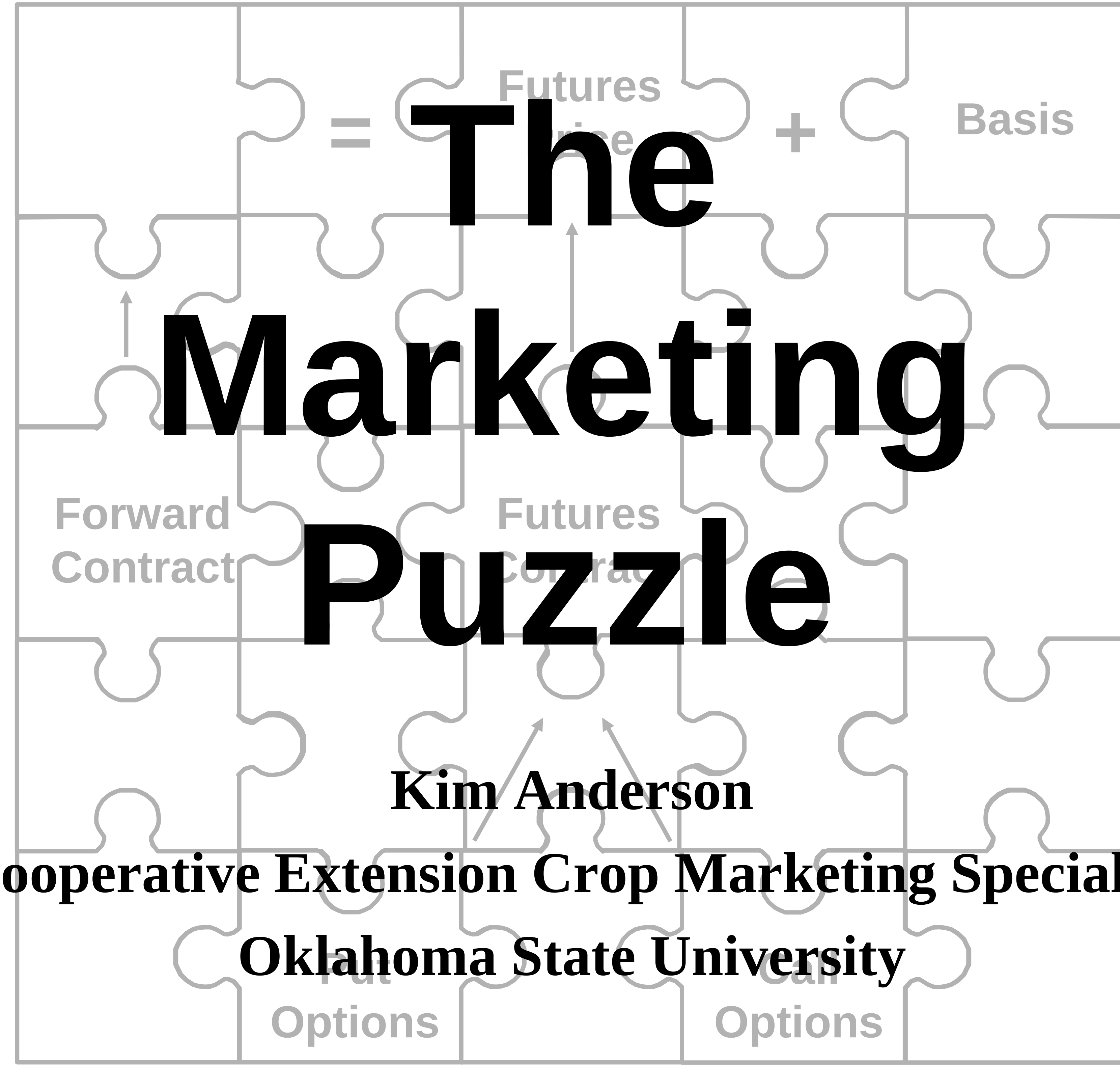
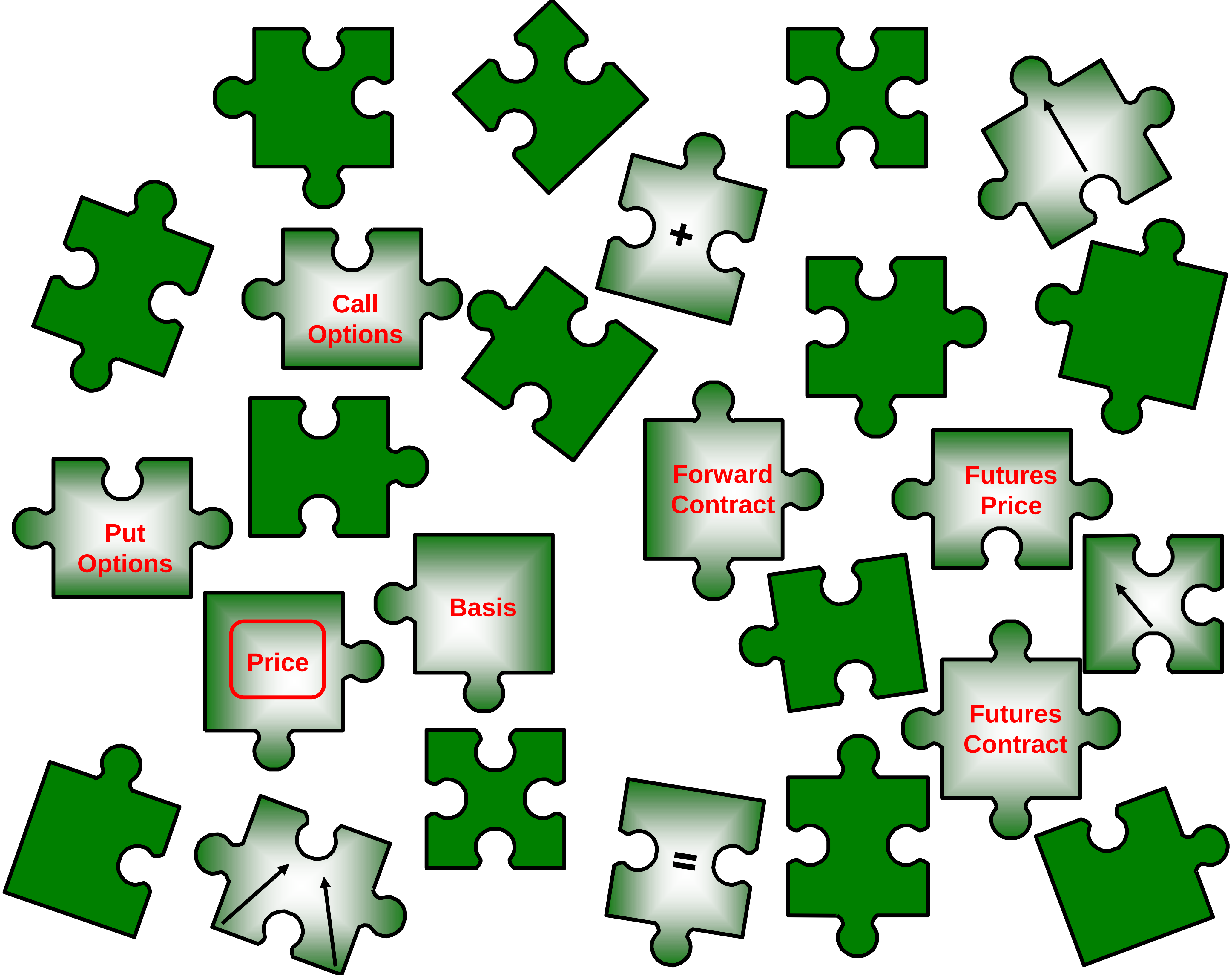
The Marketing Puzzle

