



Thursday, May 24, 2018

Tonight's Futures Closes:

| | | | | | | | | |
|---------------------|-----------------|--------------|-------------------------|------------------|--------------|-------------------------|-----------------|--------------|
| July 18 Corn | \$4.0425 | -4.25 | July 18 Soybeans | \$10.3575 | -3.5 | July 18 CH Wheat | \$5.3025 | -0.75 |
| Sep 18 Corn | \$4.13 | -4.25 | Aug 18 Soybeans | \$10.3975 | -3.5 | Sep 18 CH Wheat | \$5.47 | -0.75 |
| Dec 18 Corn | \$4.225 | -4.0 | Nov 18 Soybeans | \$10.475 | -1.25 | July 18 KC Wheat | \$5.49 | -2.75 |
| Mar 19 Corn | \$4.3075 | -3.5 | Jan 19 Soybeans | \$10.5075 | -1.25 | Sep 18 KC Wheat | \$5.675 | -2.75 |
| May 19 Corn | \$4.3525 | -3.25 | Mar 19 Soybeans | \$10.345 | -1.25 | July 18 MN Wheat | \$6.355 | -6.5 |
| Dec 18 Oats | \$2.54 | -6.25 | Nov 18 Rapeseed | \$526.0 | +3.3 | Sep 18 MN Wheat | \$6.3925 | -7.5 |
| Dec 18 Meal | \$375.9 | -1.9 | July 18 Cotton | \$87.46 | +0.50 | Jun Dollar Index | 93.705 | -0.213 |
| Dec 18 SB Oil | \$32.50 | +0.01 | Oct 18 Cotton | \$86.30 | +1.09 | July Crude Oil | \$70.62 | -1.09 |
| Aug 18 Cattle | 101.775 | -1.025 | Dec 18 Cotton | \$85.55 | +1.50 | Aug Gold | \$1304.4 | +14.8 |
| Aug 18 Feeder | 143.300 | -0.050 | July 18 Rice | \$1156.0 | -36.0 | June S&P | 2727.50 | -3.20 |
| Aug 18 Hogs | 75.350 | +0.325 | Nov 18 Rice | \$1155.5 | -23.0 | June Dow Jones | 24783 | -76 |

(Futures contracts highlighted in green were the bull leaders today; futures prices highlighted in red were the bear leaders today.)

Markets were very edgy today. New highs were made in the early morning trade in corn & Chicago wheat, and later in the day in cotton. Soybeans got to within a ¼ cent of their spring high. World weather (dry Brazil, Russia, Australia) supported corn & wheat, while cotton's new highs continue to be made from strong demand with tough planting/growing conditions in the Southwest. Strong meal prices and optimism of China coming back to buy US soybeans for delivery beginning this fall supported this market. Two things brought sellers into markets later this morning: 1) concern that the US pulling out of talks with North Korea will affect trade talks with China, & 2) nervousness ahead of a 3-day market weekend. Remember that funds are long large amounts of cotton, corn, & soybeans.



December '18 cotton made another contract high today, pushing above 85 cents! It's difficult to predict where this market could go, but with the RSI at nearly 80 right now, it's clearly overbought. Straight hedges, or using the long put/short call option strategy still makes the most sense to me.

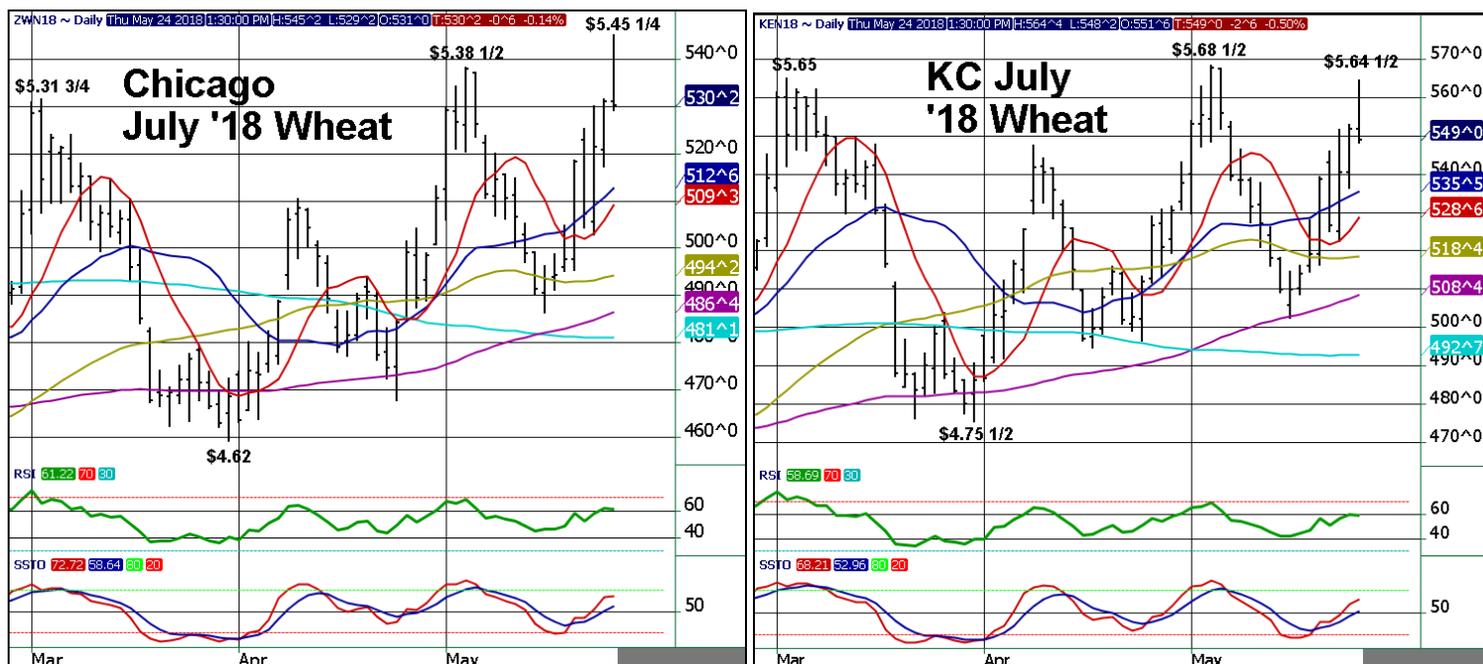
December '18 corn matched its high from July 11, 2017 of \$4.29 ½ this morning before settling back lower on the day. Brazilian dry weather & the threat (though early) of a lower US crop are battling the fund length and seasonals in this market. I would expect this market to remain below today's high tomorrow.



