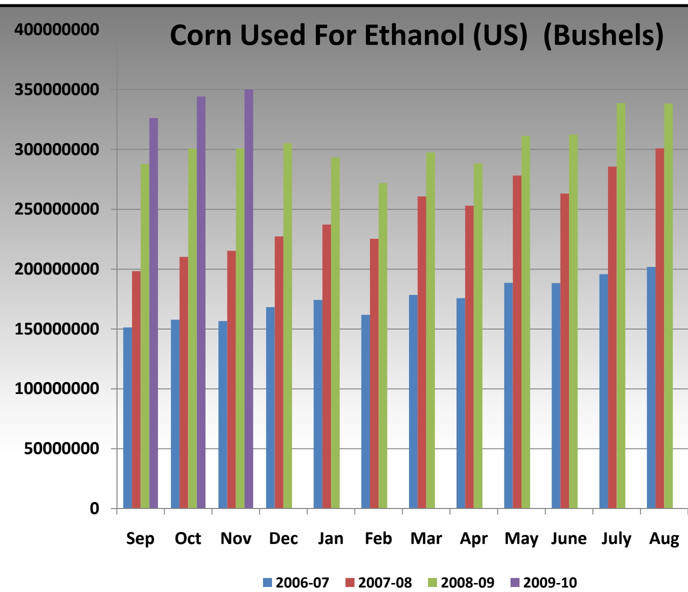

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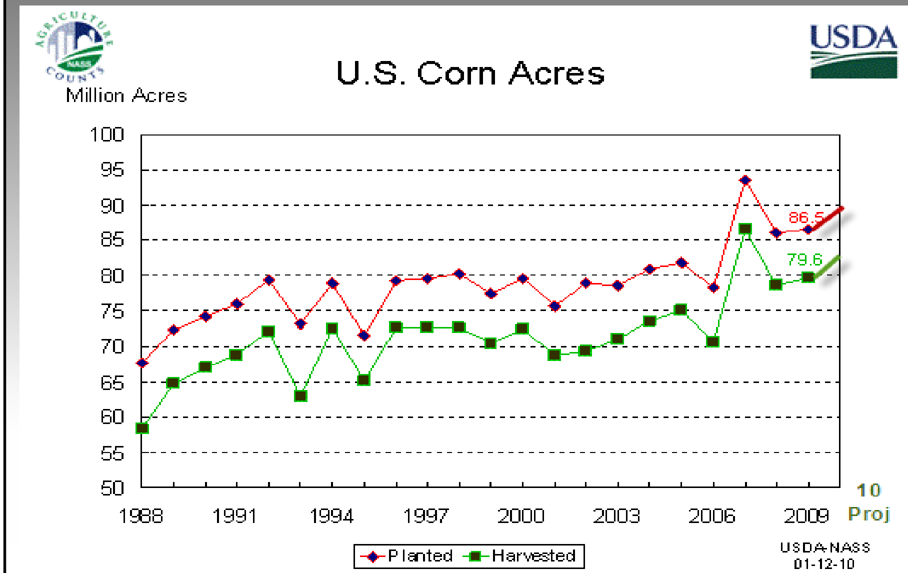

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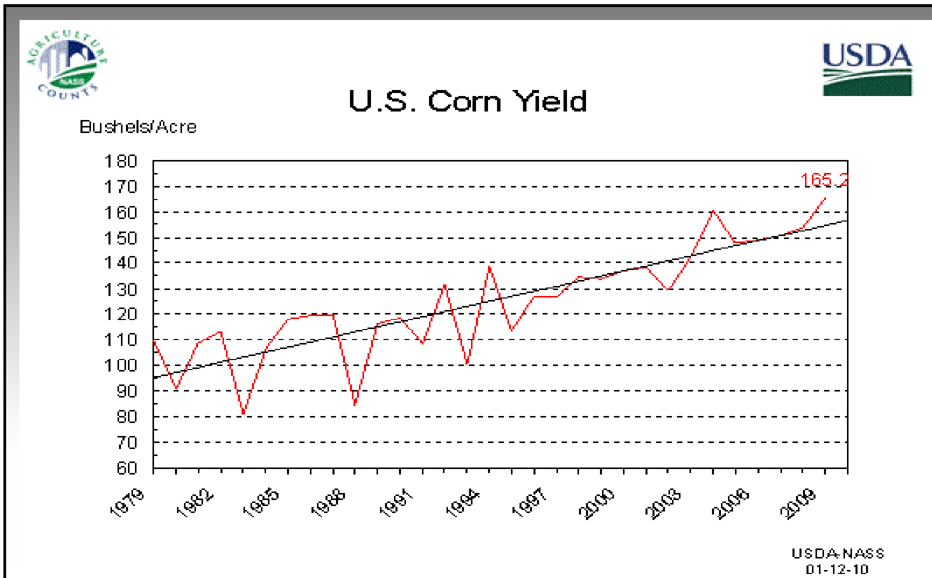

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Corn/ Feed Grains

- Market Became Infatuated in 4th Quarter with:
  - Corn left in the field
  - Weak US Dollar
  - Inflation Play
  - Rising Crude Oil/Unleaded Gas Values
- Ignored
  - The realities of a large crop
  - The deterioration of the US Export Market (despite the weaker US Dollar
  - Reduced feed needs from decreasing livestock and poultry Inventories
- What about moving E-10 to E-15??

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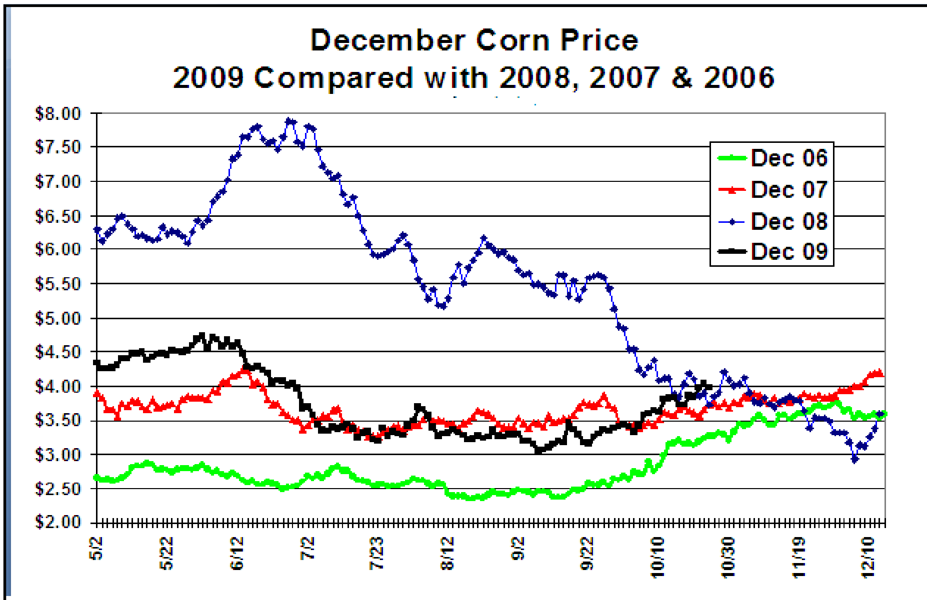

