Homework - Futures Market (hedging)

Situation Today: Our feed operation purchases corn approximately 4 times per year. Today is April and we have a need for corn in July. Corn prices were high last year, above $3.00 per bushel, and current futures price is 2.88 per bushel for a SEPT contract. Current cash corn at local grain operator from storage is $2.78 per bushel. Current excessive rainfall and late planting are possible to create a reduction of supply for this years production.

1. What effect does the current excessive rainfall have possibly for the future price of corn in the cash market.

2. Set up a hedge position for this feed operator and list position in the futures market to begin a hedge for future purchase of cash corn in July using a SEPT corn contract.

3. In July cash corn is $2.90 per bushel , and ending value of SEPT contract is $3.10. Show the beg/end hedge situation for the cash & futures market:

4. From the problem what is the:

change in basis

cash price paid for corn

profit/loss in hedge

net price paid