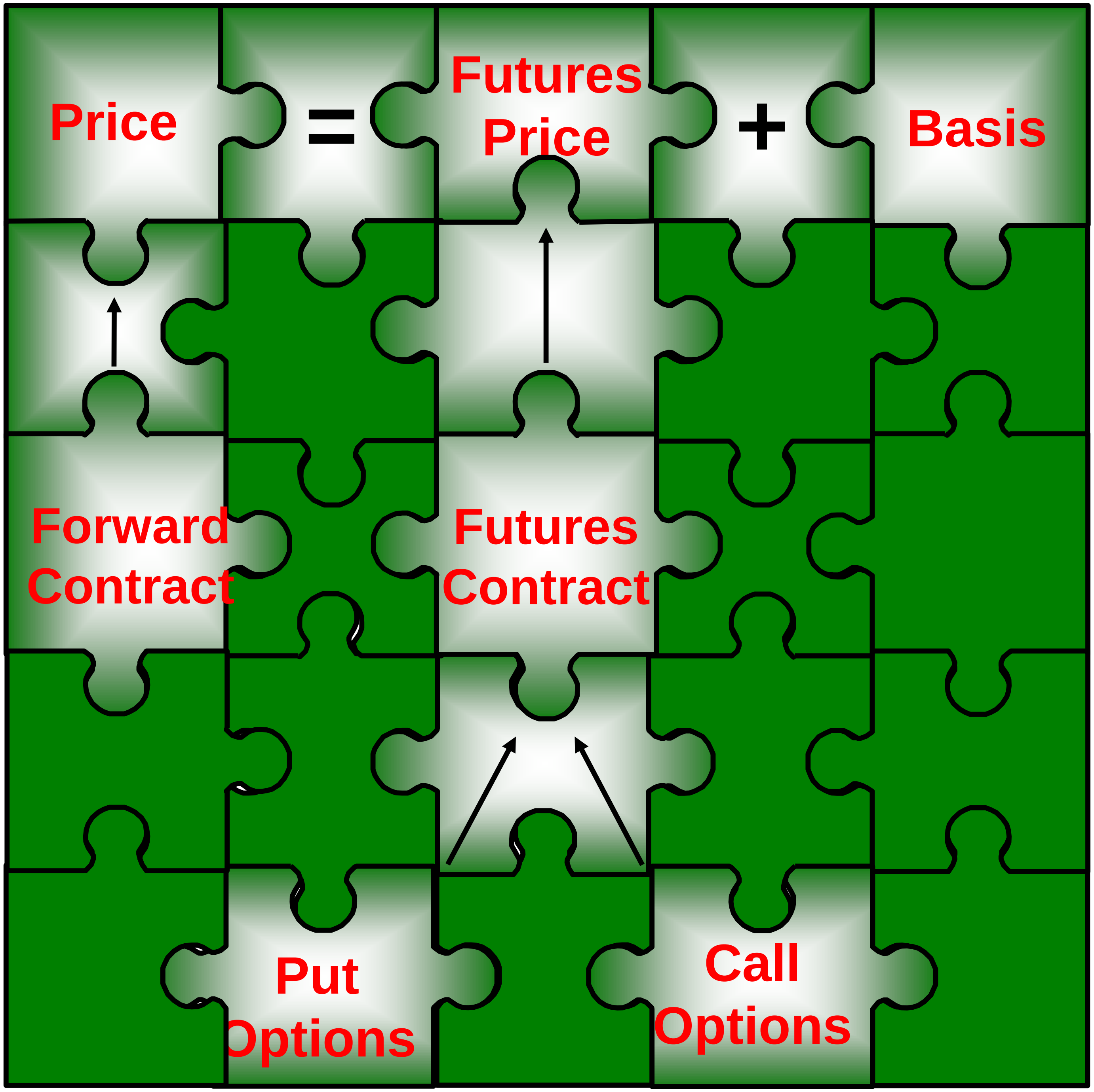


Kim Anderson

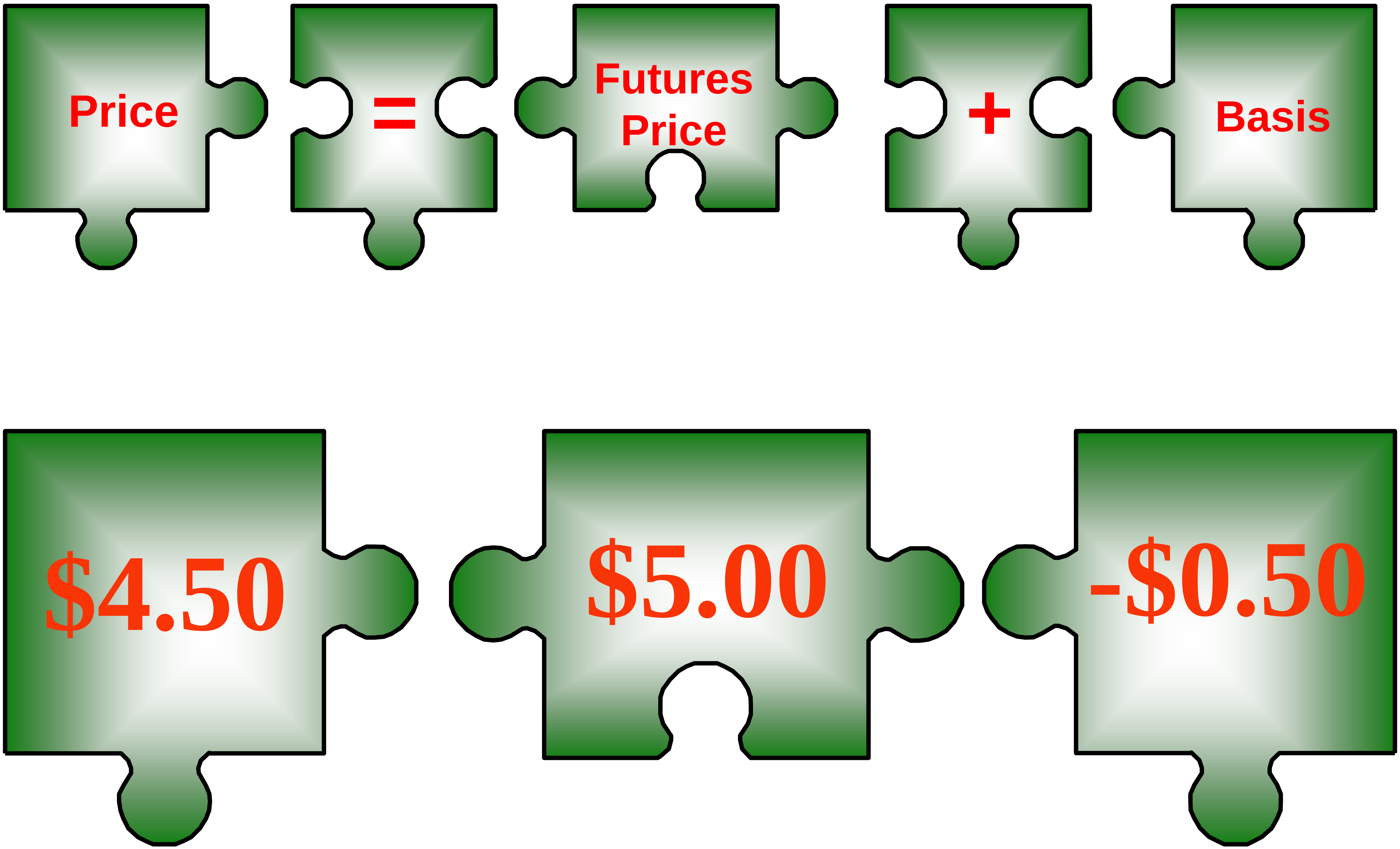
Cooperative Extension Crop Marketing Specialist

Oklahoma State University


Call Options
+
Forward Contract
Futures Price
Put Options
Basis
Price
Futures Contract
=


Price
=
Futures Price
+
Basis
Forward Contract
Futures Contract
Put Options
Call Options