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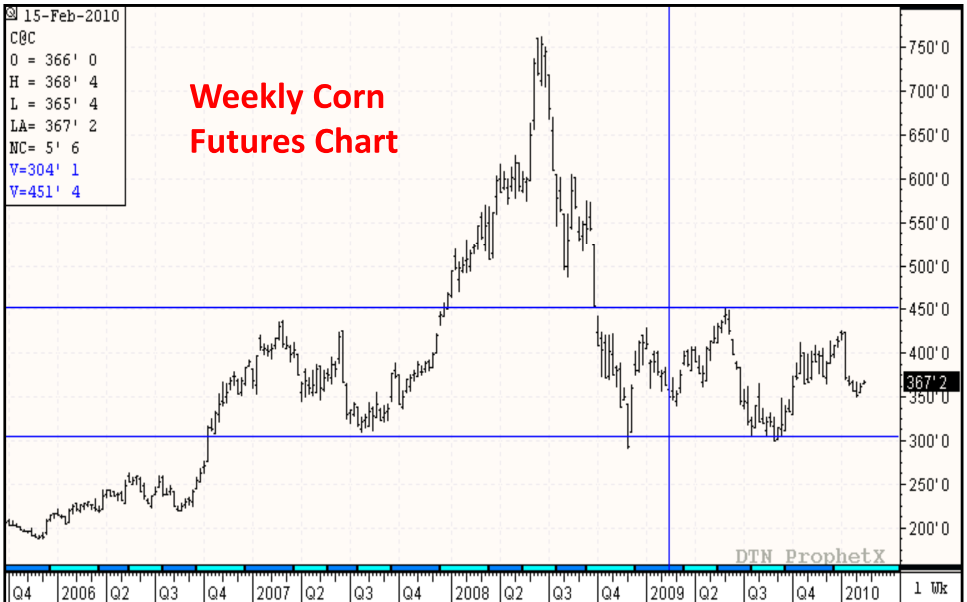

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Corn

- *What I Like*
- Tied To Energy and Overall demand for energy is still growing.
- US government still committed to ethanol
- Stocks around 1.7 billion bushels in the US are manageable in this environment.
- Funds like owning corn.
- Cold Winter in the US boosting feed needs.

- *What I dislike*
- Fourth quarter rally will be paid for dearly.
- Yields Growing Faster than long term use
- Too Much Carry in the Market. Basis weak.
- US Dollar rally is just a futures play.
- Winter wheat industry handed the market 3 million acres (plus CRP)
- Less of a fight for acres (less uncertainty.

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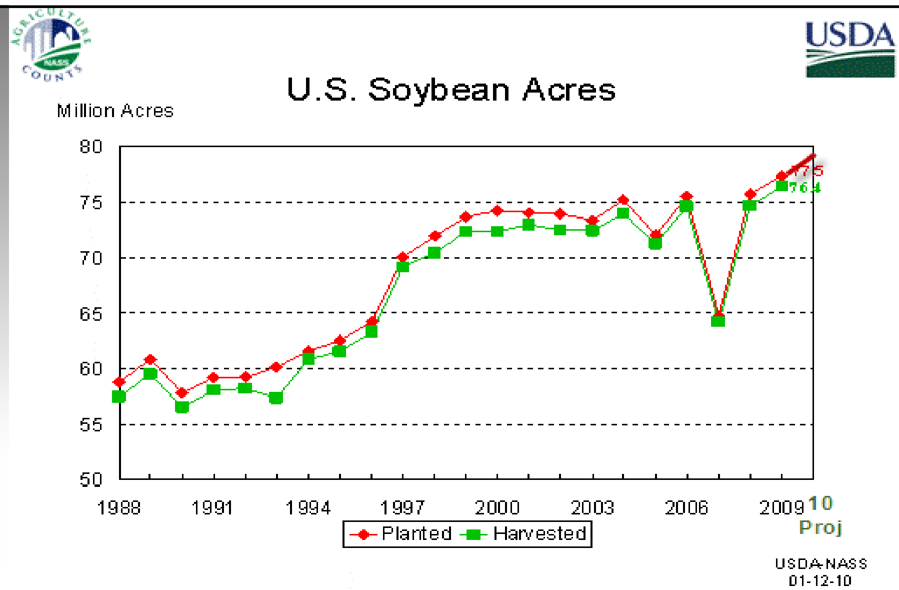
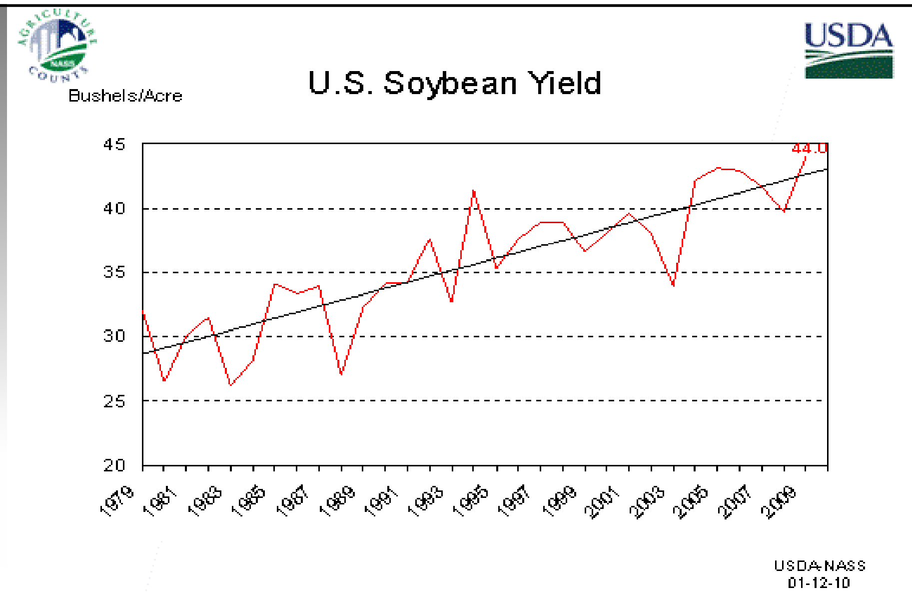
Soybeans

- China, China, China
  - If they cough, this market will be on life support
  - No definite signs of this at this time
- US record production with record yield.
- Funds love soybeans possibly more than they love corn.
- Brazil and Argentina are scary!





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Soybeans

- Overall long term growth in demand remains strong.
  - Still a growing protein market and China consumption reflects this fact.
- We are beginning to see the growth in yield capability.
  - Started in 2009
  - New Genetics will promote additional yield gains.
- South American production will steal US exports.
- If US hog herds down more than stated by USDA, this will put pressure on soymeal.

