



# North American Hard Red Spring Wheat Futures and Options

## Largest wheat market in North America

Since its inception in 1881, MGEX has been the principal market for North American Hard Red Spring Wheat (HRSW)—first as a cash market, then futures and options.

Exporters, farmers, millers, grain elevators, and speculators from around the globe look to MGEX for trading HRSW. This is evidenced by record trading volumes during 2014 and 2015.

Known for its stable and reliable trading environment, MGEX has a reputation as a good place to conduct business. It offers the liquidity, product line, and oversight to ensure fair and accurate trading for participants around the globe. Additionally, MGEX serves its role well as a place for price discovery as well as risk management.

## LARGEST WHEAT CROP PRODUCED IN NORTH AMERICA

HRSW is a one-of-a-kind, high-quality wheat and the second most produced wheat in the U.S.

MGEX North American HRSW futures trade exclusively electronically on the CME Globex® platform. MGEX North American HRSW options trade both electronically and by open outcry in the MGEX Exchange Room. The futures contract can be settled by Federal Warehouse Receipt delivery.

### GROWING SEASON

As its name indicates, HRSW is planted in the spring and harvested in late summer with the September contract representing new crop delivery. In contrast, winter wheat is planted in the fall and harvested in the spring with the July contract representing new crop delivery.

### CONTRACT QUALITY REQUIREMENTS

The MGEX North American HRSW contract has the highest minimum protein requirement of 13.5 percent. HRSW is a premium milling-quality wheat. It is a favorite of bread flour millers and bakers from around the world looking to price future wheat needs and manage price risk. 13.0 % protein may be delivered at a discount.

Other major wheat classes:

### HARD RED WINTER WHEAT (HRWW)

HRWW is the most prominent wheat grown in the U.S. and is often blended with HRSW to produce bread flour. It is harvested in the summer with the July contract representing new crop delivery.

### SOFT RED WINTER WHEAT (SRWW)

SRWW is the third most produced wheat in the U.S. and is often used to produce cake flour used in cookies and baked goods. It is also harvested in the summer, with the July contract representing new crop delivery.

With HRSW exported to over 45 countries, MGEX is truly a global marketplace. The North American HRSW futures and options contract directly impacts many countries, from Venezuela to Canada and Italy to the Philippines.

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## A RISK MANAGEMENT TOOL

North American HRSW futures and options help hedgers manage risk and offer the prospect of profit for speculators willing to assume that risk. Each market participant has a specific objective.

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North American HRSW futures and options satisfies specific needs of different participants:

**Wheat producer** - a method for pricing a yet-to-be-produced crop

**Grain elevators** - risk management and the opportunity to offer forward pricing to customers

**Miller and baker** - tool to price supplies needed for future flour production

**Speculator** - the prospect of profits

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Many factors affect the MGEX marketplace, such as crop quality and export demand. Risk management tools are necessary for farmers, traders, millers, and end users exposed to price volatility in the marketplace.

### FUNDAMENTALLY SPEAKING

The MGEX North American HRSW contract has the flexibility to limit the risk inherent to trading commodities. HRSW, like any crop, follows seasonal patterns.

From spring planting to late summer harvest, the market is often driven by the latest crop news on acreage, yields, and wheat quality.

After harvest, the market focuses on export demand and international supply. Other factors affecting the market include:

**1. CROP QUALITY** - A cool, wet growing season may increase the chance for crop disease and suppress the wheat's protein potential, thus reducing the amount of quality wheat available for milling. Conversely, a hot and dry summer encourages protein development but potentially reduces yield. Low protein or quality issues with winter wheat will typically increase demand for HRSW.

**2. EXPORTS\*** - Over 45 countries import HRSW each year. In 2014/2015 the top importers were Japan, the Philippines, Taiwan, Mexico, and Indonesia. The level of worldwide demand strongly influences HRSW futures prices.

\*Source: USDA, FAS, Export Sales

**3. GOVERNMENT POLICY** - Changes in government policy influence the acreage allocated to various crops in the U.S. For example, a change in policy benefiting corn may shift acres away from wheat or vice versa.

**4. OTHER MARKETS** - Corn, soybean and winter wheat prices are interwoven with MGEX North American HRSW futures prices. In addition, exchange rates, energy prices, and other commodities can impact wheat supply and demand. For instance, a strong U.S. dollar translates into higher wheat costs overseas, potentially slowing foreign purchases of U.S. wheat.