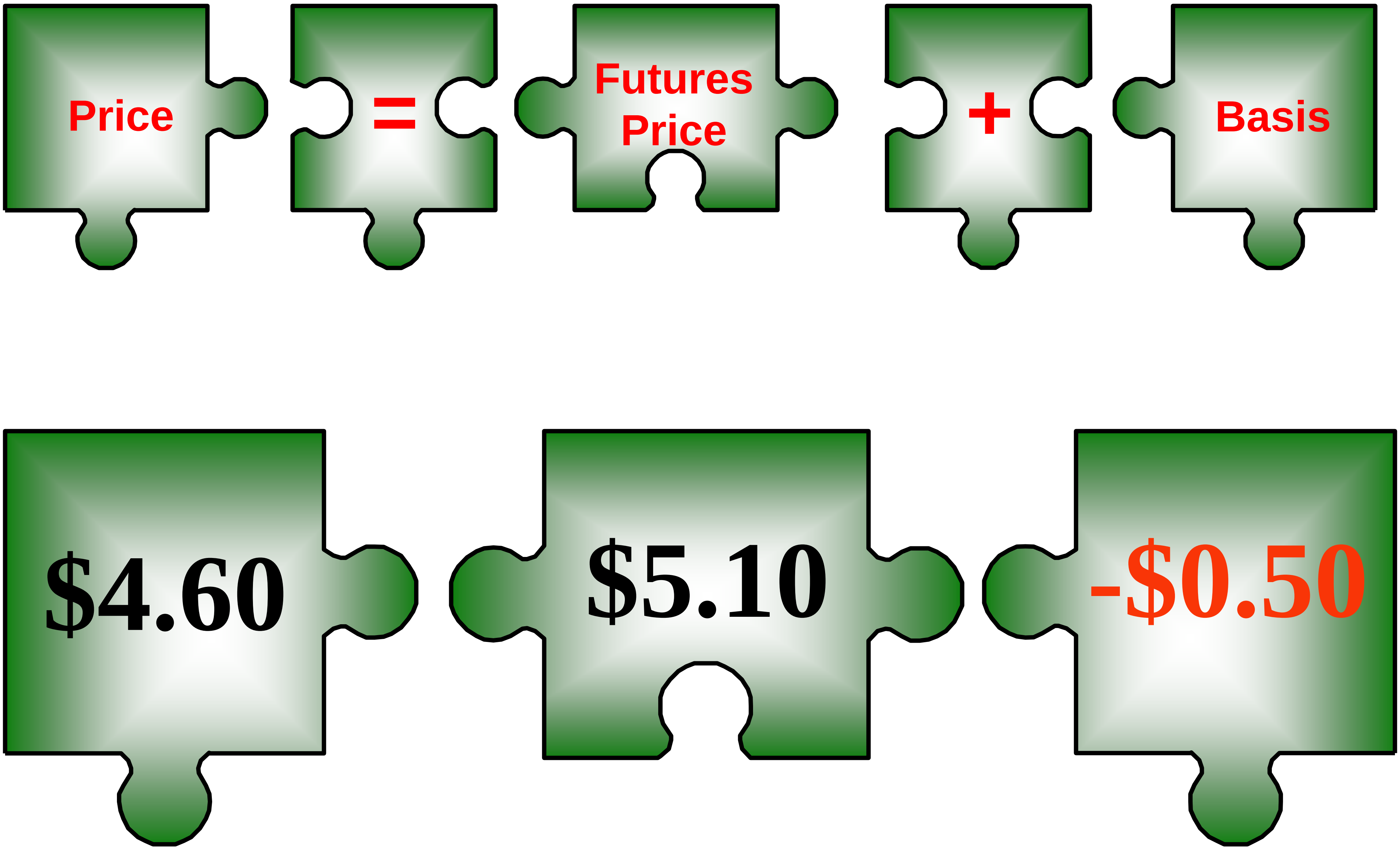

Price
=
Futures Price
+
Basis

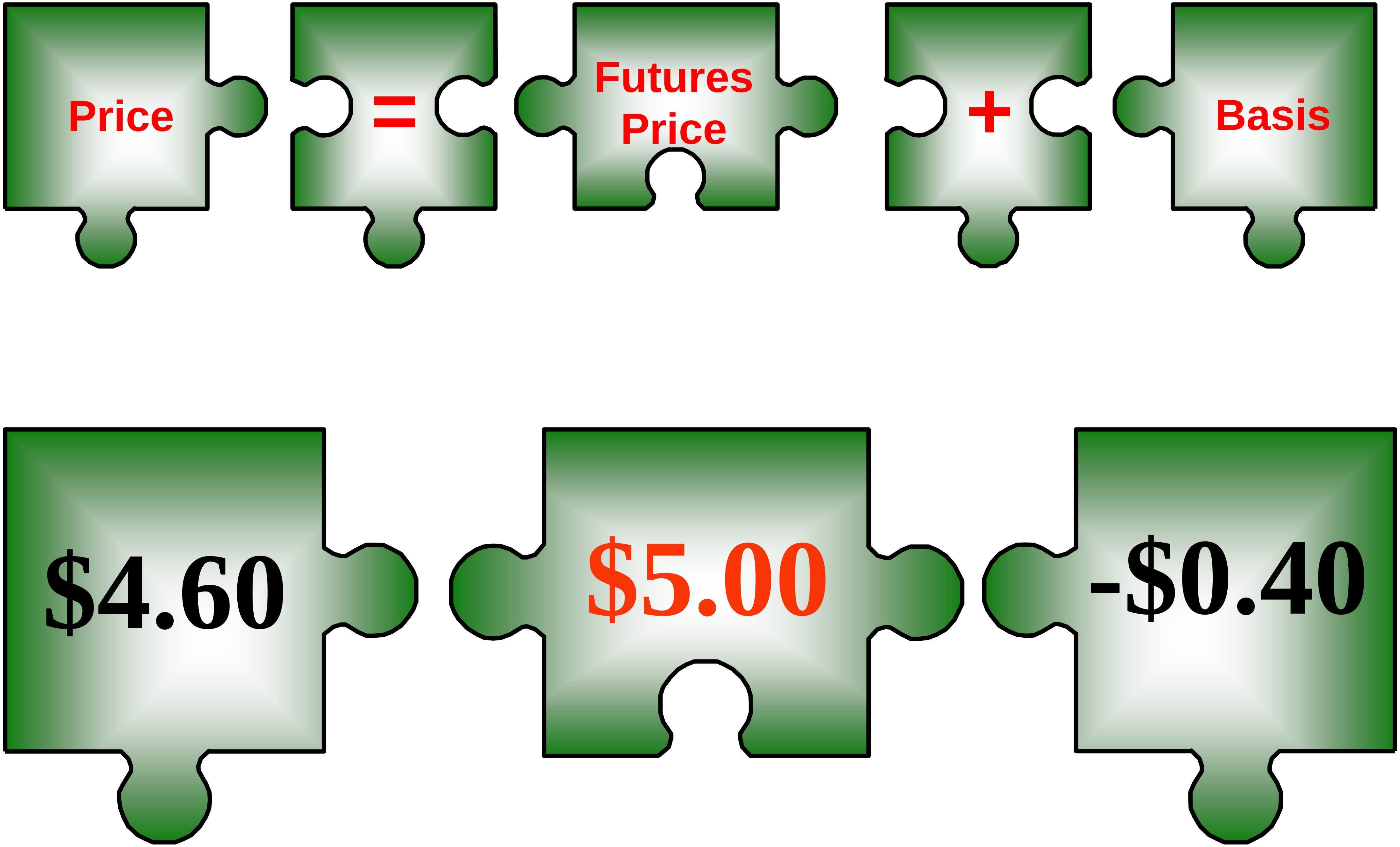


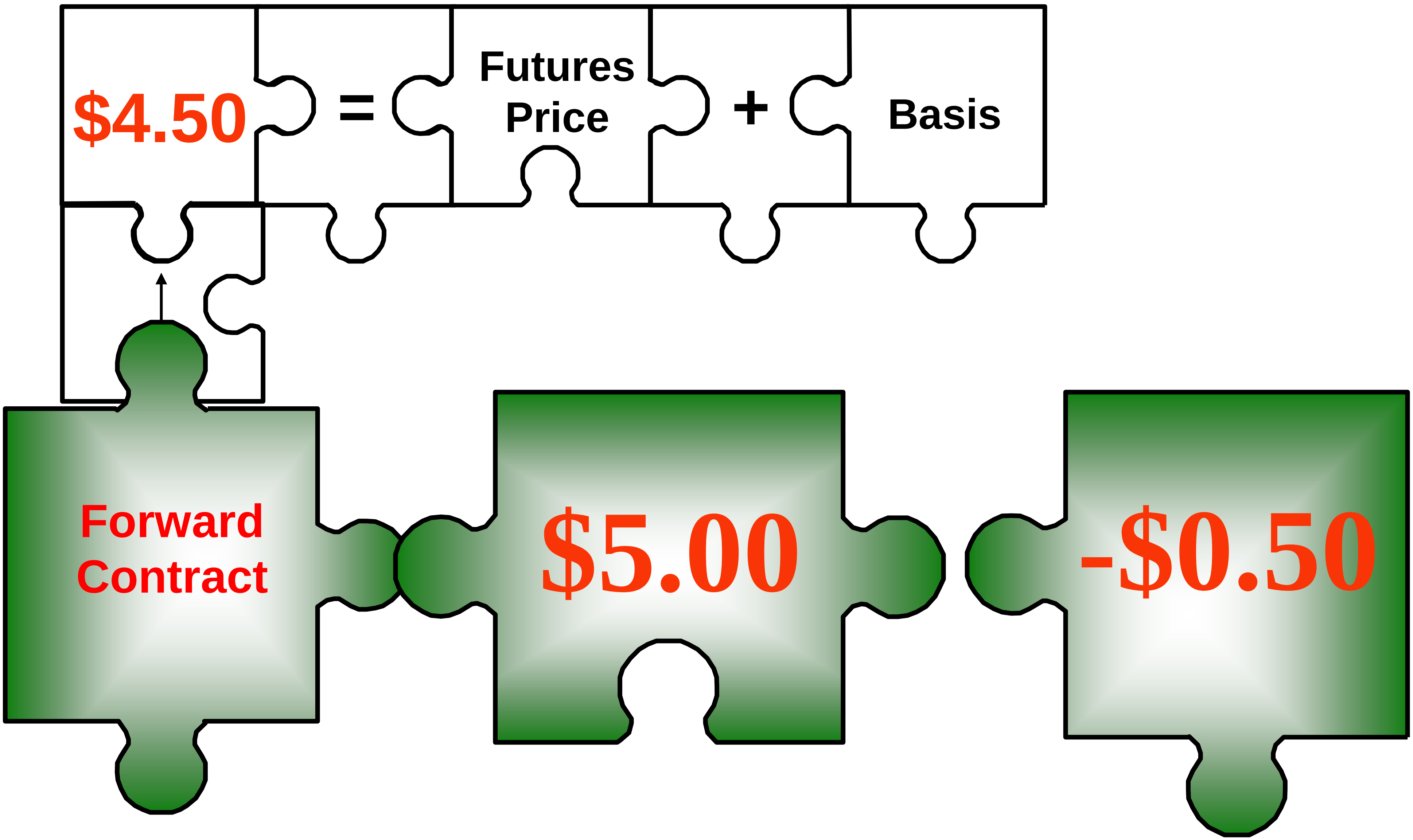
Price

KC Contract