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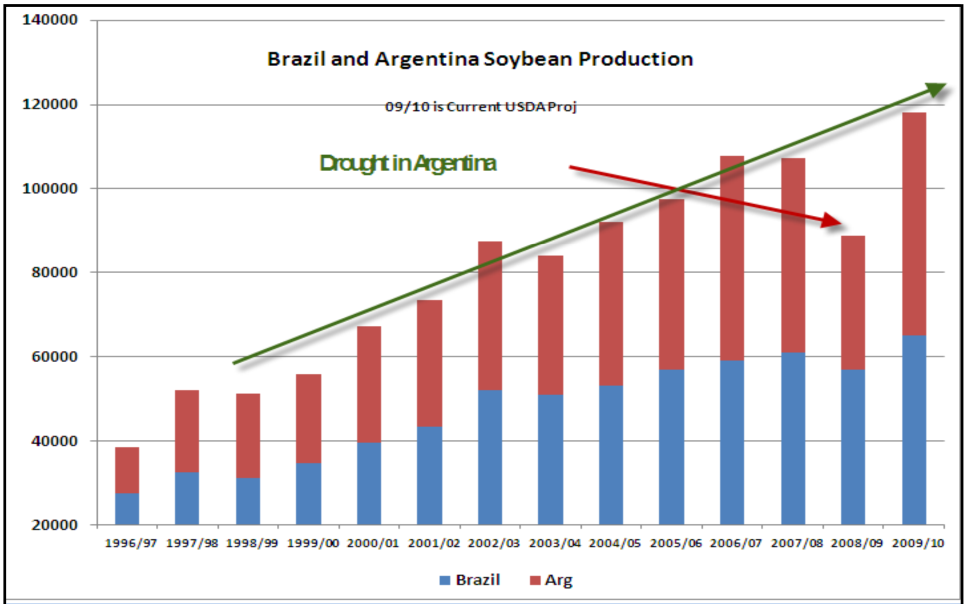

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Soybeans

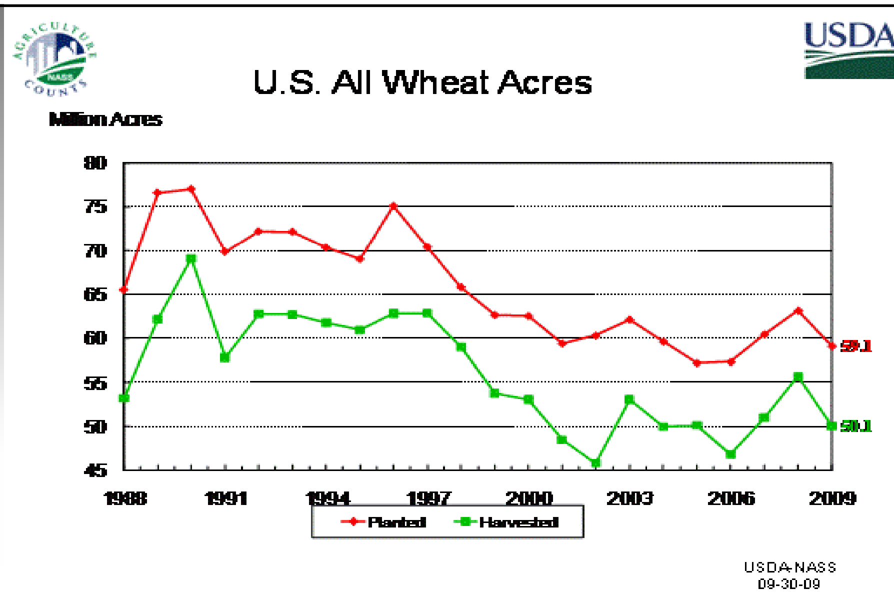
- *What I Like*
  - Coming off of tight carryover in US and World.
  - Chinese Consumption
  - World Consumption
  - Despite South America, the overall world competition is limited.
  - Macro Psychology of inflation still dominates
  - Soyoil Demand still strong despite biodiesel.
- *What I dislike*
  - Stocks up to 250 million will be a problem.
  - Especially if Brazil and Argentina approaching 120 million
  - Too much of the World consumption growth is in China. Very vulnerable.
  - Technically this market ist weak and points to lower price levels.
  - Winter wheat acres handed this market 3 million acres for 2010.

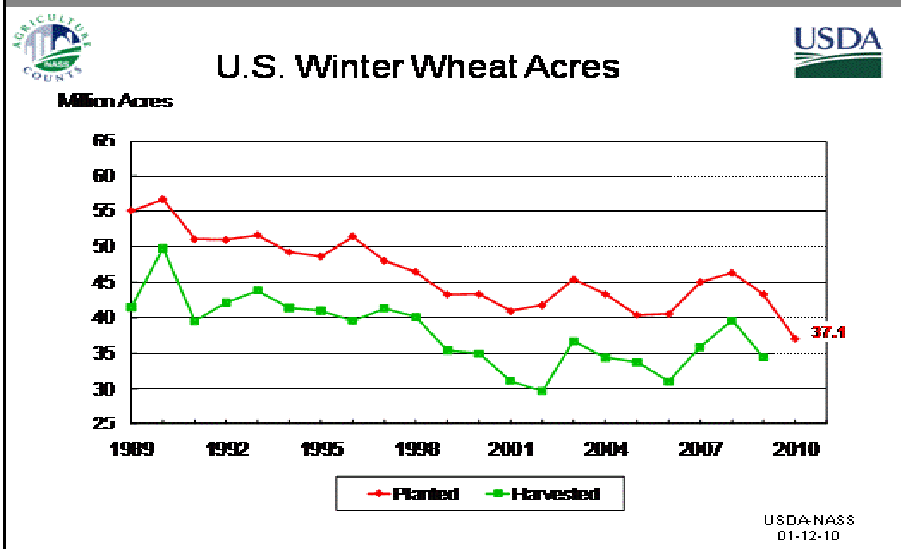
Wheat

- Fundamentally this market is very weak by itself
- Two straight years of record World Wheat Production
  - Impressive gains in key parts of the world (exporters who want cash)
- Consumption is Flat
  - Except for the wheat used for feed
  - As a result of high coarse grain and protein values.
- US could represent less than 8% of WWP this year.

