

# fast Market News

Dec. 20, 2006

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Index Price Calculation

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Minneapolis Grain

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Exchange

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## MGEX Index Price Calculation

Hello:

Industry discussion on convergence and contract performance in traditional grain contracts has generated a renewed interest in the **five MGEX financially settled agricultural index contracts**. To be an effective hedging instrument, a futures contract should have a high degree of correlation with the underlying cash market and converge at expiration. Unlike recent trends with some traditional delivery contracts, the five MGEX financially settled agricultural futures and options contracts **ensure convergence at expiration!**

The National Corn Index (**NCI**), National Soybean Index (**NSI**), Soft Red Winter Wheat Index (**SRWI**), Hard Red Winter Wheat Index (**HRWI**) and Hard Red Spring Wheat Index (**HRSI**) represent the national spot index average price and are calculated each day after the close of the market by DTN. At expiration of each Index futures contract month, the Exchange uses the **three-day average** of the respective national spot index to financially settle each futures contract month **ensuring convergence to the underlying cash market!**

What is a national spot index price? Let us explain. Each day, DTN polls anywhere from 500 to 2,000 **country elevators** across the U.S. to receive their spot cash market bid for corn, wheat and soybeans. Once received, DTN then uses the average of all bids to arrive at a national spot index price for each market. Elevator bids are collected by DTN each day beginning at about 2:00 p.m. and the national spot index price for each contract is posted at approximately 6:00 p.m. to the MGEX's website. The number of elevators surveyed as well as each day's national spot index price for each contract is indicated on the spot index price chart found on [www.mgex.com](http://www.mgex.com) or on any DTN or ProphetX data terminal.

Like traditional futures and options contracts, market participants may trade in and out of positions at any time until expiration and open futures and options contract positions are "marked-to-market" after the close of trading each day just like a traditional futures contract. However, with financially settled contracts, there are no deliveries; so, open contracts can be held to expiration at which time they are automatically closed-out (or financially settled) to the three-day average of the spot index price. For futures and options contract specifications [click here](#).

Please give me a call if you have specific questions regarding our index products and how you can use these financially settled products to **improve your risk management strategies!**

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