

General Information Series

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Agricultural Futures for the Beginner

Describes various applications of futures contracts for those new to futures markets. Different trading examples for hedgers and speculators are provided along with an overview of the futures margining process, answers to some of the most frequently asked questions about futures, and a glossary of most commonly used futures terms.

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Agricultural Options for the Beginner

Written for the novice, gives an overview of the advantages of using options, includes common option terminology, and provides basic trading examples.

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Have Your Cake . . . And Eat it Too

Let's face it. We'd all like to trade the markets by getting in at the lows and getting out at the highs. Even if you're not particularly interested in speculating on market trends, surely you'd like to receive the highest price possible for the products you sell. But since none of us has a crystal ball, we can't predict the future. And that's why many have turned to options. Options allow investors and savvy business planners to have their cake and eat it too.

Regardless of your investment or trading goals, you will like options because there are so many things you can do with them. Depending on your comfort level or business needs, there's an option strategy out there just for you.

The emphasis of this booklet is on agricultural options. It is designed to give you a basic understanding of options, common option jargon, and the knowledge to benefit from using Chicago Board of Trade agricultural options. Along the way, you'll find "mini quizzes" designed to test your understanding of options and how they work.

Why CBOT Agricultural Options Are Popular

Since the Chicago Board of Trade introduced agricultural options in 1984, trading volume has skyrocketed. Market participants have been attracted to Chicago Board of Trade agricultural options because:

They're flexible. Under almost any market scenario imaginable—rising prices, falling prices, or even stable prices—ag options can help you achieve your investment or risk-management objectives.

They're versatile. Even if you don't have an opinion about market direction, you can profit from changes in market volatility, decreasing time to expiration, or any number of factors unique to options.

They offer agribusiness additional protection. Ag options offer price protection without limiting profit potential. For producers, that means obtaining protection against declining crop prices without giving up the opportunity to profit if crop prices increase. For grain elevators, that means expanding their contract offerings to farmers to include minimum and maximum price contracts, plus other “hybrid” type contracts. Grain merchandisers, processors, and other buyers of grain can obtain protection against increasing prices and still benefit if prices fall.

They're liquid. Agricultural options draw on the strength of the Chicago Board of Trade—a market that not only is the world's leading futures exchange, but is the most liquid as well.

They offer limited risk. The agricultural community and investors can significantly reduce risk exposure with agricultural options. For instance, an option buyer's exposure may be no more than the premium paid to purchase the option. And, there are a variety of option spreads, straddles, and other strategies that entail strictly limited risk.

They're exchange traded. The audit trail systems maintained by regulated futures exchanges offer a degree of oversight that is unparalleled by any other marketplace.

What Is an Option?

An option is simply the right, but not the obligation, to buy or sell something at a predetermined price at anytime within a specified time period.

This contract or option gives the buyer the right, but not the obligation, to buy or sell a particular commodity—such as stocks, property, or futures contracts—at a certain price for a limited period of time. The option seller, on the other hand, is obligated by this same agreement to buy or sell the commodity stated in the contract, at a certain price, if the option is *exercised* by the option buyer.

There are two distinct types of options: put options and call options. A *put* option gives the option buyer the right to sell the underlying commodity, while a *call* option gives the option buyer the right to buy the underlying commodity. In the case of options on futures, the underlying commodity is a futures contract.

What's important to remember is that calls and puts are completely separate

Mini Quiz #1

If you want protection against falling prices, would you buy a call or a put option?

and distinct contracts that convey different rights, not opposite sides of the same

transaction. Every put option has a buyer and a seller. Every call option has a buyer and a seller.

Example Let's consider a call option to purchase land:

Assume you have a neighbor who is offering to sell 120 acres of cropland at a price of \$1,200 an acre. You would like to own the land but, for any number of reasons, you are unable or unwilling to purchase the land right now. What can you do to lock in the right to buy the land at \$1,200 an acre? You can persuade your neighbor to sell you an option to purchase the land anytime

Answer #1

If your answer is buy a put, you're on the right track to understanding options.

during, say, the next six months at that price. For this privilege, you pay the neighbor \$25 an acre (or \$3,000).

In this scenario, the option expires in 6 months, and it costs \$25 an acre for the right to buy land at \$1,200 an acre. If we applied option terminology to this example we'd say option *expiration* is in six months, the option *premium* or cost is \$25 an acre, and the call option has a *strike price* of \$1,200 an acre—you have the right, but are not obligated, to buy land at \$1,200 an acre.

Later, if you decide not to buy the land, you can simply let the option *expire*. Or better yet, if the option rights are transferable, you may be able to sell them to someone else, possibly for more than you paid for them. The point is, you are not obligated to make a purchase—the choice is yours.