## HARD RED SPRING WHEAT FACTS

Canada and the northern U.S. states are the primary growing regions for HRSW.

It is a favorite of bakers and millers and is typically used in the production of bread, bagels and hard rolls. HRSW is exported to countries around the world in large quantities.

With exposure to price volatility in the marketplace, risk management tools are a must for farmers, traders, and millers. MGEX provides all members of the marketplace tools to manage their risk.

### HRSW Calendar Spread Options (CSOs)

CSOs for the North American HRSW contract became available for trade on CME Globex® as of February 1, 2015.

CSOs are options on the price differential between two delivery months of the same futures contract. CSOs allow traders to efficiently spread different delivery months in a single transaction, eliminating the need for multiple transactions as part of a spread trading strategy.

### Spread Opportunities

The MGEX North American HRSW contract is often traded as part of a spread against other wheat contracts. The margin requirements on this spread trade are often lower, but the opportunities may be great.

Prices for all three wheat classes tend to move in the same direction, but each contract moves at its own pace and on its own fundamentals.

MGEX North American HRSW often trades at a premium over other wheat markets because of its quality requirements. The spread has moved in a wide range over the years due to differences in export demand, growing conditions, and supplies. Additionally, the differing new crop months can create interesting trade opportunities.

### Limited Risk, Unlimited Profit Potential

MGEX North American HRSW options continue to grow in popularity with customers around the globe. For hedgers, futures contracts provide protection against volatile price movements by “locking in” desired price levels, while

options contracts allow them to benefit if prices move in their favor. For producers, options are an affordable way to ensure the price of a crop. Furthermore, this protection is provided at a known cost; options buyers never have a margin call.

For speculators, MGEX North American HRSW options offer seasonal volatility opportunities and liquidity to get in and out of positions when needed. For a more detailed look at North American HRSW options, visit the MGEX website at [www.mgex.com](http://www.mgex.com) and download the Futures and Options Workbook. This workbook contains several examples of strategies that capitalize on MGEX options.

For quotes, charts, market commentary, and other valuable information on MGEX North American HRSW futures and options, go to [www.mgex.com](http://www.mgex.com).

### Wheat Index Spreads

The deliverable HRSW can be traded against the MGEX wheat index products.

These index products are based on cash elevator bids for the three major wheat classes. They differ from traditional futures and options in that they are traded exclusively electronically and are financially settled with no delivery. A spread trade executed between the HRSW contract and a wheat index contract offers several potential strategies and receives favorable margin treatment.

One spread trade strategy is to use futures to create synthetic basis positions, allowing better management of basis risk. Because MGEX wheat index products are highly correlated to their underlying cash markets, basis can be hedged by trading the spread between index futures and their respective deliverable counterparts.

For example, a synthetic long basis position for HRSW can be created by buying MGEX Hard Red Spring Wheat Index (HRSI) futures and selling MGEX North American HRSW futures. To create a synthetic short basis position, one would sell HRSI futures and buy HRSW futures. For more information on agricultural indexes, visit [www.mgex.com](http://www.mgex.com) and download the MGEX Agricultural Index Products brochure.



## Hard Red Spring Wheat **Futures** Contract Specifications

### Trading Hours

Electronic:  
Sunday-Friday: 7:00 p.m. to 7:45 a.m. CT  
Monday-Friday: 8:30 a.m. to 1:30 p.m. CT

### Contract Unit

5,000 bushels

### Ticker Symbol

Electronic: MWE

### Delivery Months

March, May, July, September (New Crop),  
December

### Daily Price Limits

\$.60 per bushel or \$3,000 per contract month.  
No limit for the spot month (Limits are subject  
to change. Please refer to the MGEX Rules and  
Regulations or [www.mgex.com](http://www.mgex.com) for current limit  
information.)

### Minimum Price Fluctuation

1/4 cent per bushel or \$12.50 per contract

### Speculative Position Limits

Spot month: 600 contracts  
Single month: 12,000 contracts  
All months: 12,000 contracts

### Deliverable Grades

USDA No. 2 or better Dark Northern or Northern  
Spring Wheat with a protein content of 13.5%  
or higher. (13.0%–13.4% protein deliverable at a  
discount.)