No one can predict which direction the corn market will move from here! But if you're in a position of wanting to manage price risk above \$4.20 December futures, here are some option-based strategies you might consider.

- 1) Minimum Price Contract. Hedge December corn @ \$4.22 ½ & buy September short-dated \$4.50 call option @ 15 cents.** Sets minimum December futures @ \$4.07 ½ while providing unlimited upside over \$4.50 until late August – through pollination.
- 2) Minimum Price Contract w/Limited Upside. Hedge December corn @ \$4.22 ½, buy September short-dated \$4.30 call option @ 21 cents & sell September short-dated \$5.00 call option @ 6 cents.** Sets minimum December futures @ \$4.07 ½, with limited upside from \$4.30 to \$5.00 until late August.
- 3) Three-Way Option Spread. Buy December 4.20 put option @ 29 cents, Sell December \$3.70 put option @ 6 cents, Sell December \$4.70 call option @ 16 cents.** Protects December futures from \$4.13 down to \$3.63, & allows upside to \$4.63.

Questions? Visit with our DSMG risk managers at (888) 926-0985.



Today's initial rally in both **Chicago & Kansas City July wheat** took these markets above (Chicago) or close to (KC) their spring double tops. From last week's **Third Thursday Marketing Meeting**, these were areas that I suggested would be good targets to hedge new crop wheat for those feeling comfortable about their crops. If you'd like to protect July wheat price without committing to a hedge, then consider these two option-based strategies:

- 1) **Buy Put Options.** Consider buying Chicago July '18 wheat \$5.30 puts @ 19 cents (\$5.11 July futures floor) or KC July '18 wheat \$5.40 puts @ 16 cents (\$5.24 July futures floor). This strategy only provides for a floor, without any upside limits.
- 2) **Buy Put Options & Sell Call options.** Buy same puts as above, but also sell out-of-the-money call options to decrease total cost and raise futures floor. For Chicago wheat, sell a July '18 \$5.80 call @ 5 cents along with buying the put, which raises the futures floor to \$5.16 while limiting net upside to \$5.66. For KC wheat, sell a July \$6.00 @ 6 cents along with buying the put, which raises the futures floor to \$5.30 while limiting net upside to \$5.90.

Keep in mind that if these put options were to be exercised at some point, then those who have the ability to store the crop can earn 35 cents (Chicago) or 41 cents (KC) by rolling an eventual hedge to the December futures contracts.

Price Select Update

| | Base Price | March | April | May (to date) |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| September Corn | \$3.82 | \$3.97 | \$4.01 | \$4.11 |
| December Corn | \$3.96/\$3.91 | \$4.03 | \$4.10 | \$4.19 |
| November Soybeans | \$10.16/\$10.04 | \$10.33 | \$10.40 | \$10.29 |
| January Soybeans | \$10.09 | \$10.36 | \$10.43 | \$10.33 |
| December Cotton | 75 cents | 78 cents | 78 cents | 81 cents |
| MN September Wheat | \$6.31 | \$6.24 | \$6.18 | \$6.25 |

In the last week, the May average futures prices used for Price Select have: corn – remained unchanged, soybeans – dropped 2 cents, cotton – increased 1 cent, & spring wheat – increased 4 cents (though still not high enough to trigger). Four trading days remain in the month of May.

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