



## MORNING COMMENTS

[david@mnwestag.com](mailto:david@mnwestag.com)

Office 1-877-365-3744

[www.mnwestag.com](http://www.mnwestag.com)

Thursday, July 21, 2011

**Position Management:** The table shows how the Model Farm is positioned at this time. Individual recommendations may vary.

	2010 Crop	2011 Crop	2012 Crop
Corn	100% sold with basis set	50% sold HTA	30% sold HTA
Soybeans	100% sold with basis set	50% sold HTA	20% sold HTA
Wheat	100% sold with basis set	50% sold HTA	none

**Next Major USDA Reports:** Friday July 22, 2011 Cattle on Feed, Thursday August 11, 2011 WASDE & Crop Production

**Hedge:** a means of protection against something, especially a means of guarding against financial loss

**Speculate:** to form a conjecture on the basis of incomplete facts or information, to engage in financial transactions that have an element of risk.

**Consider Put Options:** If you have a concern about prices collapsing and are not willing to sell physical crop then put options provide a means of price protection without having a commitment to deliver. **They provide a means to manage price risk with a known and fixed cost.** They provide upside from a potentially higher priced cash sale. The put option strikes levels we like are the December Corn \$6.40 put costing about \$.38 and the November Soybean \$13.60 put costing about \$.52 as they provide a futures floor of near \$6.00 corn and \$13.00 soybeans. Both of which protect good returns with a near normal yield and have reasonable cost.

**Put Option:** Yesterday you could have bought December corn \$6.40 put options for \$.038 to establish a futures price floor of \$6.02 per bushel. The option provides protection against a declining price until expiration on November 25, 2011. As a buyer of the put option you have the right to benefit from a lower price. You buy the put option on the CBOT instead of making the cash sale. You wait to make the cash sale with your local elevator until later. These two transactions are not tied together. Buying a put option does not commit you to a physical sale of your grain.

After you have bought the put option you can sell the option at any time and capture a potential profit if you are ahead. If the market goes significantly lower, the option gains value as your cash grain loses value, however the combination of the two provides a higher net price than the cash grain would have. If the market goes significantly higher, then the option will have less value (potentially no value) but your cash grain gains in value.

In a synchronized exit of the position you would sell the put & entire into cash sale of sell your grain at the local elevator doing both at the same time. In a best case scenario, you would want the put option to expire without any value and the cash grain to have gained significant value. In the event that the market goes down then the option has gained value which can be captured by selling the option. You then also sell the cash grain and add the option profits to your cash sale, for a higher net return.

For example using the December corn \$6.40 put options bought for \$.038: If December corn futures go to \$9.00 then the put option expires without any further obligation to you. The cash grain has gained \$2.60 in value, you subtract your \$.038 cost of the option for a net gain of \$2.22 on your corn or a net price of about \$8.62. If December corn futures fall to \$3.00 then the put option would gain in value by \$3.40 while the value of your cash corn has also decreased by \$3.40, thereby they offset each other less the \$.38 cost of the option. The effect is that you end up with a net price for your corn similar to selling at \$6.40 less the \$.38 cost for a net price of about \$6.00 per bushel. Had you chose not to buy the put option you would have only the cash price near \$3.00 for your corn, much lower than using a put option.

These examples ignore the impact of local basis on the final cash price, assuming that the basis doesn't change as the futures market moves higher or lower.

Put Option Opportunity Using	Dec 11	Corn Put Options						
Strike Price	\$ 6.80	\$ 6.60	\$ 6.40	\$ 6.20	\$ 6.00	\$ 5.80	\$ 5.60	
Less Premium Cost	\$ (0.60)	\$ (0.49)	\$ (0.38)	\$ (0.34)	\$ (0.25)	\$ (0.19)	\$ (0.14)	
Less Transaction Cost	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
Futures Floor	\$ 6.19	\$ 6.10	\$ 6.01	\$ 5.85	\$ 5.74	\$ 5.60	\$ 5.45	
Less Expected Basis	\$ (0.60)	\$ (0.60)	\$ (0.60)	\$ (0.60)	\$ (0.60)	\$ (0.60)	\$ (0.60)	
Expected Minumim Cash Price	\$ 5.59	\$ 5.50	\$ 5.41	\$ 5.25	\$ 5.14	\$ 5.00	\$ 4.85	

