Grain Market Short Course
Homework 5

Due February 6, 2004

It is currently October 20. You are advising a farmer client on how she should manage the soybean crop she just harvested. You have the information listed below:

1) The current cash price is $7.50 per bushel.
2) November soybean futures are trading for $7.79 per bushel.
3) March futures are trading for $8.15 per bushel.
4) Basis in February of the last three years was $-.18, -$.19, and -$.21
5) It will cost her 5 cents per month to store soybeans.

Questions:

1) Should your client store soybeans? How much will she make or lose if she does?

2) Sister Cleo just called and said March soybean futures will be $7.50 per bushel on February 15. If you believe Ms. Cleo, how much money do you expect your client to make if she stores until February 15?

3) If you knew for sure Ms. Cleo was right, what type of option would you want to buy in October to benefit from her price expectation?

4) Given the information above on October 20, which premium below would you expect to see for a March soybean put option with a $ 8.50 strike price?
    a. $0.35
    b. $0.10
    c. $0.60
    d. There is not enough information to answer this question.

5) Estimate what you think a grain elevator might be offering on October 20 for a forward cash contract for February delivery.