Wheat

- Stocks are extremely burdensome in the US and the World
- US continues to become a smaller player in the World wheat market.
  - US Winter wheat acres record low
- On pace for a record low US export number in the current crop year in modern export times.
- There is a psychology that "wheat just looks cheap. "





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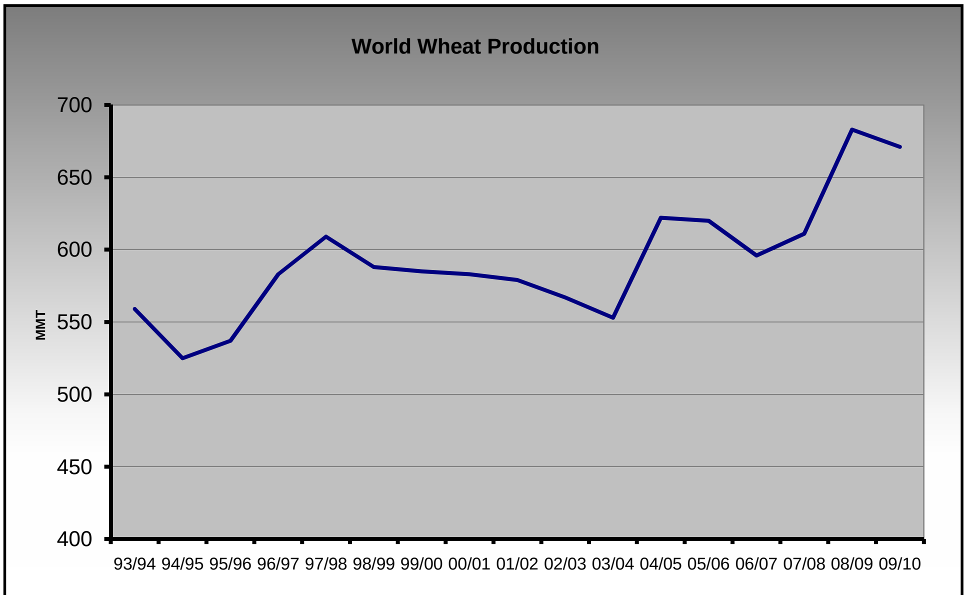

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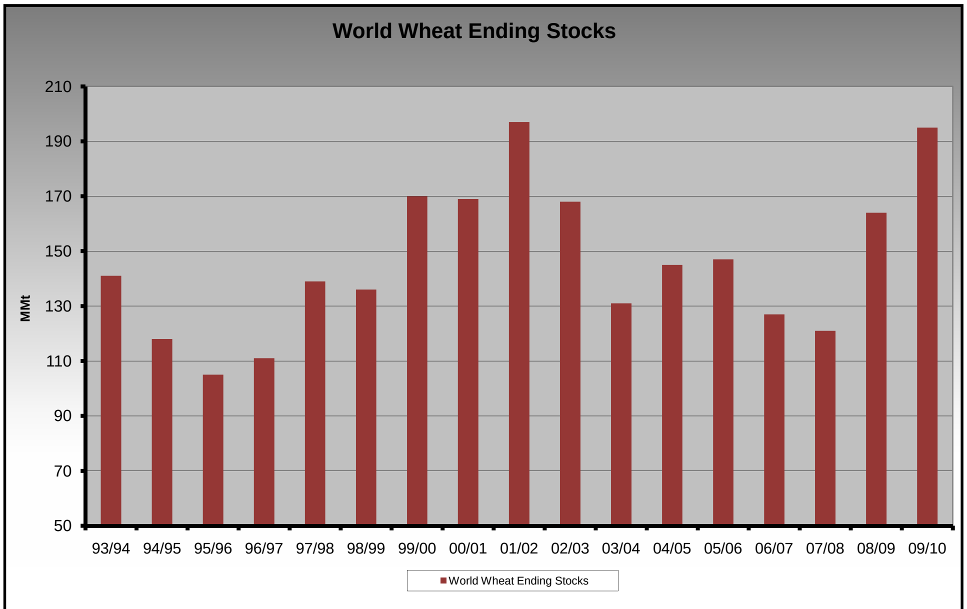

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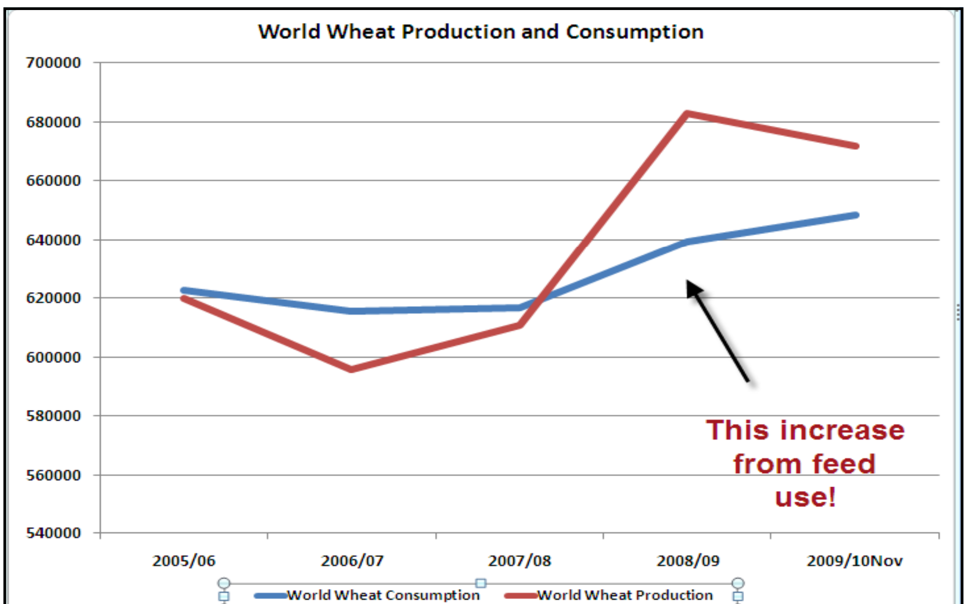

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Wheat

- *What I Like*
- Not Much
- US Winter wheat acres will be down sharply.
- There is a faction that has a lot of concern about locking in these wheat prices (users) as they seem “cheap. ”
- Wheat is a very competitive feed in many parts of the world.

- *What I dislike*
- US Exports abysmal!!
- The weaker US dollar really has no impact on US exports.
- World growth in production will not likely setback in the near term.
- Much improved production practices throughout the world.
- No sign of world stocks decreasing (yet)!
- US Prices still $15-$20 per ton over the world price

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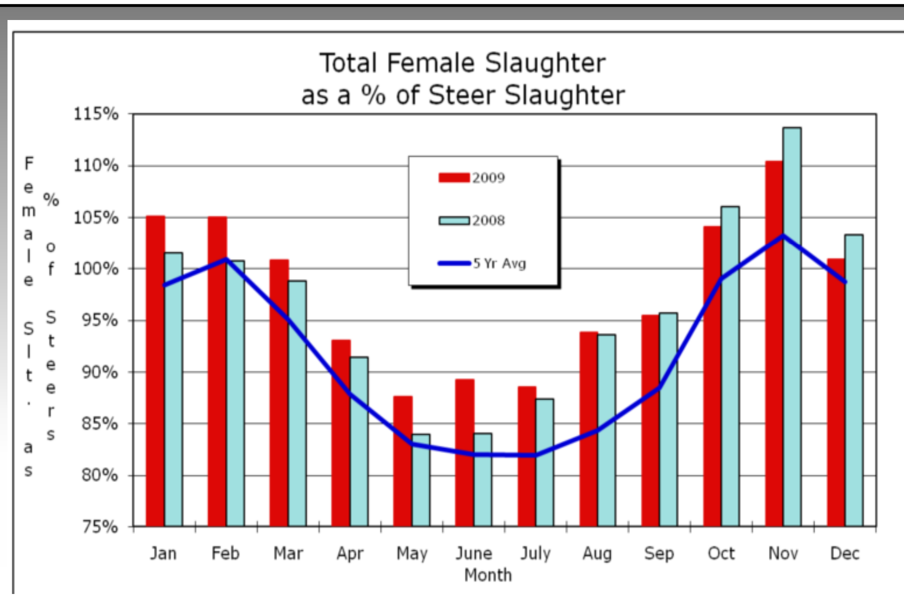
Meats