Put Option Opportunity Using	Nov 11	Soybean Put Options						
Strike Price	\$14.00	\$13.80	\$13.60	\$13.40	\$13.20	\$13.00	\$12.80	
Less Premium Cost	\$ (0.70)	\$ (0.62)	\$ (0.51)	\$ (0.40)	\$ (0.34)	\$ (0.25)	\$ (0.22)	
Less Transaction Cost	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
Futures Floor	\$ 13.29	\$ 13.17	\$ 13.08	\$ 12.99	\$ 12.85	\$ 12.74	\$ 12.57	
Less Expected Basis	\$ (0.70)	\$ (0.70)	\$ (0.70)	\$ (0.70)	\$ (0.70)	\$ (0.70)	\$ (0.70)	
Expected Minumim Cash Price	\$ 12.59	\$ 12.47	\$ 12.38	\$ 12.29	\$ 12.15	\$ 12.04	\$ 11.87	

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**Put Option Basics:** They provide a means to manage price risk with a known and fixed cost. In a volatile and moving market put options are always the 2<sup>nd</sup> best choice of these three: 1) selling today, 2) buying a option, 3) waiting to sell until later. For example, If the market goes down \$3.00 then selling today would provide the highest price, buying a put option would provide the next highest net price, and waiting to sell would have the lowest price. If the market goes up \$3.00 then selling today would be the lowest price, buying a put option would provide the next highest net price, and waiting to sell would have the highest price.

Options are a good fit for price protection for a growing crop that we are not willing to forward price. It could be that we expect higher prices, are unsure of the expected yield, or have already sold to our comfort level. For example, If we are not ready to sell and are fearful of declining prices we can buy a put option.

When buying or selling an option, you must choose from a set of predetermined price levels at which you will enter the futures market if the option is exercised. These are called strike prices. For example, if you choose to buy a soybean option with a strike price of \$13.00 per bushel, upon exercising the option you will sell futures for \$13.00, however you can also sell the option at any time. This will occur regardless of the current level of futures price. Strike prices are listed in predetermined price levels for each commodity: every 20 cents for soybeans, and 10 cents for corn.

The amount paid for an option is the premium. The option buyer pays the premium to the option writer (seller) at the time of the option transaction. The premium is the only part of the option contract that is negotiated. All other contract terms are predetermined. The premium is the maximum amount the option buyer can lose and the maximum amount the option seller can make.

The buyer of a put option will make money if the futures price falls below the strike price. If the decline is more than the cost of the premium and transaction, the buyer has a net gain. The buyer of a put option will also make money if the futures price falls and the trading price of the option increases.

There are three ways you can close out an option position. The option can be exercised, it can be sold, or the option can be allowed to expire. If you have already purchased an option, you can offset this position by selling another option with the same strike price and delivery month. You are now out of the options market. The amount of gain or loss from the transaction depends on the premium you paid when you purchased the option and the premium you received when you sold the option, less the transaction cost.

When a put option is exercised, the option buyer sells futures at the strike price. The option writer (seller) takes the opposite side (buy) of the futures position. Because of the option seller's obligation to take a futures position if the option is exercised, he/she must post margin money and is faced with the possibility of margin calls.

An option expires if it is not exercised within the time period allowed. The expiration date is the last day on which the option can be exercised. Options expire in the month prior to contract delivery. For example, a November soybean option expires in October and a December option expires in November.

For more information on options visit us at <http://www.mnwestag.com/pages/custom.php?id=17911>