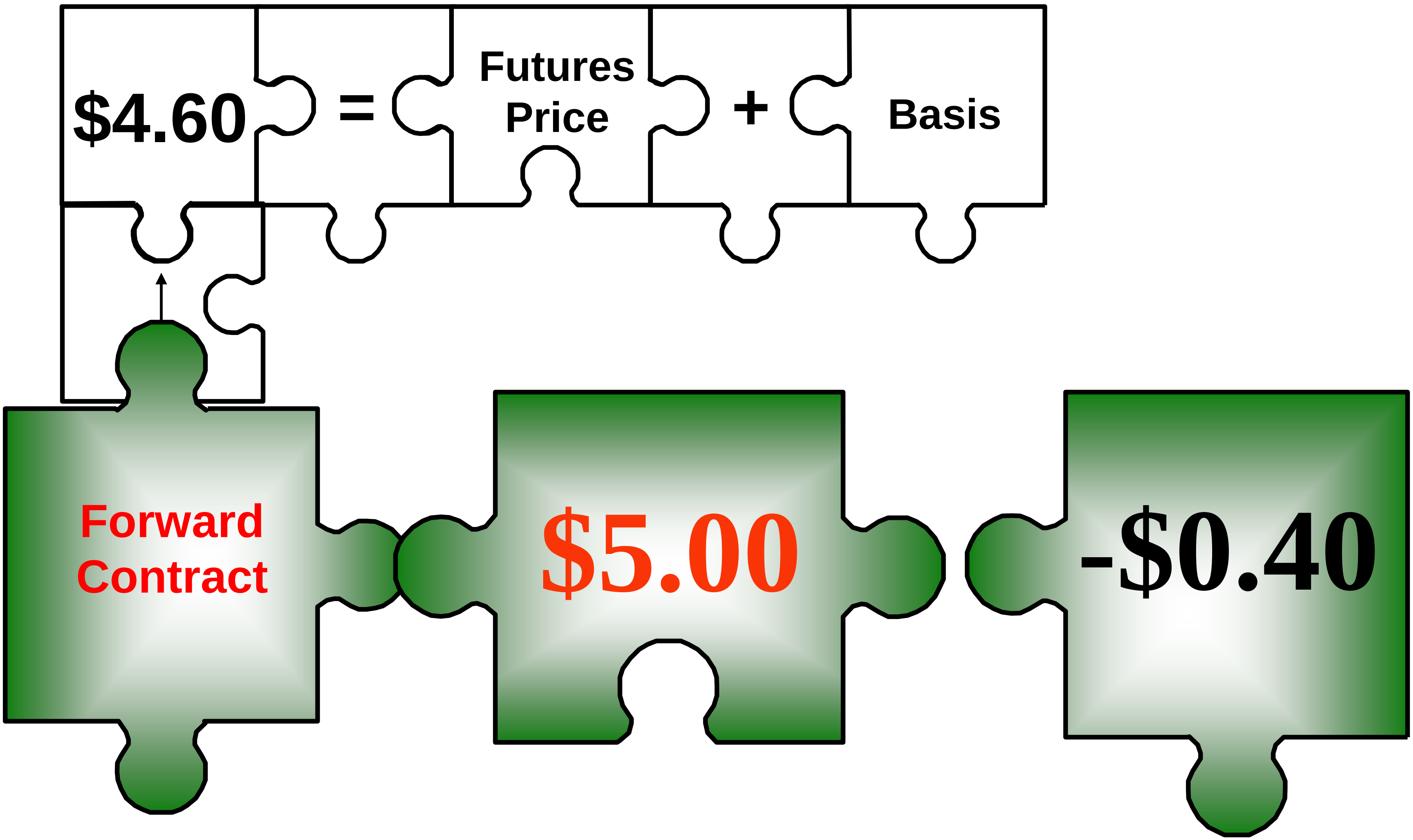
Local Cash – KC contract

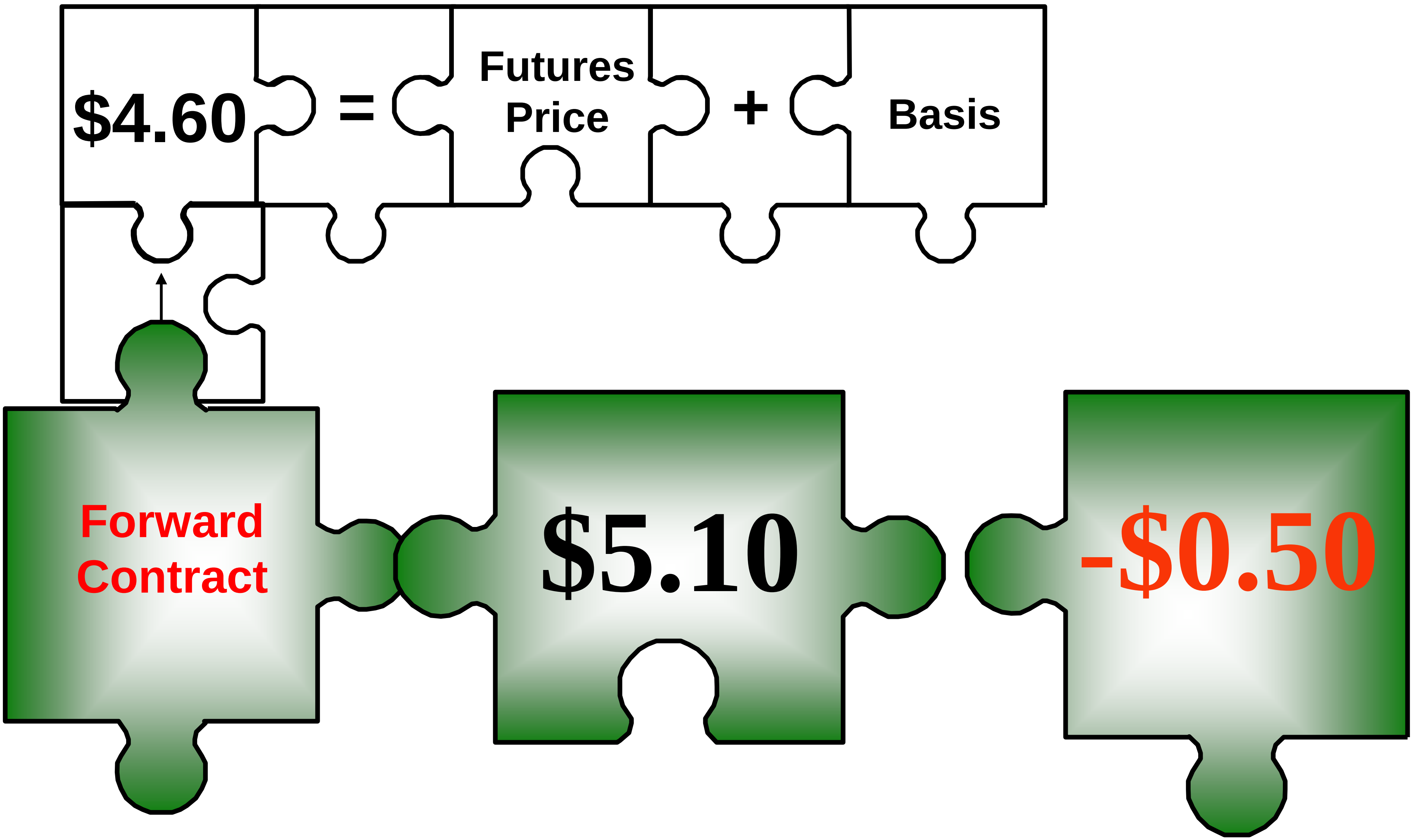

Price
=
Futures Price
+
Basis
$4.60
$5.10
-$0.50

