# ADDING MGEX NSI FUTURES TO HEDGING STRATEGIES

Finding the right trading strategy is difficult, especially in volatile markets. Below is a strategy to consider that reduces basis risk through a combined use of physically delivered futures contracts and MGEX (Minneapolis Grain Exchange) financially settled National Soybean Index (NSI) futures contracts.

The below example shows how soybean hedgers can use a combination of traditional CME Group, Inc. (CME) hedges and the complimentary MGEX NSI futures to reduce basis risk. Since NSI futures contracts offer a stable country-level basis, hedgers can dedicate a portion of their hedging to the NSI futures contract and reduce overall basis risk. The following table shows the soybean basis characteristics for North Central Iowa for the 2000-2007 crop years at various levels of NSI hedging.

**Table 1. North Central Iowa Soybean Basis Statistics, 2000-2007 Crop Years**

| | 100% CME | 25% NSI | 50% NSI | 25% NSI | 100% NSI |
|---|---|---|---|---|---|
| Average | -43.6 | -33.8 | -24.0 | -14.2 | -4.4 |
| St. Deviation | 27.9 | 22.0 | 16.2 | 10.8 | 6.6 |
| Basis Range | 135.3 | 109.6 | 84.1 | 64.4 | 44.7 |

As shown in the table, putting just 25% of the hedge in MGEX NSI futures can lower basis risk. As measured by the standard deviation, the 25% NSI (75% CME) hedge reduced basis volatility by almost 6 cents per bushel from 27.9 to 22.0 cents (21% decline). Likewise, the 100% CME hedge has a historical basis range of $1.35. This wide-ranging basis can be reduced to 84.1 cents by simply placing one-half of the hedges in the NSI futures.

Additional basis stability can be achieved by using the MGEX NSI futures contract as a complimentary tool to traditional physically delivered futures contracts when hedging soybean positions. Therefore, it is very practical to view the NSI futures contract as a complimentary product to existing soybean futures hedging strategies.

Figure 1 shows the basis behavior for a hedging program that splits 50% of the hedging into MGEX NSI futures and 50% into CME futures. While a 100% NSI hedge provides the most stable basis, the combined program still results in a more stable basis than exclusively using traditional soybean futures hedging strategies.

**Figure 1. North Central Iowa Soybean Basis, 2000-2007**