### Outside Markets:

<a href="#">U.S. Dollar Index</a>	74.785	-0.309	-0.41%	<a href="#">Euro FX</a>	1.42600	+0.00590	+0.42%	<a href="#">Ethanol Futures</a>	<a href="#">Aug 11</a>	2.892p	-0.019
<a href="#">CRB CCI Index</a>	649.00p	+0.50	+0.08%	<a href="#">Canadian Dollar</a>	1.05820	+0.00420	+0.4%	<a href="#">Gasoline RBOB (E)</a>	<a href="#">Aug 11</a>	3.1470p	+0.0321
<a href="#">Gold</a>	1596.7p	-4.2	-0.26%	<a href="#">Japanese Yen</a>	1.27020	+0.00020	+0.02%	<a href="#">Diesel Gulf (Ulsd)</a>	<a href="#">Aug 11</a>	3.1895s	+0.0213
<a href="#">Silver</a>	39.935	+0.389	+0.98%	<a href="#">Australian Dollar</a>	1.06760	+0.00160	+0.15%	<a href="#">Heating Oil (E)</a>	<a href="#">Aug 11</a>	3.1184p	+0.0204
<a href="#">DJIA</a>	12507p	0	-	<a href="#">Chinese Renminbi</a>	0.154910p	+0.000230	+0.15%	<a href="#">Crude Oil Brent (E)</a>	<a href="#">Sep 11</a>	118.08	-0.07
<a href="#">S&amp;P 500 Index</a>	1328.60	+7.30	+0.55%	<a href="#">Mexican Peso</a>	0.085700s	+0.000025	+0.03%	<a href="#">Natural Gas (E)</a>	<a href="#">Aug 11</a>	4.500p	-0.033
<a href="#">Nasdaq 100</a>	2391.25	+9.50	+0.4%	<a href="#">1-Month Libor</a>	99.7900	+0.00050	+0.01%	<a href="#">Polypropylene</a>	<a href="#">Aug 11</a>	0.7925s	0.0000
<a href="#">Russell 1000 Growth</a>	618.10s	-2.20	-0.35%	<a href="#">T-Bond</a>	125-20	-0-08	-0.2%	<a href="#">Polyethylene</a>	<a href="#">Aug 11</a>	0.5700p	0.0000
<a href="#">MSCI Emi Index</a>	1130.50	-10.50	-0.92%	<a href="#">3-Month T-Bill</a>	99.2700s	0.0000	-	<a href="#">Rme Biodiesel</a>	<a href="#">Jul 11</a>	1486.619p	-0.905
<a href="#">Nikkei 225</a>	10050.00	-25.00	-0.25%	<a href="#">5-Year T-Note</a>	121-135	-0-7.5	-0.22%	<a href="#">Coal Futures</a>	<a href="#">Aug 11</a>	77.17p	+0.15
<a href="#">Brazilian Real</a>	0.64025s	+0.00305	+0.48%	<a href="#">10-Year T-Note</a>	124-135	-0-055	-0.14%	<a href="#">Uranium</a>	<a href="#">Jul 11</a>	53.65p	0.00
<a href="#">Euro FX</a>	1.42600	+0.00590	+0.42%								

### Weather

#### Central Illinois:

thu	fri	sat	sun	mon	tue	wed	thu	fri	sat
21 jul	22 jul	23 jul	24 jul	25 jul	26 jul	27 jul	28 jul	29 jul	30 jul
98° 78°	96° 76°	92° 75°	90° 71°	86° 67°	85° 70°	88° 71°	87° 70°	86° 68°	86° 67°

#### Central Iowa:

thu	fri	sat	sun	mon	tue	wed	thu	fri	sat
21 jul	22 jul	23 jul	24 jul	25 jul	26 jul	27 jul	28 jul	29 jul	30 jul
90° 76°	96° 76°	96° 76°	85° 67°	86° 72°	88° 74°	92° 72°	87° 71°	86° 68°	85° 69°

#### South Central Minnesota:

thu	fri	sat	sun	mon	tue	wed	thu	fri	sat
21 jul	22 jul	23 jul	24 jul	25 jul	26 jul	27 jul	28 jul	29 jul	30 jul
85° 68°	89° 73°	90° 67°	83° 62°	81° 68°	86° 72°	84° 69°	82° 68°	81° 66°	81° 67°

#### Central Indiana:

thu	fri	sat	sun	mon	tue	wed	thu	fri	sat
21 jul	22 jul	23 jul	24 jul	25 jul	26 jul	27 jul	28 jul	29 jul	30 jul
99° 78°	97° 77°	90° 75°	88° 75°	86° 68°	86° 70°	88° 71°	89° 72°	88° 70°	87° 70°

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### Official Weather Station -2011