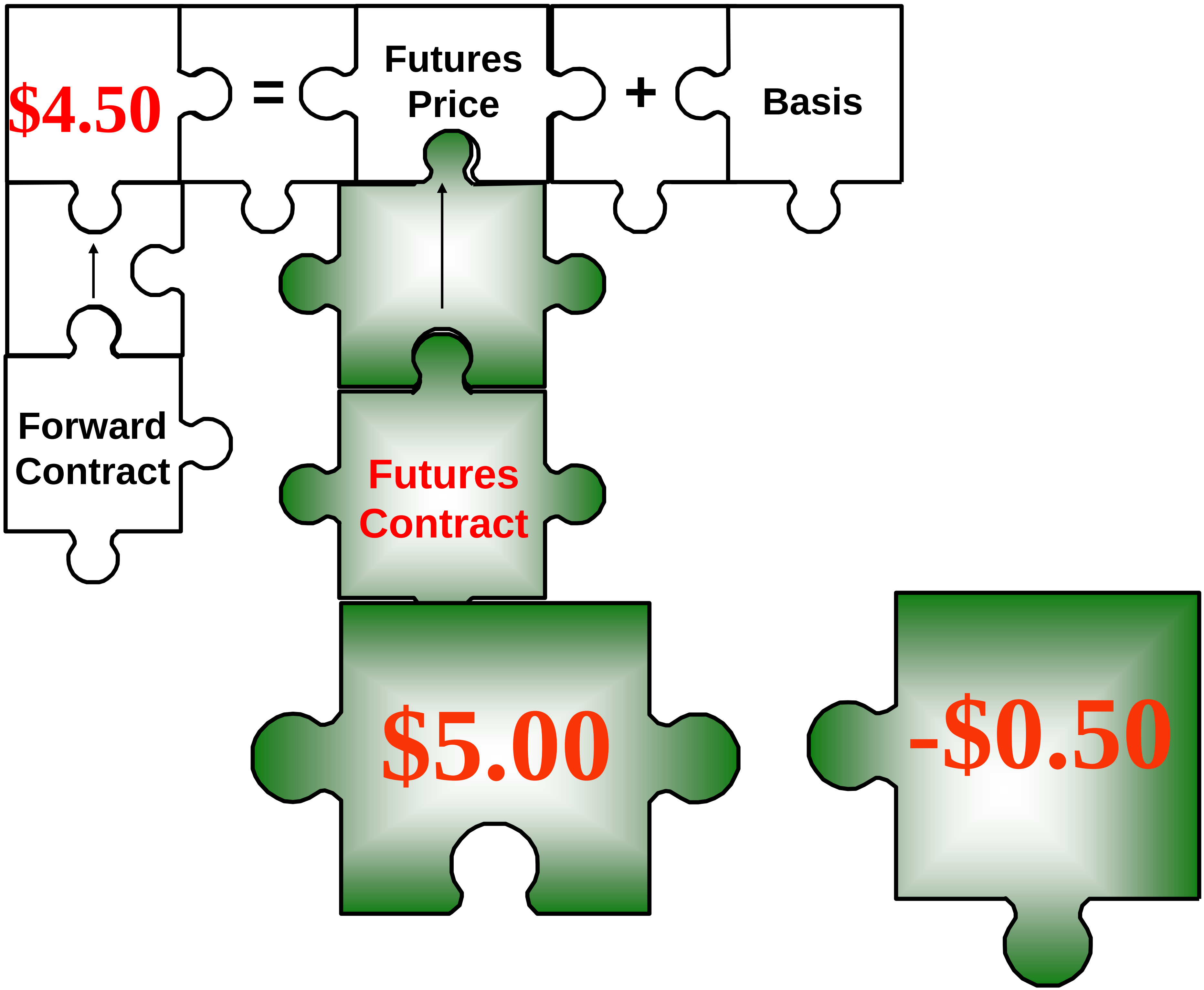

Price
=
Futures Price
+
Basis
$4.60
$5.00
-$0.40



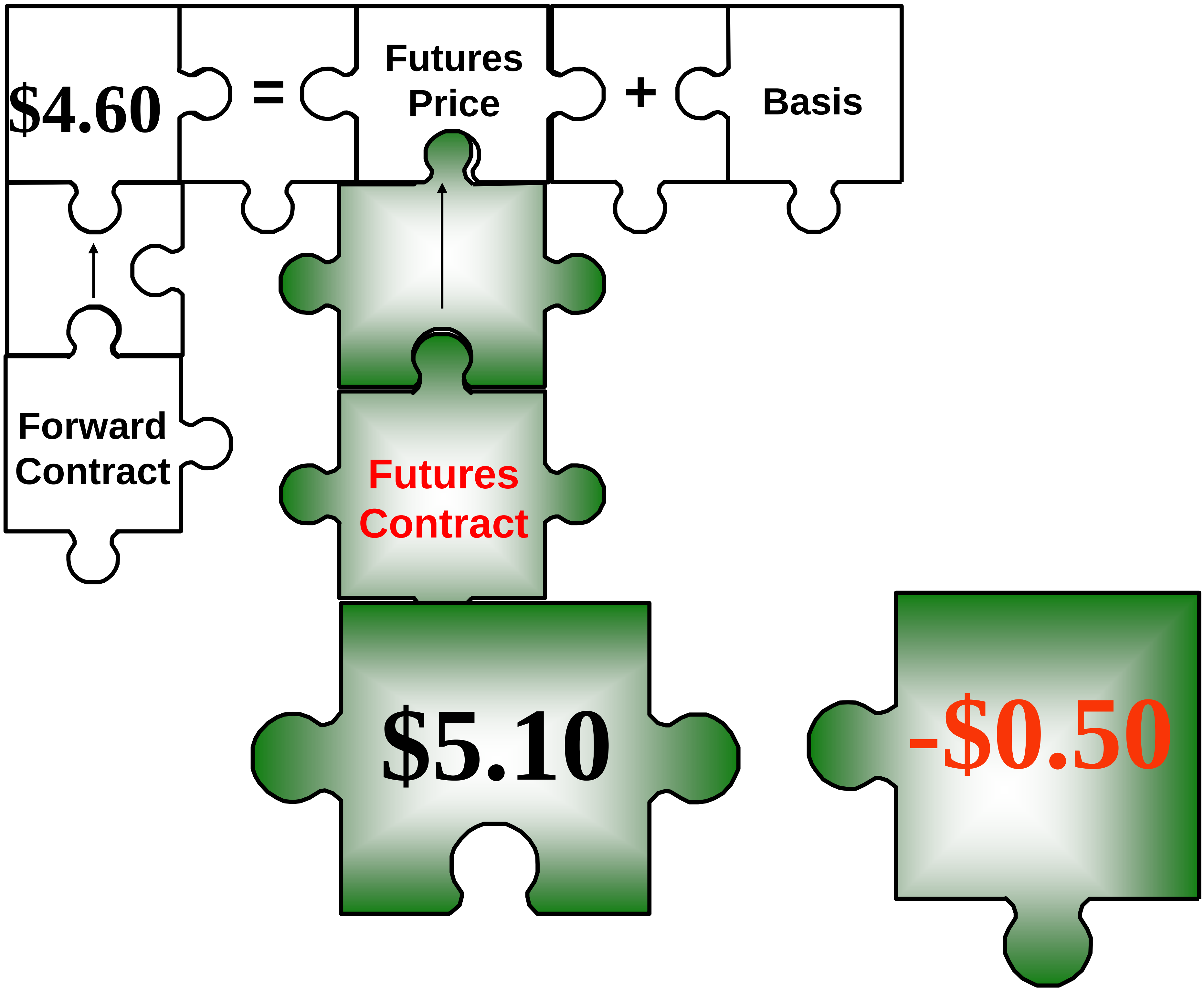
$4.50
=
Futures Price
+
Basis
Forward Contract
$5.00
-$0.50