- Inventories Declining in US and Much of the World
- Demand for Beef shrinking (US and World)
- Very competitive protein market in world
  - Poultry Increasing supplies gradually
- These industries are in difficult financial condition
  - Too much capacity???
  - In all areas???
- US Economic Growth or lack of will determine these price levels as supplies have worked down to attempt to meet demand.
  - Could be explosive if growth returns in late 2010.
- BAN ON POULTRY TO RUSSIA A PROBLEM!!!

Cattle

- Recent strength caused somewhat by decreasing supplies tied to poor feeding conditions in the north (trimming finished weights).
- Calf supplies continuing to shrink and COF numbers declining.
- Cow/calf real return on asset will continue to decline.



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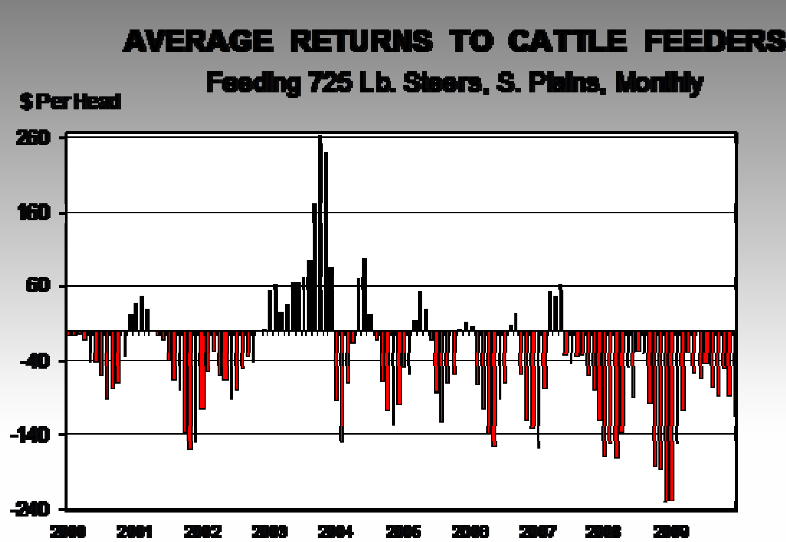

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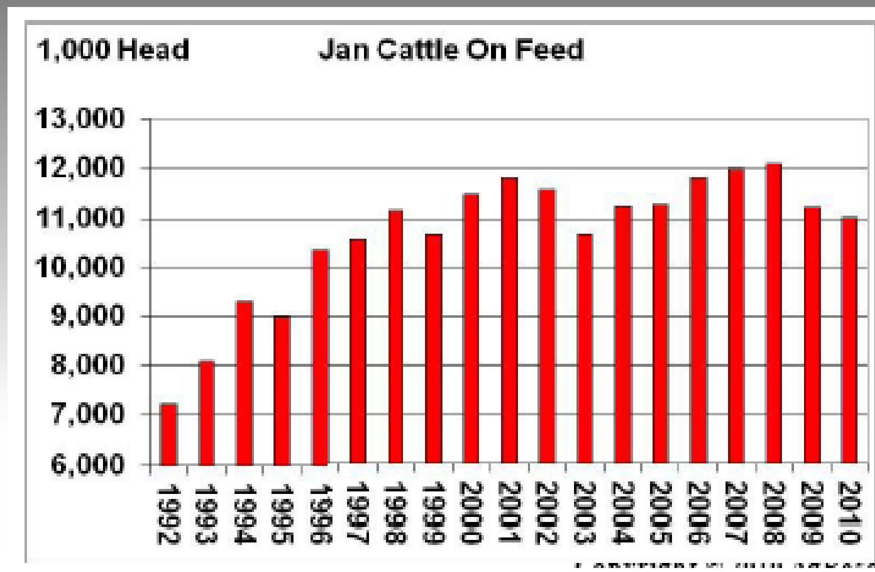

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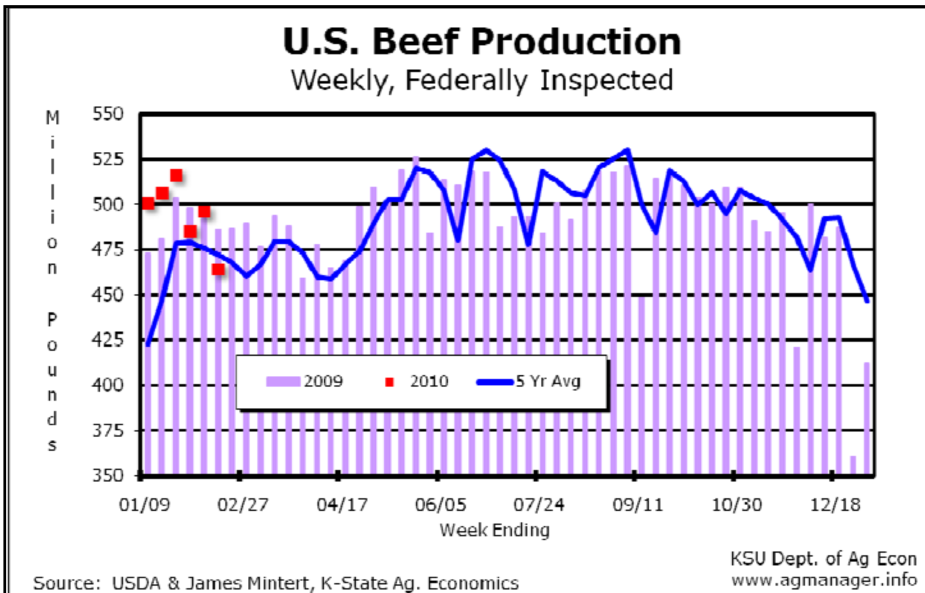

