MGEX

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 Agricultural Index products provide benefits to all market participants. The index products offer extensive spread trading tactics, significant option price advantages, and an ability to hedge basis.

MGEX Ag Index Futures and Options Advantages

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

MGEX Ag 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)

Contract Formula

Each day DTN calculates the national elevator average, or spot price, for each index. This is taken from thousands of elevator bids around the country. The index products track country-based cash market values more closely than traditional delivery-based contracts do. This formula 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 on the CME Globex® electronic platform. The contracts are backed by the full integrity of MGEX, a provider of risk management services around the world since 1881.

Benefits of Index Products

MGEX Agricultural Index Products differ from traditional grain and oilseed futures and options in a number of ways.

Financial Settlement, No Deliveries

When index futures and options expire they settle to a financial value, eliminating deliveries. As a result, there are no delivery specifications, storage costs, grade differentials or load-out costs.

All Calendar Months Traded

With contracts traded in all months, traders can accurately hedge their needs in an agricultural index futures contract. If using options, you only pay a premium for the months you need. For example, if a trader or an elevator needs to pre-hedge an advance wheat sale for January, they can trade one of the wheat indexes in the January contract and manage their risk for that specific time. With traditional delivery contracts, they would be forced to turn to a March contract, which may be affected by different fundamentals than the January contract.

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. This means an option bought or sold for September expires at the end of September, instead of August as traditional options do.

Hedging

Because local basis is a portion of the futures contract settlement price, MGEX index futures and options closely track country prices. For hedgers, this means futures positions will better reflect the cash position and provide a more accurate hedge. When the ability to trade all 12 months is factored in, MGEX index contracts make sense in any hedging program.

Index Based, Country-Origin Pricing

DTN collects elevator bids daily, and in turn calculates the indexes used to settle the MGEX agricultural index futures. DTN gathers bids from a majority of U.S. elevators to 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 an electronic platform that offers market transparency, instant execution, and extended trading hours. Electronic trading provides a broad market base for improved liquidity.

MGEX Ag Index Options Advantages

MGEX agricultural index options contracts offer spread trading opportunities, price advantages, and flexibility over traditional delivery contracts.

Spread Trading Opportunities

Index options settle financially to the underlying price at expiration. They expire simultaneously with index futures at the end of each contract month. Traditional delivery-settled options expire approximately three weeks before their futures contracts stop trading. Simultaneous expiration of index contracts creates trading advantages and provides traders with spread trading opportunities between index and traditional options.

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 elevator 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, delivery-settled options cost more than comparable MGEX index options.

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 uses the deliverable corn contract, the hedge would be placed in December because the September options contract expires in August. If the trader hedges 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 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, or you can request a copy by calling (800) 827-4746 or (612) 321-7101.

Options Spread and Basis Opportunities

MGEX index options are a natural fit for spread and basis traders. A trader can create a synthetic basis position between two contracts by buying or selling an index option and executing the opposite trade in the deliverable counterpart. This is an effective strategy to manage price risk.

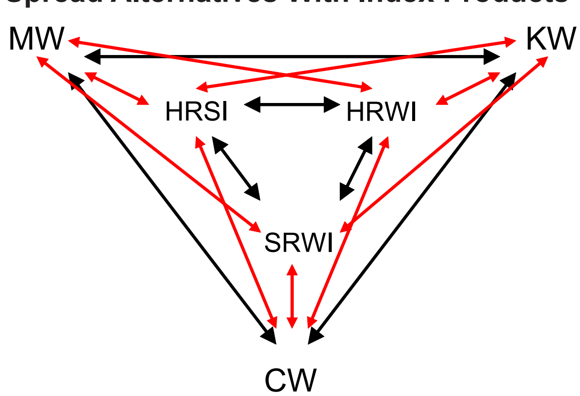
Basis, Spreads and Indexes

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.

MGEX ag 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. The delivery process does not affect these contracts and their prices represent a well-defined commercial quote for the underlying commodity.

Spread Alternatives 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 elevator 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.

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.