SW Research and Outreach Center  
University of Minnesota  
Lamberton, MN 56152

	Monday, July 18	Tuesday, July 19	Wednesday, July 20
<b>Air Temperature</b>	Max = 94; Min = 76	Max = 99; Min = 80	Max = 94; Min = 80
<b>Soil Temperature</b>			
2 inch	Max = 93; Min = 78; Ave = 85	Max = 103; Min = 78; Ave = 90	Max = 102; Min = 80; Ave = 91
4 inch	Max = 86; Min = 75; Ave = 80	Max = 94; Min = 75; Ave = 85	Max = 95; Min = 78; Ave = 86
8 inch	Max = 81; Min = 75; Ave = 78	Max = 86; Min = 75; Ave = 81	Max = 87; Min = 78; Ave = 83
<b>Daily Precipitation</b>	0.00"	0.00"	0.00"

**Corn:** Morning: Sept 11 Corn is at \$6.82 ½, down 5 ½ cents, Dec 11 Corn closed at \$6.72 ¾, down 5 cents, Mar 11 corn closed at \$6.86, down 3 ¾ cents, July 12 Corn is at \$6.98 ¼, down 3 ¾ cents, Yesterday's Close: Sep 11 Corn closed at \$6.88, down 10 cents, Dec 11 Corn closed at \$6.77 ¾, down 9 ½ cents, Mar 12 Corn closed at \$6.89 ¾, down 9 ½ cents Dec 12 Corn closed at \$6.11 ¾, down 8 ¾ cents  
Corn futures closed lower on the day after posting gains earlier in the session. The pattern the past six days has been up one day, down the next. Traders are seeing some tempering in the weather and decided to take some profits. But long range forecasts continue to show a block of above normal heat over most of the U.S. through August 3rd once this minor reprieve is over. Private exporters switched 138,000 MT of corn from unknown to South Korea for 2010/11 delivery. Trade estimates for tomorrows weekly export sales report range from 900 thousand to 1.4 million MT. Cash bids in the Midwest and eastern Corn Belt are near record levels with demand strong and remaining stocks in tight hands. The national average basis is plus 21 cents. The CME confirmed they will raise corn limits to 40 cents despite strong opposition from grain companies. No date has been confirmed for the change.

**Soybean Complex:** Morning: Sept 11 Soybeans closed at \$13.80 ½, up 1 ½ cents, Nov 11 Soybeans closed at \$13.86, up 2 ¾ cents, Jan 11 Soybeans closed at \$13.94 ½, up 1 ¼ cents, Jul 12 Soybeans closed at \$13.98 ¾, up 6 ¾ cents, Yesterday's Close: Aug 11 Soybeans closed at \$13.78 ¼, down 1 cent, Sep 11 Soybeans closed at \$13.79, up 2 cents, Nov 11 Soybeans closed at \$13.84, up 2 cents, Nov 12 Soybeans closed at \$13.37, down 2 ½ cents, Aug 11 Soybean Meal closed at \$361.90, up \$1.80, Aug 11 Soybean Oil closed at \$56.77, up \$0.08  
Soybean futures closed slightly lower on old crop and slightly higher on new crop. The spread between old and new crop is now at a premium for new crop, meaning end users are comfortable enough with available stocks to build a carry in the price. Private exporters announced the sale of 220,000 MT of soybeans to China for 2011/12 delivery this morning. Estimates for tomorrows weekly export sales report range from 400 to 550 thousand MT. Soybean basis levels are lower at processing plants and river terminals and steady at the gulf. Another day of lower dollar and higher crude oil prices are helping to support soybeans. The long range weather is calling for much above normal temps through August 3rd with chances of rain mostly staying to the Northern Plains and the Southeast.

**Wheat:** Morning: Sept 11 CBOT Wheat closed at \$6.96 ½, down ½ cents, Sept 11 MGEX Wheat is at \$8.49 ¾, down 3 ½ cents Yesterday's Close: Sep 11 CBOT Wheat closed at \$6.97, up 3 ½ cents, Sep 11 KCBT Wheat closed at \$7.94, up 16 cents, Sep 11 MGEX Wheat closed at \$8.52 ¾, up 19 ¾ cents  
Wheat futures closed with a plus on all three exchanges. The dollar was lower again underpinning wheat prices. Weather forecasts keep temperatures much above normal through August 3rd. Chances of rain this week and next week will bring relief to NE and IA before moving further east. Expectations for bumper crops in South Africa and Australia will help to offset production declines in the U.S. The Black Sea region is also expected to recover substantially from last years drought and have better quality wheat for sale. Jordan bought 50,000 MT of wheat in a tender for 100,000 MT believed to be Black Sea origin. Black Sea wheat is cheaper than Europe and is strongly competing for Mideast business. Trade estimates for tomorrows weekly export sales report range from 300 to 500 thousand MT.