A put option works the same way. For example, suppose you bought a put option to sell soybeans for \$6 a bushel at harvest. (The put has a strike price of \$6.) If at harvest the market price of soybeans is only \$5 a bushel, you certainly would exercise your right to sell at \$6. On the other hand, if soybeans at harvest are bringing \$7 a bushel, you would not exercise your right to sell at only \$6.

The Price of Flexibility

Your cost for this marketplace flexibility is the *premium*, or the cost of the option.

With agricultural options traded at the Chicago Board of Trade, the premium is the only variable in the contract. The premium depends on market conditions such as volatility, time until an option expires, and other economic variables. The price of an option is discovered through a trading process regulated by the exchange and the futures industry.

Different call and put options trade simultaneously. Trading months for the standard option contracts are the same as the underlying futures contracts. For example, the standard option months for corn are December, March, May, July, and September—the same as corn futures. There are also serial option months. These are short-term option contracts trading for approximately 30 days and expiring during those months in which there is not a standard option contract expiring. In the case of corn, the serial option months are January, February, April, June, August, October, and November.

Example of Newspaper Listing

CORN (CBOT) 5,000 bu; cents per bu

Strike Price	Calls-Settle			Puts-Settle		
	Nov	Dec	Mar	Nov	Dec	Mar
190	.....	21 5/8	34 1/4	5/8	1 3/4	2 3/4
200	12	14	26 1/4	1 7/8	3 3/4	4 5/8
210	5 5/8	7 7/8	19 1/4	5 1/2	7 5/8	7 3/4
220	2	3 7/8	13 1/2	.....	13 3/4	11 1/4
230	3/4	1 3/4	9	.....	21 1/4	17 1/4
240	.....	7/8	6 3/8	.....	30 1/4	24

Est vol 9,000; vol Mon 7,349 calls; 5,777 puts; Open int Mon 227,187 calls; 170,231 puts

1. The first column lists several strike prices for Chicago Board of Trade corn options. Typically, the exchange lists corn options in 10-cent increments.
- 2-4. Column 2 lists option premiums for the serial option month, Nov. Columns 3-4 list option premiums for the standard option months, Dec and Mar CBOT corn call options. CBOT corn options trade in 1/8 cent intervals and premiums are quoted in cents and eighths of a cent per bushel.
- 5-7. Column 5 lists option premiums for the serial option month, Nov. Columns 6-7 list option premiums for the standard option months, Dec and Mar CBOT corn put options. Below the columns appear estimated trading volume figures for the day reported followed by actual trading volume and open interest for the preceding day divided between calls and puts.

Strike prices are listed in predetermined multiples for each commodity. Initially, the strike prices are listed in a range around the current underlying futures price. As futures prices increase or decrease, additional higher and lower strike prices are listed. For each agricultural option traded at the CBOT®, you'll find there are several option prices listed. Each price listed represents the price for a given contract month and strike price. You can find option prices in daily newspapers, through on-line quotation services, or at local grain elevators.

The premium is the only element of an option contract that is negotiated in the trading pit; all other elements of an option contract—such as the strike

Mini Quiz #2

You purchased a \$3.50 July wheat put for 15 cents a bushel. What is the (1) underlying commodity (2) strike price (3) premium?

price, expiration date, etc.—are predetermined or standardized by the CBOT.

Regardless of how much the market fluctuates, the most an option buyer can lose is the premium. You deposit the premium with your broker, and the money goes to the option seller. Because of this limited and known risk, buyers are not required to maintain margin accounts, as they must when entering into futures contracts. (*Margin* is a cash deposit to secure a contract.) Option sellers, on the other hand, face the same types of risks as participants in the futures market and must post margin with their brokers. The amount of margin required for option sellers depends upon their overall position risk. At the Chicago Board of Trade, the exchange uses a margining system referred to as SPAN®, which evaluates a customer's overall risk and determines the amount of required margin based on that risk.

In addition to the premium, the broker you use to buy and sell an option will charge a commission fee.

Answer #2

1. July wheat futures
2. \$3.50
3. 15 cents a bushel

Intrinsic Value

The option premium—the price of an option—equals the option’s intrinsic value plus its time value.

An option has *intrinsic value* if it would be profitable to *exercise* the option. Call options, for example, have intrinsic value when the strike price is below the futures price (meaning you can purchase the underlying futures contract at a price below the current market price). For example, when the December

Mini Quiz #3

Looking back at the land example, if the value of land increased to \$1,400 per acre, would it be profitable to exercise the call option with a \$1,200 strike price?

corn futures price is \$2.50, a December corn call with a strike price of \$2.20 has an intrinsic value of 30 cents a bushel.