### Vomitoxin Level

Deliverable spring wheat may not exceed  
2.0 parts per million (ppm) deoxynivalenol  
(vomitoxin) level.

Vomitoxin levels of 2.0 ppm to 3.0 ppm  
deliverable at a discount. Levels exceeding 3.0  
ppm will not be deliverable.

### Delivery Points

Elevators located in Minneapolis/St. Paul, Red  
Wing, and Duluth/Superior

### Last Trading Day

The business day preceding the fifteenth  
calendar day of that contract month

### First Notice Day

The last business day of the month preceding  
the delivery month

### First Delivery Day

The first business day of the delivery month

### Last Notice Day

The last business day preceding the last delivery  
day

### Last Delivery Day

The seventh business day following the last  
trading day

## Hard Red Spring Wheat **Calendar Spread Options** Contract Specifications

### Trading Hours

Electronic:  
Sunday-Friday: 7:00 p.m. to 7:45 a.m. CT  
Monday-Friday: 8:30 a.m. to 1:30 p.m. CT

### Underlying Asset

One Minneapolis Grain Exchange HRSW futures  
contract (5,000 bushels) of a specified nearby  
contract month, and one opposing MGEX HRSW  
futures contract of a specified deferred contract  
month on the Exchange

### Ticker Symbol

Electronic: MU1 (Consecutive CSO), for other  
symbols see [www.mgex.com/documents/  
CSOSymbols.pdf](http://www.mgex.com/documents/CSOSymbols.pdf)

### Contract Months

Consecutive CSOs (e.g. March 2015 - May 2015,  
May 2015 - July 2015, etc.)

Two Annual CSOs (e.g. September 2015 -  
September 2016 and December 2015 - December  
2016)

Three Non-Consecutive CSOs (e.g. March 2015 -  
July 2015, March 2015 - September 2015, March  
2015 - December 2015)

Upon March Expiration, the May non-consecutive  
months will be listed for trading and so on.

### Daily Price Limit

\$.60 per bushel based upon prior day settlement  
for the calendar spread option strike price

### Minimum Price Fluctuation

1/8 cent per bushel or \$6.25 per contract

### Speculative Position

12,000 futures-equivalent contracts in any one  
month  
12,000 futures-equivalent contracts in all months  
combined

### Last Trading Day

Trading in an option class shall terminate on  
the last Friday which preceded by at least two  
business days, the last business day of the month  
preceding the options contract month. If such  
Friday is not an Exchange business day, then  
trading shall terminate on the preceding business  
day.

### Exercise

Exercise is European-style.

### Automatic Exercise

Based upon the settlement price for HRSW  
futures on the last day of trading for HRSW  
calendar spread options, the Clearing House shall  
automatically exercise all in-the-money calendar  
spread options unless notice to cancel automatic  
exercise is given to the Clearing House.

## Hard Red Spring Wheat **Options** Contract Specifications

### Trading Hours

Electronic:  
Sunday-Friday: 7:00 p.m. to 7:45 a.m. CT  
Monday-Friday: 8:30 a.m. to 1:30 p.m. CT  
Open Outcry:  
Monday-Friday: 8:30 a.m. to 1:30 p.m. CT

### Underlying Asset

One MGEX Hard Red Spring Wheat futures  
contract (5,000 bushels)

### Ticker Symbol

Electronic: OMW  
Open Outcry: WP - puts, WC - calls

### Delivery Months

March, May, July, September, December

### Daily Price Limit

\$.60 per bushel or \$3,000 per contract month  
(same as underlying futures)

### Minimum Price Fluctuation

1/8 cent per bushel or \$6.25 per contract

### Speculative Position Limits

12,000 futures-equivalent contracts in any one  
month  
12,000 futures-equivalent contracts in all months  
combined

### Last Trading Day

Trading in an option class shall terminate on  
the last Friday which preceded by at least two  
business days, the last business day of the month  
preceding the options contract month. If such  
Friday is not an Exchange business day, then  
trading shall terminate on the preceding business  
day.

### Automatic Exercise

Based upon the settlement price for HRSW  
futures on the last day of trading for HRSW  
options, the Clearing House shall automatically  
exercise all in-the-money options unless notice to  
cancel automatic exercise is given to the Clearing  
House.

Contract specifications are subject to change without notice.

Please consult the MGEX Rules and Regulations for complete contract specifications.



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