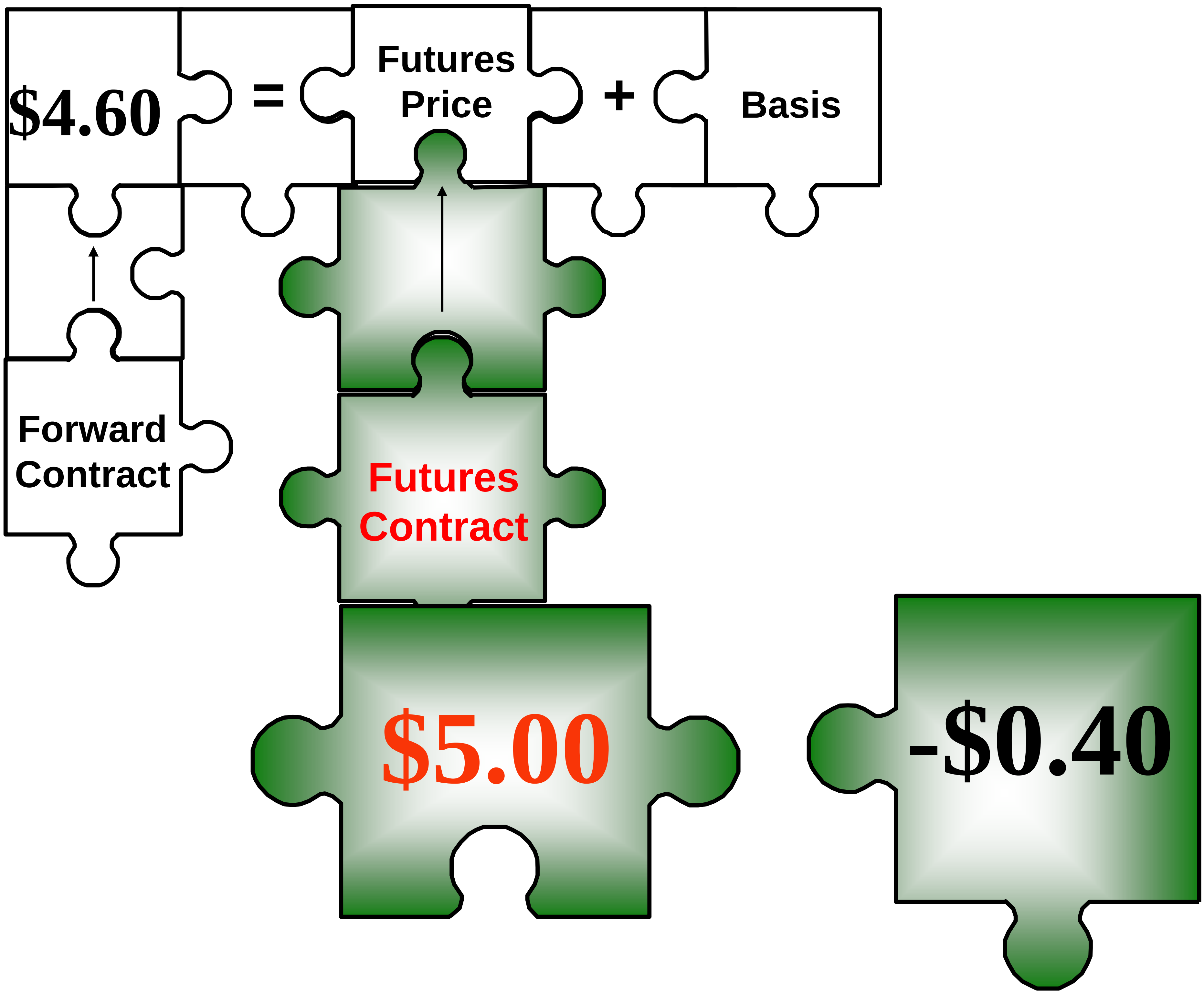

$4.60
=
Futures
Price
+
Basis
Forward
Contract
$5.00
-$0.40


$4.60
=
Futures Price
+
Basis
Forward Contract
$5.10
-$0.50



$4.50
=
Futures Price
+
Basis
Forward Contract
Futures Contract
$5.00
-$0.50


$4.60
=
Futures Price
+
Basis
Forward Contract
Futures Contract
$5.10
-$0.50

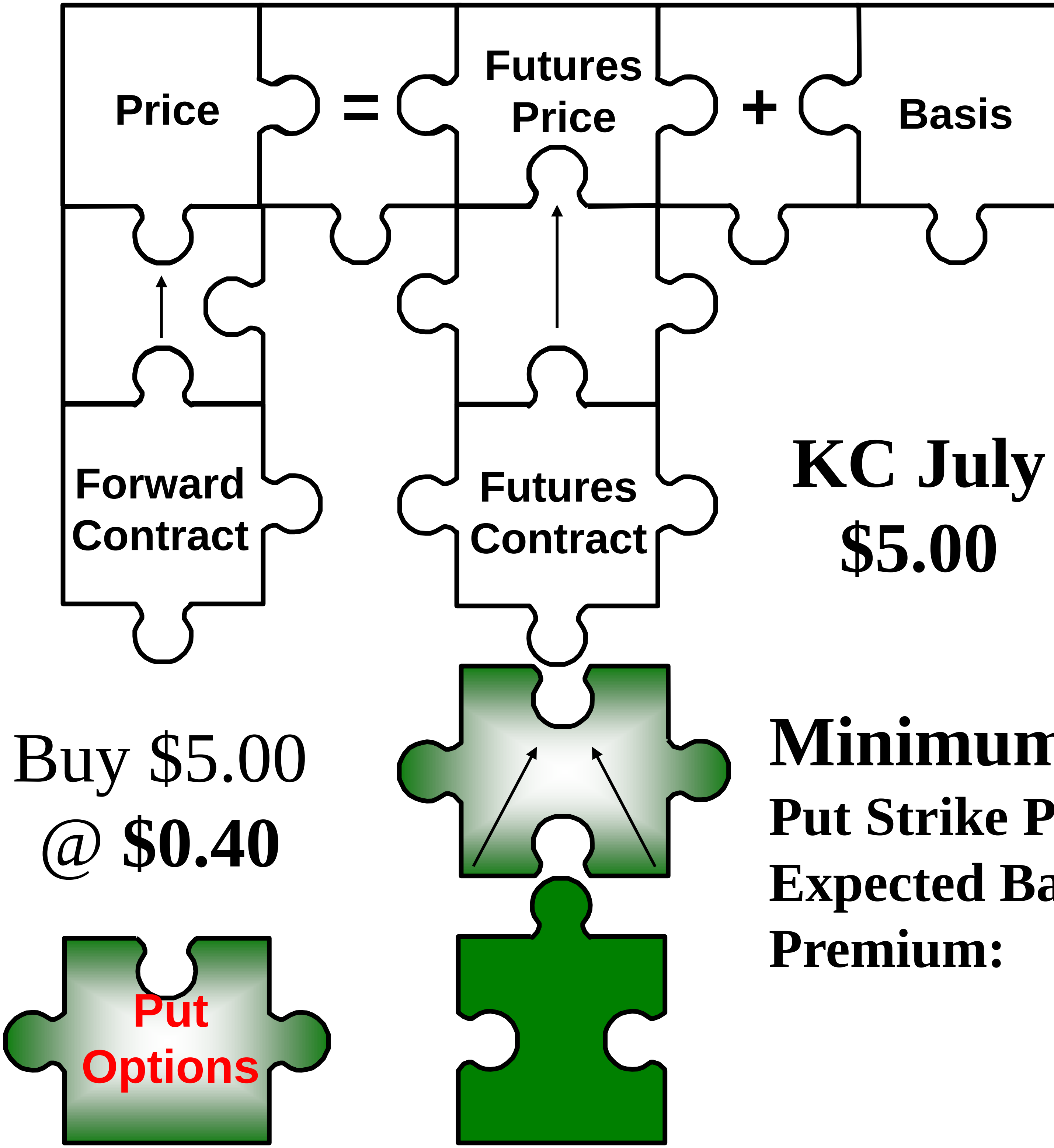

$4.60
=
Futures Price
+
Basis
Forward Contract
Futures Contract
$5.00
-$0.40

Expected Hedge:
April: Sold KC July @ $5.00
Expected Price w/ -$0.40 ➔ $4.60

June: BOT KC July @ $4.50
Cash Price: $4.50 - $0.40 = $4.10

Return from Hedge:
Sold KC July @ $5.00
BOT KC July @ $4.50
Net from futures $0.50