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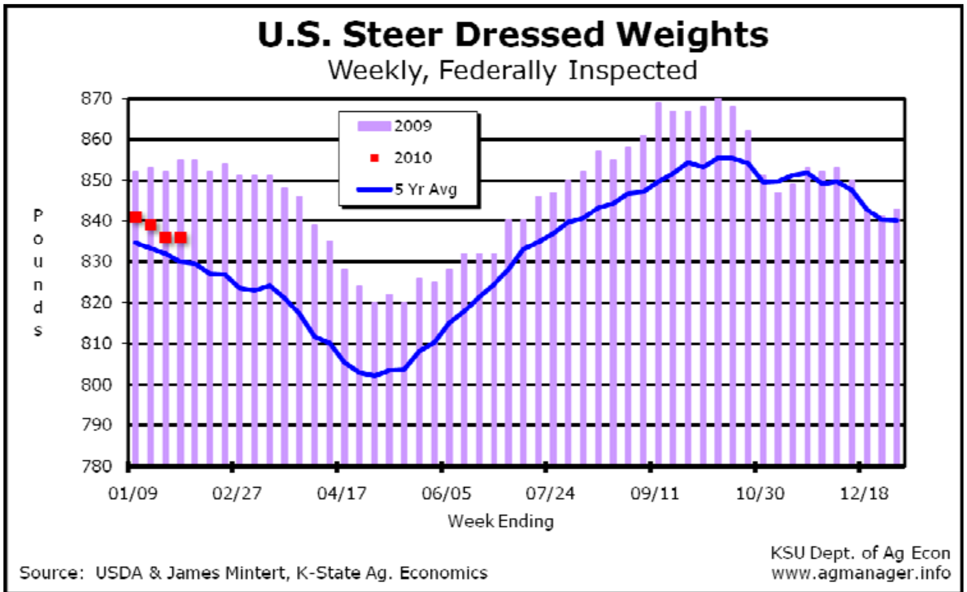

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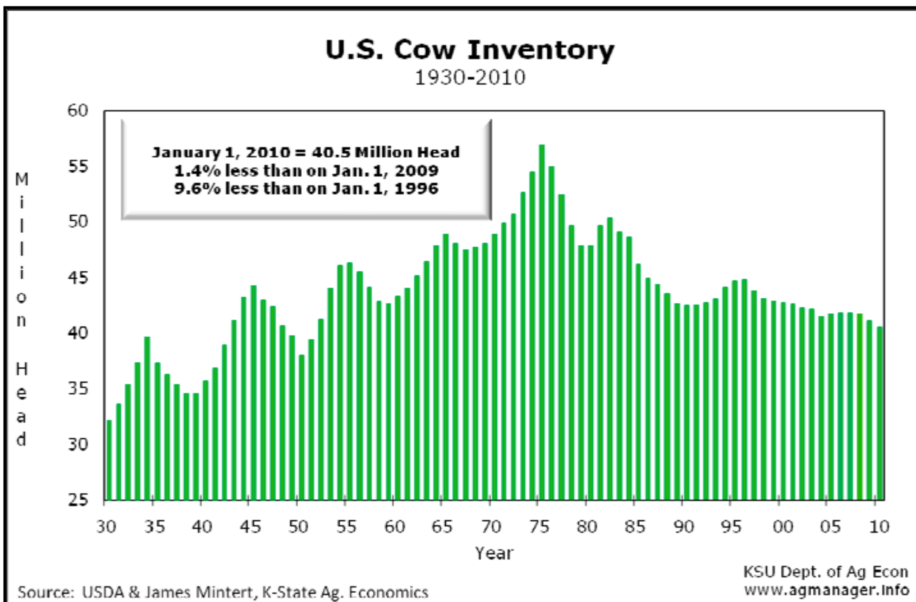

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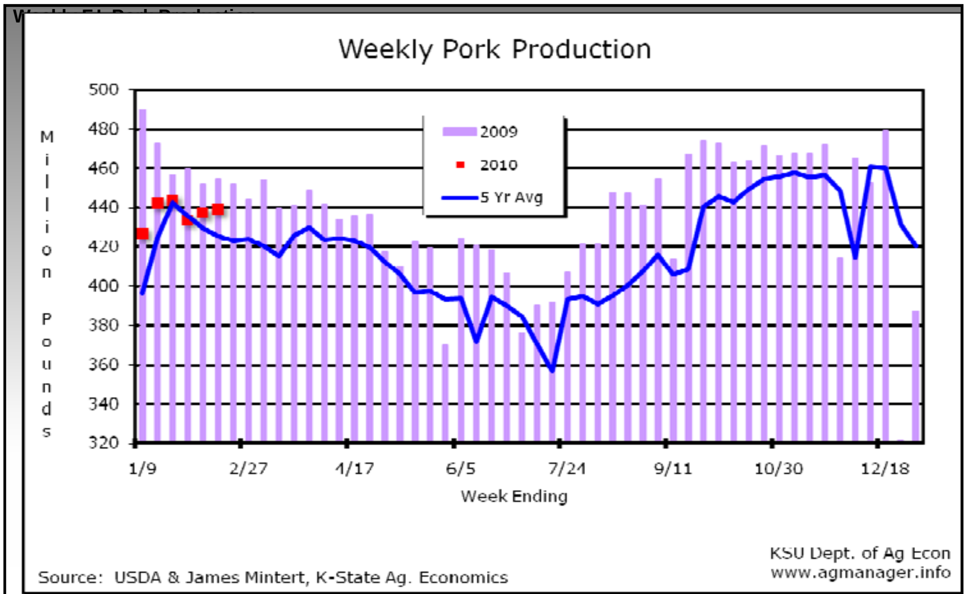

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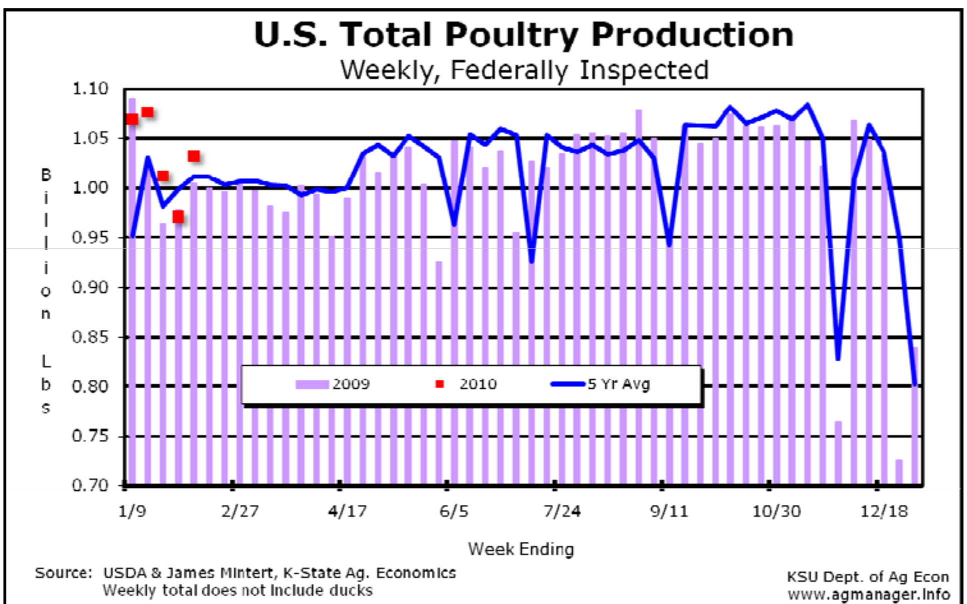