**Cattle:** Yesterday's Close: Aug 11 Cattle closed at \$109.600, down \$0.900, Oct 11 Cattle closed at \$115.300, down \$1.075, Dec 11 Cattle closed at \$119.000, down \$0.800, Aug 11 Feeder Cattle closed at \$134.925, down \$0.650 Sep 11 Feeder Cattle closed at \$135.625, down \$0.625 Oct 11 Feeder Cattle closed at \$136.875, up \$0.075  
Cattle futures closed lower resting on technical support on the October contract. Traders were positioning ahead of Friday's Cattle on Feed report. Trade estimates range from 101.5 to 104.1 for July 1 on feed, 88.1 to 101.4 for June placements and 101.5 to 104.6 for June marketings. Boxed beef prices were lower this afternoon with Choice taking a big hit and finishing down \$2.66 at 178.24. Select was down \$0.76 at 172.74. The heat and humidity has taken its toll on the cattle industry this month. Cash cattle sold for \$2 to \$3 lower than last week mostly at \$108 in KS and TX. NE cattle sold for \$108 to \$109, basically in line with August futures.

**Hogs:** Yesterday's Close: Aug 11 Hogs closed at \$97.850, down \$1.800, Oct 11 Hogs closed at \$90.400, down \$1.275 Dec 11 Hogs closed at \$87.375, down \$0.475  
Lean hog futures are lower across the board with the downside limited by a stronger cash market. Cash hogs in IA/MN were \$1.38 higher at \$94.35, WCB hogs were \$1.11 higher at \$93.95 and ECB hogs were \$0.14 lower at \$90.33. The heat and humidity have stressed livestock,

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dropping hog weights, which balance out with consumers eating less meat in these dog days of summer. Pork trading was very slow to slow with light to moderate demand and offerings. The Carcass was modestly higher. China pork imports are expected to reach 130.5 million pounds this year compared to 6.4 million pounds in 2010. China is giving financial incentive to farmers to breed sows in an effort to build up their herd to accommodate domestic demand.

**Sept 11 Corn Daily Chart**

ZCU11 - Corn (CBOT) - Daily OHLC Chart

Op: 687-4, Hi: 690-4, Lo: 678-6, Cl: 682-4



**Dec 11 Corn Daily Chart**

ZCX11 - Corn (CBOT) - Daily OHLC Chart

Op: 676-4, Hi: 680-6, Lo: 668-0, Cl: 672-6



**Aug 11 Soybean Daily Chart**

ZSQ11 - Soybeans (CBOT) - Daily OHLC Chart

Op: 1377-6, Hi: 1386-2, Lo: 1371-0, Cl: 1380-4



**Nov 11 Soybean Daily Chart**

ZSX11 - Soybeans (CBOT) - Daily OHLC Chart

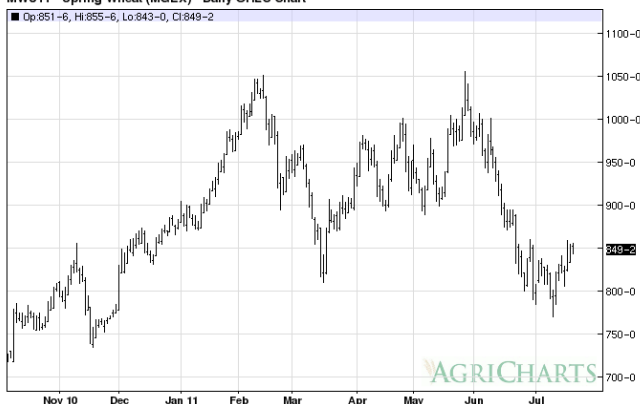
Op: 1384-0, Hi: 1392-6, Lo: 1376-4, Cl: 1386-0



**Sept 11 Mpls Spring Wheat Daily Chart**

MWU11 - Spring Wheat (MGEX) - Daily OHLC Chart

Op: 851-6, Hi: 855-6, Lo: 843-0, Cl: 849-2



**Dec 11 Mpls Spring Wheat Daily Chart**

MWZ11 - Spring Wheat (MGEX) - Daily OHLC Chart

Op: 852-6, Hi: 859-0, Lo: 845-6, Cl: 851-6



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