Net Price Received: $4.10 + $0.50 = $4.60



-$0.40

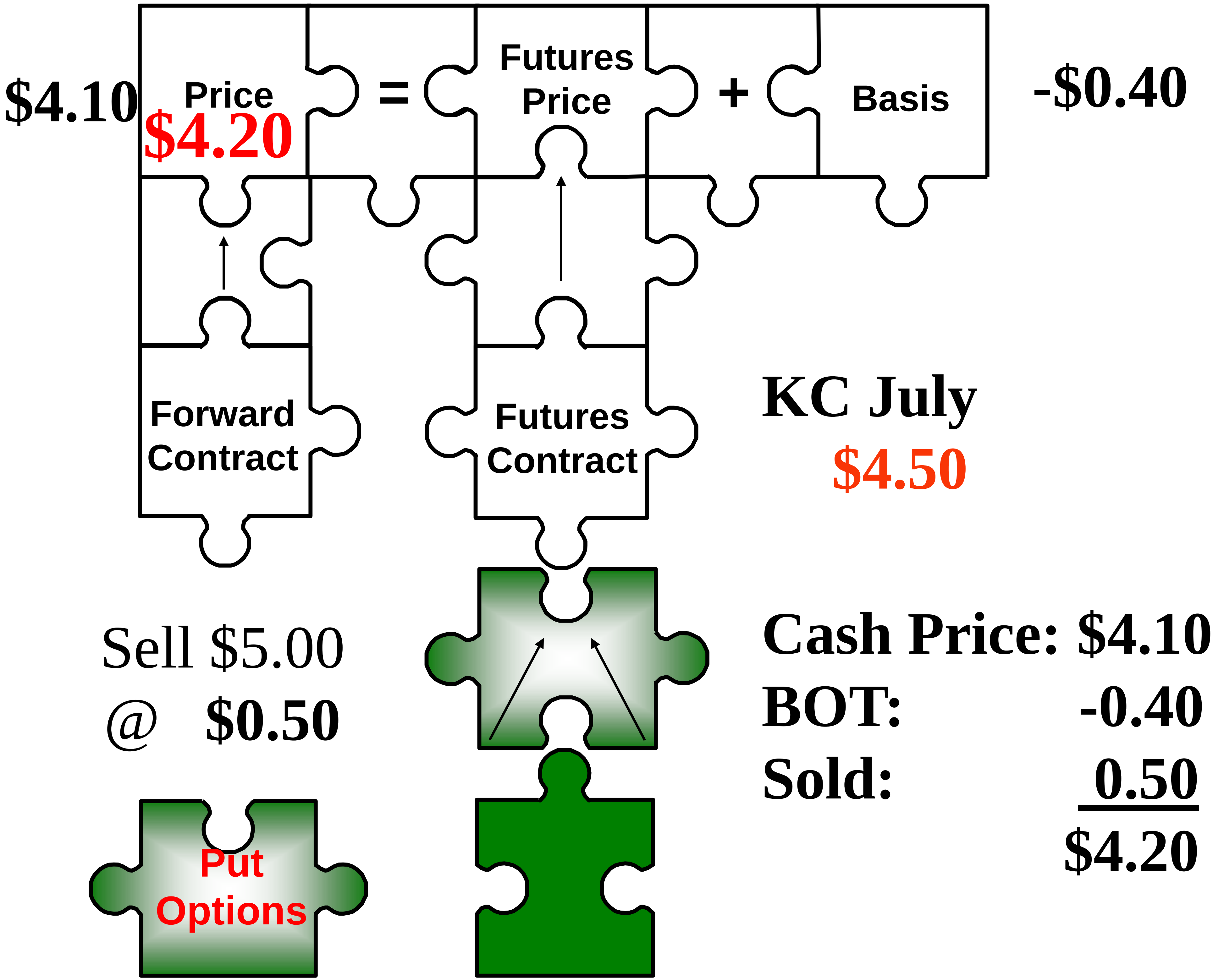
KC July
$5.00

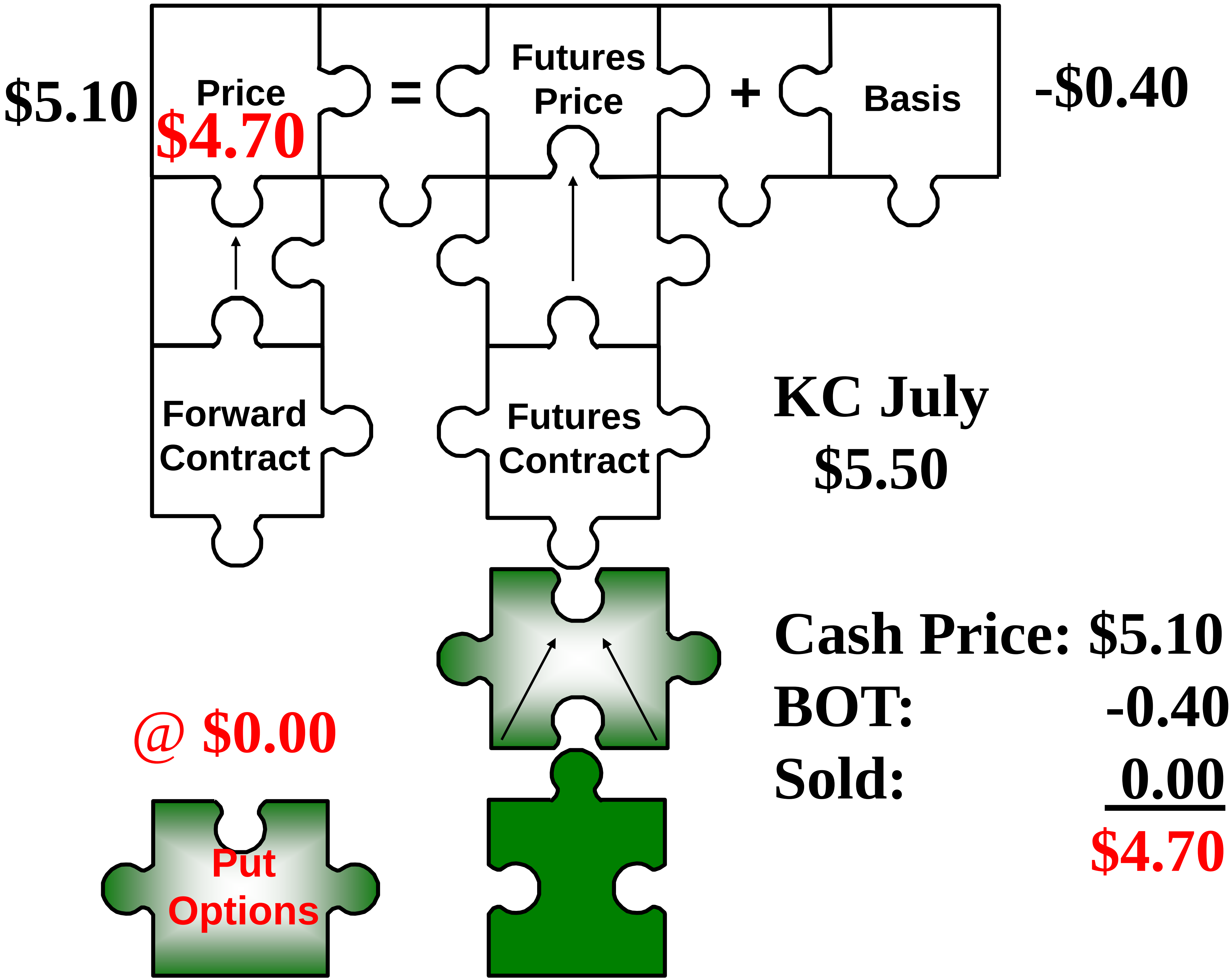
Buy $5.00
@ **$0.40**

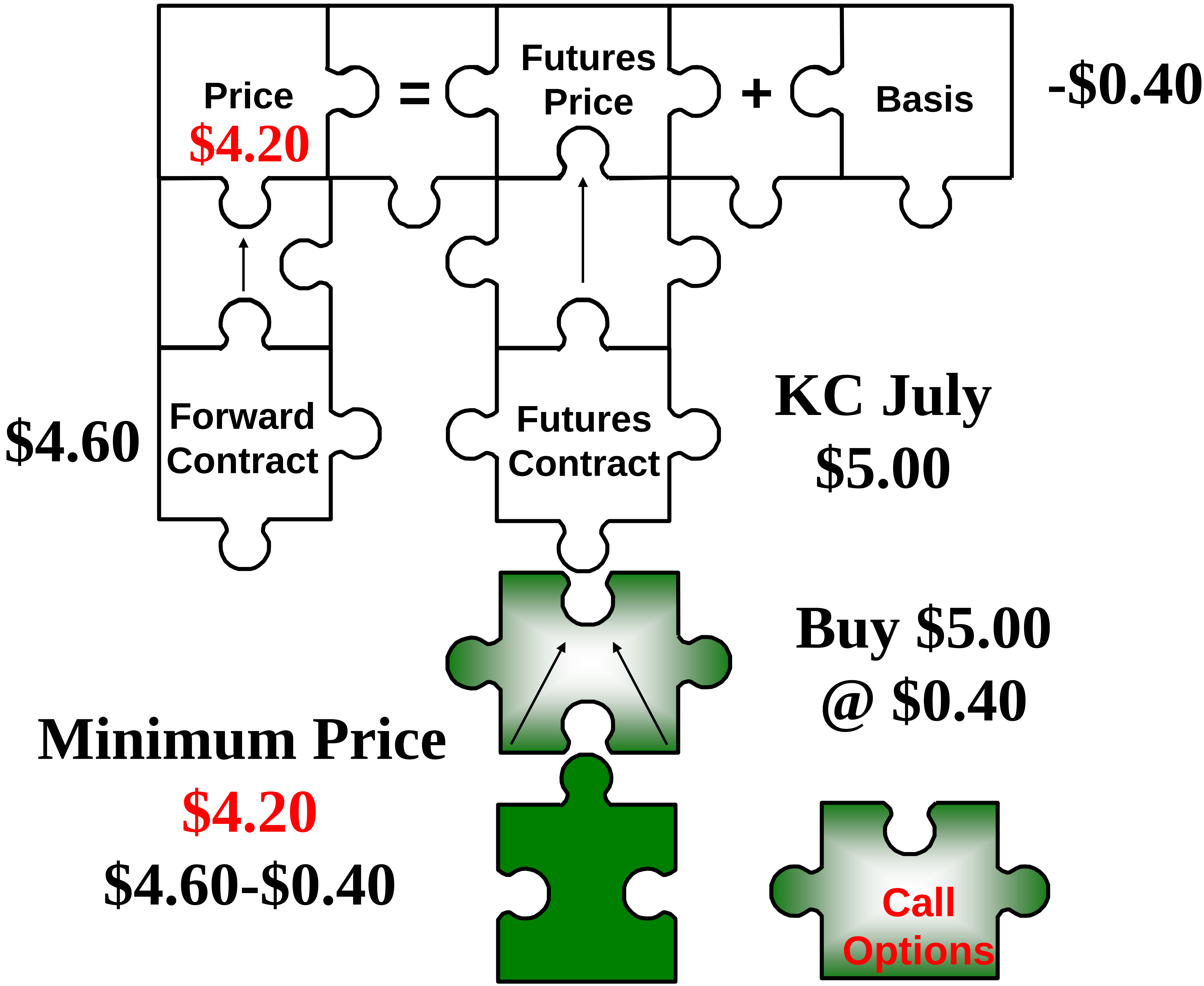
Minimum Price

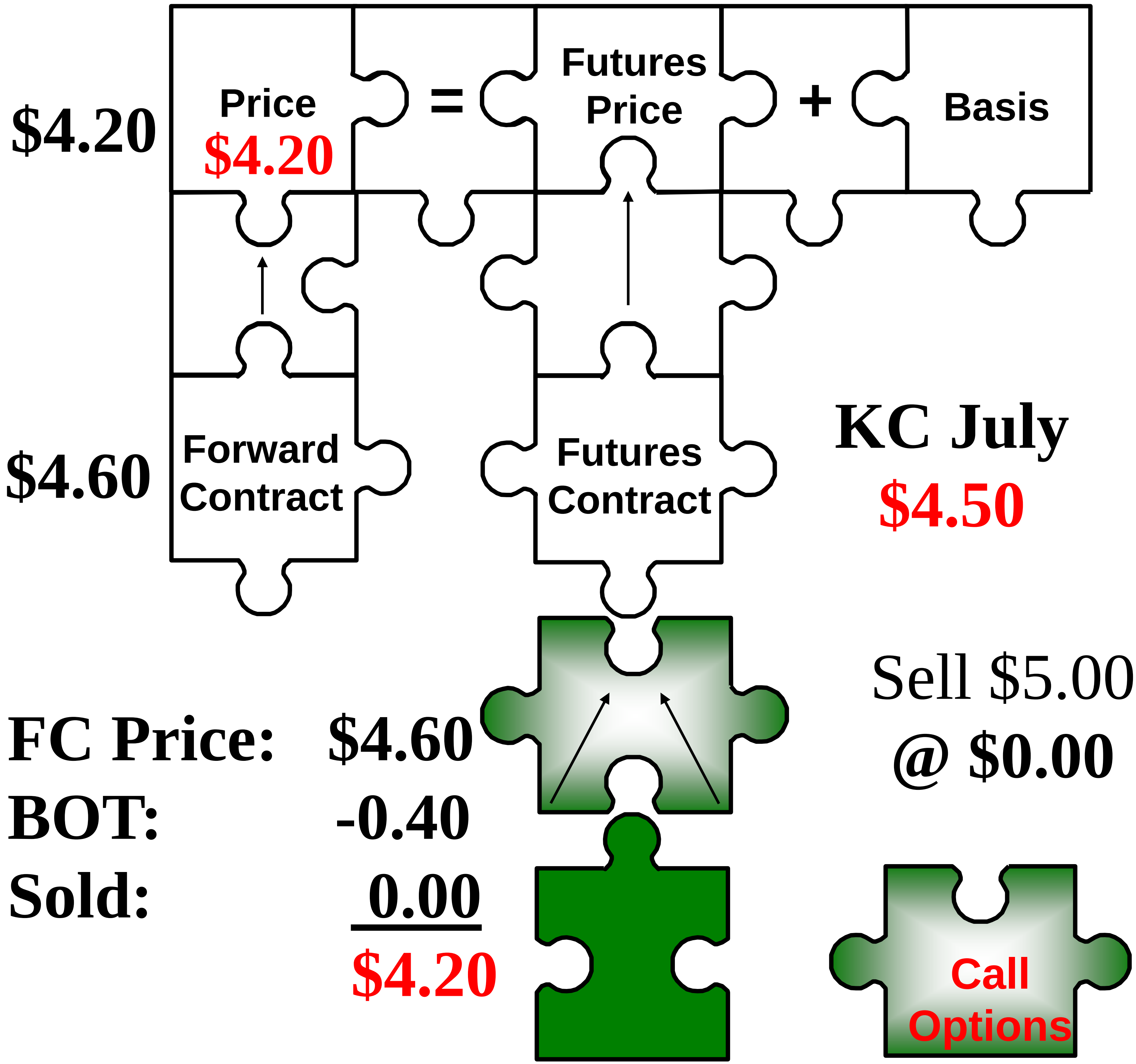
Put Strike Price: $5.00
Expected Basis: -$0.40
Premium: -$0.40

$4.20


$4.10
Price
$4.20
=
Futures Price
+
Basis
-$0.40
Forward Contract
Futures Contract
KC July
$4.50
Sell $5.00
@ $0.50
Put Options
Cash Price: $4.10
BOT: -0.40
Sold: 0.50
$4.20