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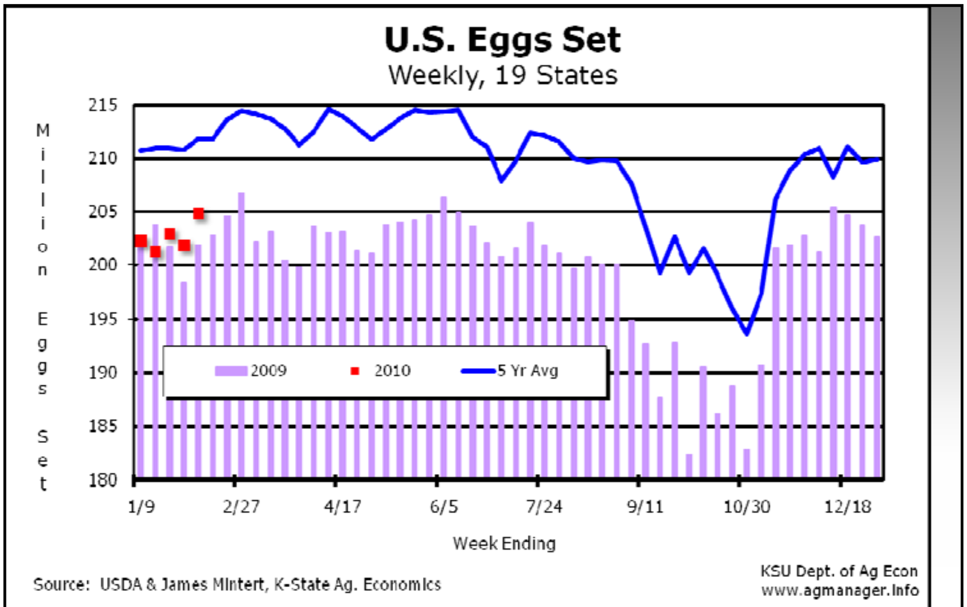

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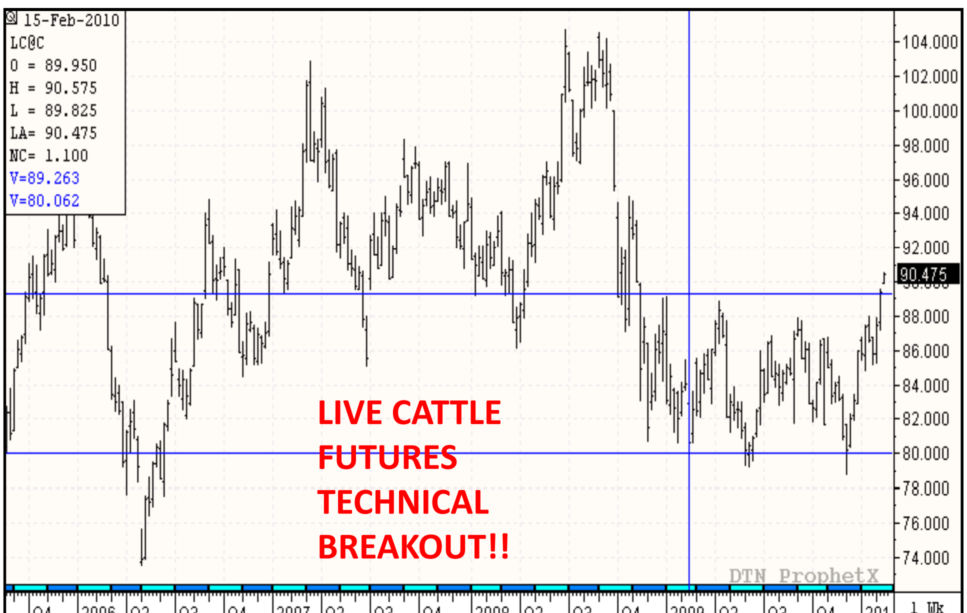

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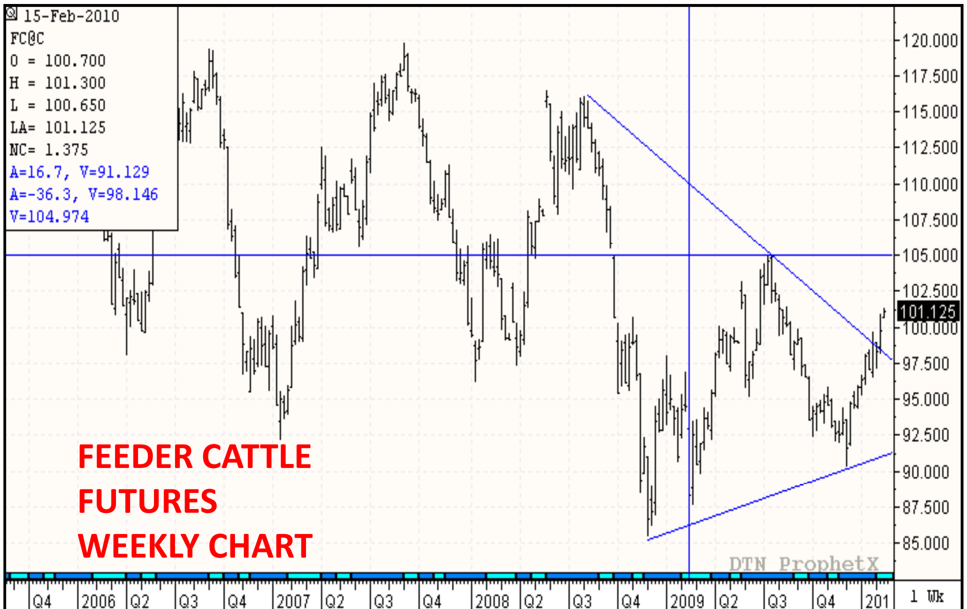

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Don’t Forget the Outside Forces Driving These Grain Markets

- BUT IT CAN CHANGE QUICKLY
- IF THE INFLATION PLAY LOSES STEAM AND ECONOMIC GROWTH DOES NOT SURFACE LOOK OUT
- PRODUCERS NEED TO TAKE A LOOK AT THE PROFIT MARGINS THAT ARE IN FRONT OF THEM

Let’s Talk about Technicals

- Are they helpful?
- What should be used?
- Don’t forget your marketing philosophy??