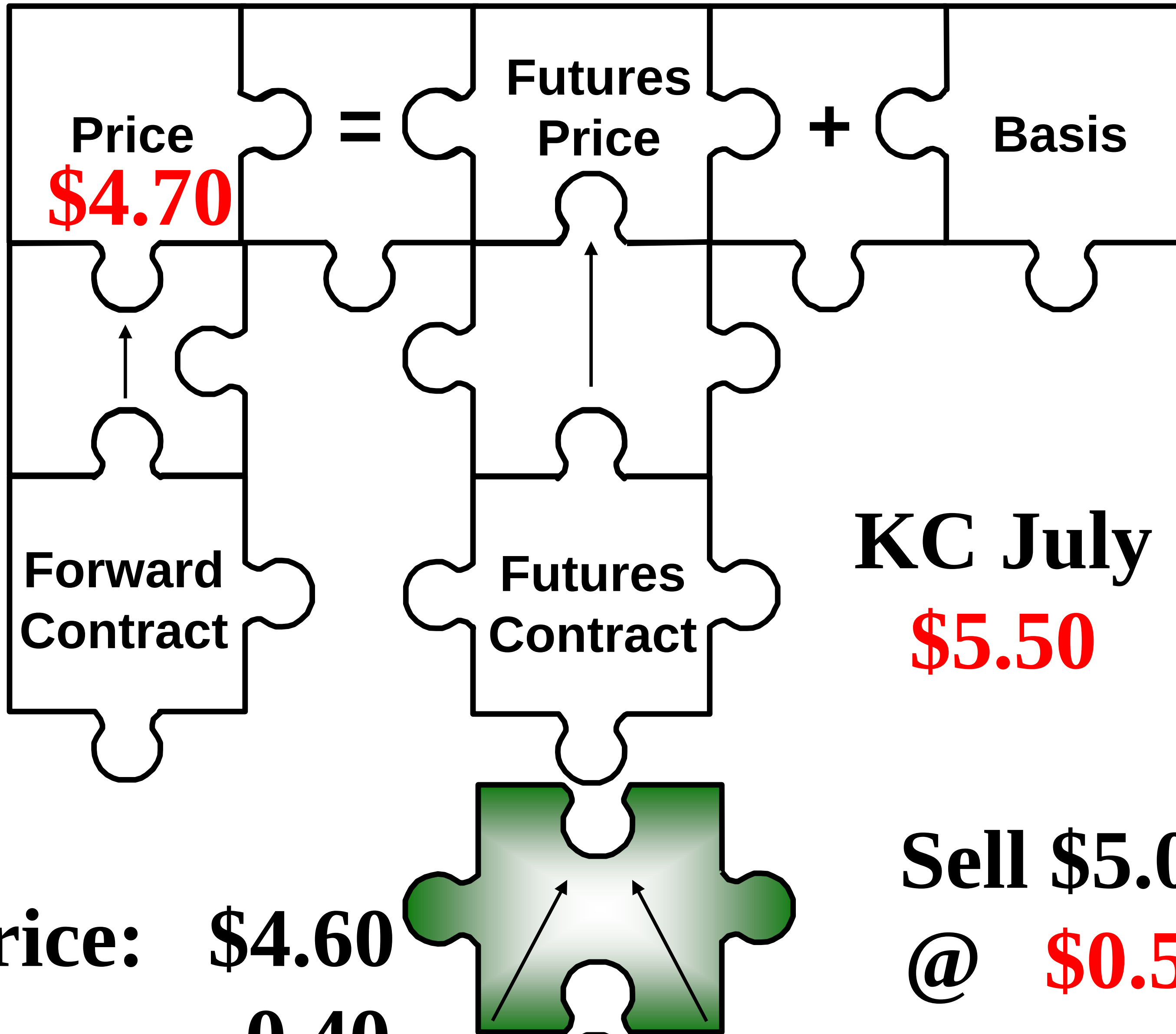

$5.10
Price
$4.70
=
Futures Price
+
Basis
-$0.40
Forward Contract
Futures Contract
KC July
$5.50
Cash Price: $5.10
BOT: -0.40
Sold: 0.00
$4.70
@ $0.00
Put Options


Price
$4.20
=
Futures
Price
+
Basis
-$0.40
$4.60
Forward
Contract
Futures
Contract
KC July
$5.00
Buy $5.00
@ $0.40
Minimum Price
$4.20
$4.60-$0.40
Call
Options


$4.20
Price
$4.20
=
Futures Price
+
Basis
$4.60
Forward Contract
Futures Contract
KC July
$4.50
Sell $5.00
@ $0.00
FC Price: $4.60
BOT: -0.40
Sold: 0.00
$4.20
Call Options

$4.20

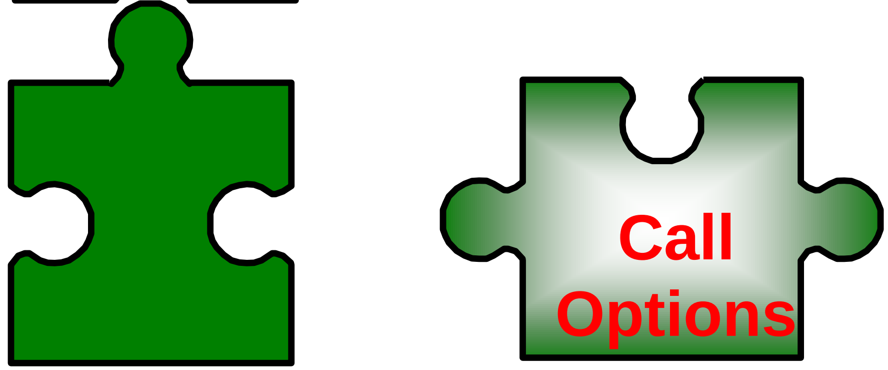
$4.60

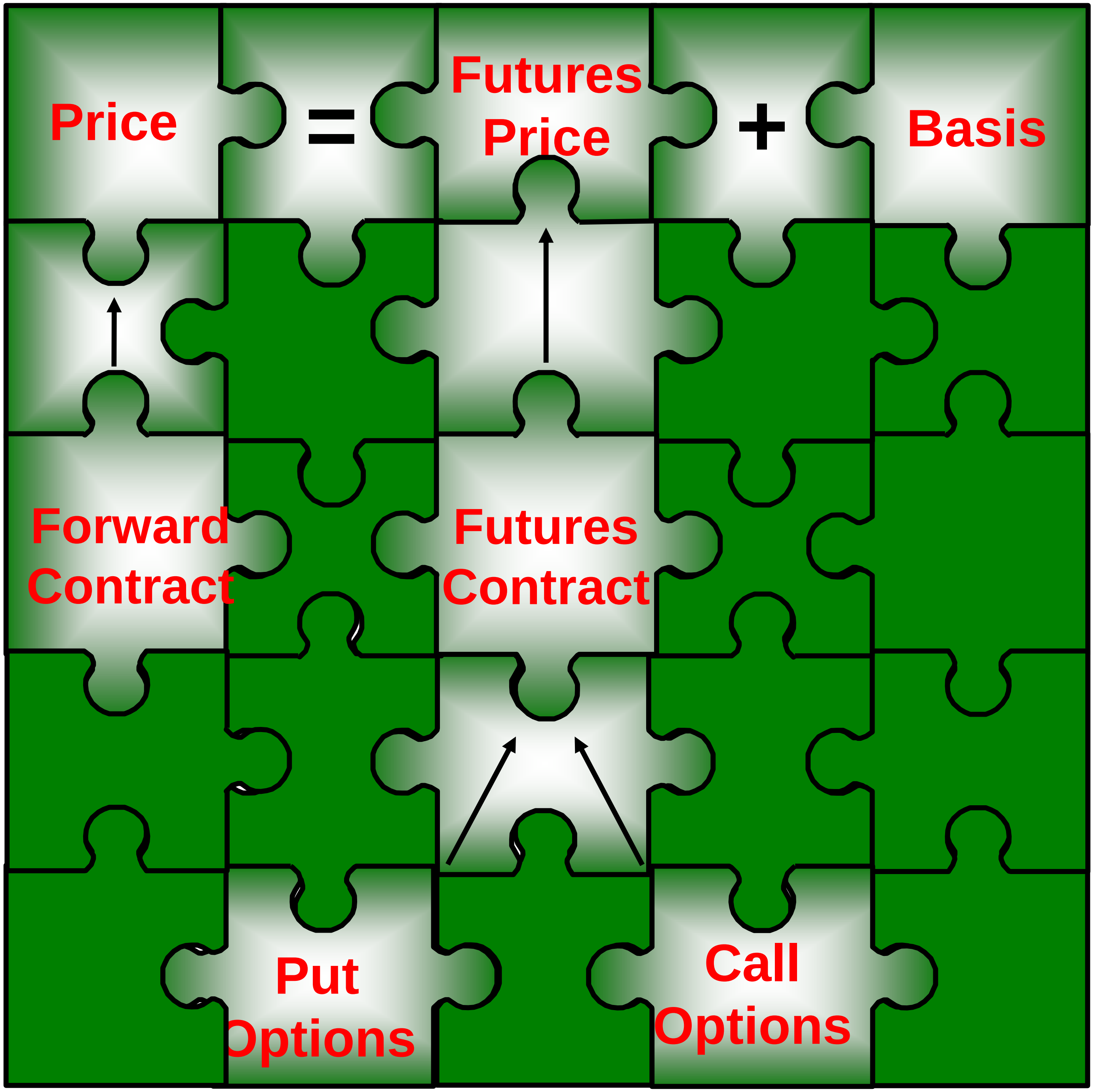


KC July
$5.50

Sell $5.00
@ $0.50

FC Price:	$4.60
BOT:	-0.40
Sold:	0.50
	$4.70





Price
=
Futures Price
+
Basis
Forward Contract
Futures Contract
Put Options
Call Options