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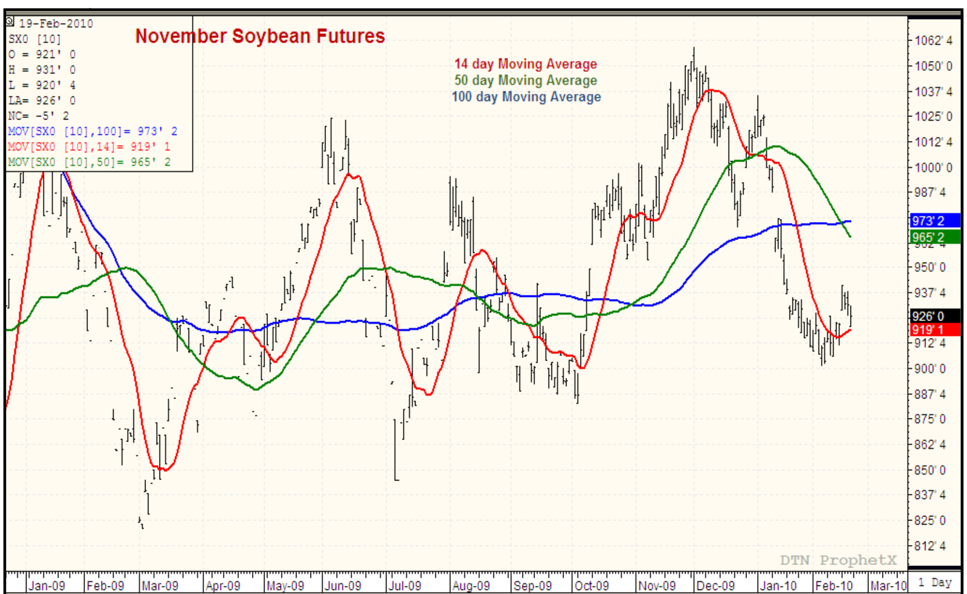

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Advanced Marketing
Amarillo TX
February 26, 2010

Example 1)

Corn Producers expects to harvest 80,000 bushels of corn. His expected basis in November is -$.45

Sells December 2009 corn on the following dates and prices

Jan 8	$5.00	2 contracts
Mar 3	$5.75	2 contracts
Apr 9	$6.25	2 contracts

What is the expected price on each hedge?

In November the producer sells 82,000 bus of cash corn at $3.50 and buys back the futures at $3.92. What was the net price for the corn that was hedged?

What was the net price on all of the corn?

What if margin calls would have caused the producer to liquidate all of the short corn positions on June 16, 2009 at $7.75? What would the net price of the corn have been for the hedged corn in November? What would the net price have been for all of the corn in November?

What if the producer had bought all six contracts back at $5.25 on August 13 and then resold all six contracts at $6.10 on August 21? What would the net price of the corn have been for the hedged corn in November? What would the net price have been for all of the corn in November?

What if the producer had also sold 2 contracts on June 11 at $7.25 and 2 contracts on June 16 at $7.75? What would the net price have been for the hedged corn in November? What would the net price have been for all of the corn?

Example 2)

Wheat Producers expects to harvest 85,000 bushels of wheat. His expected basis in November is -$.55

Sells September 2010 KC Wheat the following dates and prices

Dec 12	$6.00	1 contract
Jan 16	$5.75	1 contract
Feb 5	$5.40	2 contracts

Also Buys 2 September KC wheat $5.00 Put Options on Feb 5 at .30 /bus and sells 2 September 6.00 call options for .24/bus.

Also Sells 1 September KC wheat $5.50 call for .30 on April 12 when September KC Wheat was $5.32.

What is the expected price on each hedge?

In September the producer sells 88,000 bus of cash wheat at $4.05 and buys back the futures at $4.55.

What was the net price for the wheat that was hedged?

What was the net price on all of the wheat?

What if margin calls would have caused the producer to liquidate all of the short wheat positions on April 18, 2010 at $6.05? What would the net price of the wheat have been for the hedged wheat in September? What would the net price have been for all of the wheat in September?

What if the producer had bought all four contracts back at $5.05 on March 3 and then resold all four contracts at $5.32 on April 8? What would the net price of the wheat have been for the hedged wheat in September? What would the net price have been for all of the wheat in September?

Example 3)

Cow/Calf producer normally weans 200 spring calves in the fall and then backgrounds the cattle and sells them in January with the steers expected to weigh 750 lbs and the heifers 725 lbs. The expected basis for the steers is -2.00 and the expected basis for the heifers is -8.00. Expect to sell 110 head of steers and 90 head of heifers.

Sells January 2009 Feeder cattle on the following dates (1 contract 50,000 lbs).

Apr 22	$110.00	1 contract
May 22	$112.00	1 contract

What is the expected price on each hedge?

In January the producer sells the 110 head of steers weighing 770 and 90 head of heifers weighing 735. The cash steer average price is $91.75 and the average price on the heifers was $86.50. January futures were bought back at $93.00

What was the net price for all of the cattle that were hedged in January?

What was the net price on all of the cattle in January?

What if margin calls would have caused the producer to liquidate all of the short feeder cattle positions on August 1, 2008 at $117.50? What would the net price of the cattle have been for the hedged cattle in January? What would the net price have been for all of the cattle in January?

What if the producer had bought both contracts back at $94.00 on Oct 24and then resold both contracts at $98,00 on October 31? What would the net price of the cattle have been for the hedged cattle in January? What would the net price have been for all of the cattle in January?

What if the producer has also sold 1 additional contract on July 10 at $117.50? What would the net price have been for the hedged cattle in January? What would the net price have been for all of the cattle in January?

30-Jan-2009
FCF2009
O = N/A
H = N/A
L = N/A
LA= N/A
NC= 0.085
January 2009
Feeder Cattle
Futures
118.000
116.000
114.000
112.000
110.000
108.000
106.000
104.000
102.000
100.000
98.000
96.000
94.360
92.000
90.000
88.000
86.000
DTN ProphetX
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
1 Day

■ Options

- The right to buy or sell

- Who has rights? (Owner or sell of an option)?

- What right does the option holder have?
  - Put	Right to sell futures at a given price
  - Call	Right to buy futures at a given price

- What rights does the option writer (seller) have?

■

- Can they be exercised? Can they be traded?

- What is an option worth?
  - Intrinsic Value
  - Time or Risk Value

Options Questions?

1) A producer buys a \$5.30 September KC Wheat put for price protection for this wheat that he is growing. He does this in January and pays \$.35 for the option. He expects the wheat basis to be \$.60 under. September KC wheat futures are \$5.79 when he buys the put option.

   a) What is his floor price on the wheat when he buys the option?

   b) What is his net price for the protected wheat (5000 bus) if he sells his cash wheat for \$4.20 and the futures September futures is \$4.75? What is the value of the option? What is the intrinsic value of the option?

   c) What if futures had been \$6.25 and the cash price \$5.70, what would the net price been on the wheat?

   d) Why is an option strategy considered "second best"? Why would you use something that is second best?

2) A cattle feeder writes a \$92 April live cattle call option for \$2.80 per cwt in December. April cattle futures are at \$88.50 when this is done.

   a) When the cattle are ready he receives \$84.00 for the cattle. April futures are \$85.25. What did he net on the cattle?

   b) What if had hedged the cattle at \$88.50, what would the net price had been?

   c) What if he had purchased an \$84 put for \$2.50, what would the net price have been?

   d) What if he had purchased an \$84 put for \$2.50 and also sold a \$92 call for \$2.80, what would the net price for the cattle have been?

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