If the futures price increases to \$2.60, the option’s intrinsic value increases to 40 cents a bushel. If the futures price declines to \$2.40, the intrinsic value declines to 20 cents a bushel.

Put options, on the other hand, have intrinsic value when the strike price is above the futures price (meaning you can sell the underlying futures contract at a price above the current market price). For example, when the July corn futures price is \$2.50, a July corn put with a strike price of \$2.70 has an intrinsic value of 20 cents a bushel. If the futures price increases to \$2.60, the option’s intrinsic value declines to 10 cents a bushel.

Another way to say an option has intrinsic value is to say the option is *in the money*. Options also can be *at the money* (the option has no intrinsic value; strike price equals futures price), or *out of the money* (the option has no intrinsic value—would not be profitable to exercise). If an option has no intrinsic value, then the premium is equal to its *time value*.

Answer #3

Yes. The call option would have an intrinsic value of \$200 (the difference between the land value and the call strike price).

Determining Option Classifications

	Call Option	Put Option
In-the-money	Futures price > Strike price	Futures price < Strike price
At-the-money	Futures price = Strike price	Futures price = Strike price
Out-of-the-money	Futures price < Strike price	Futures price > Strike price

Time Value

Time value—sometimes called *extrinsic value*—reflects the amount of money that buyers are willing to pay in hope that an option will be worth exercising at or before expiration. For example, if July corn futures are at \$2.16 and a July corn call with a strike price of \$2 is selling for 18 cents, then the intrinsic value equals 16 cents (the difference between the strike price and futures price) and the time value equals 2 cents (difference between the total premium and the intrinsic value). **Note:** An option's time value declines as it approaches expiration. It will have no time value at expiration—any remaining premium will consist entirely of intrinsic value.

Mini Quiz #4

If CBOT January soybean futures are trading at \$6.75 and the \$6.50 soybean call option is selling for 28 cents a bushel, how much of the premium is intrinsic value and how much is time value?

Answer #4

Intrinsic value equals 25 cents (the difference between the futures price and the strike price); time value equals 3 cents (the remaining difference).

Major Factors Affecting Time Value Include

The relationship between the underlying futures price and the option strike price. Time value is typically greatest when an option is at the money. This is because at-the-money options have the greatest likelihood of moving into the money before expiration. In contrast, most of the time value in a deep in-the-money option is eliminated because there is a high level of certainty the option will not move out of the money. Similarly, most of the time value of a deep out-of-the-money option is eliminated because it is unlikely to move in the money.

The time remaining until option expiration. The greater the number of days remaining until expiration, the greater the time value will be. That's because option sellers demand a higher price, since it is more likely that the option will eventually be worth exercising (in the money).

Market volatility. Time value also increases as market volatility increases. Again, option sellers demand a higher premium, since the more volatile or variable a market is, the more likely the option will be worth exercising (in the money).

Interest rates. Although the effect is minimal, interest rates affect the time value of an option—as interest rates increase, time value decreases.

Using Options to Benefit Your Business

Food manufacturers, processors, millers, and other agribusinesses can use options to better manage their raw material positions so they increase their profitability. Options are also a good way to protect the value of their on-hand inventories.

Elevator operators can use agricultural options to offer their customers a wider variety of marketing alternatives giving them a competitive edge. One popular contract now possible with ag options is a minimum price contract where producers establish a minimum price for their crop but leave open the opportunity to increase their final sale price.

If you're a farmer you can lock in a desirable selling price of your crops or obtain "price insurance" when you store your crop.

Feedlot managers can use options to protect themselves against rising feed costs by using ag options to set a maximum purchase price.

Investors. There are a number of option strategies—at a variety of risk levels—that can provide profit opportunities. For example, purchasing ag options to profit from an expected price change can provide unlimited profit potential and limited risk.

Others. Of course, anyone who's involved in the agricultural industry can use CBOT ag options to help control costs and enhance income.

Ways to Exit an Option Position

Once an option has been traded, there are three ways you can get out of a position:

- Exercise the option
- Offset the option
- Let the option expire

Exercise

Only the option buyer can decide whether or not to exercise an option. When an option position is exercised, both the buyer and the seller of the option will be assigned a futures position. Here's how it works. The option buyer first notifies his or her broker who then submits an exercise notice to the Board of Trade Clearing Corporation. The exercise is then carried out that night. The Clearing Corporation creates a new futures position at the strike price for the option buyer. At the same time, the Clearing Corporation assigns an opposite futures position at the strike price to a randomly selected customer who sold the same option. The entire procedure is completed before trading opens the following business day.

Offset

Offsetting is the most common method of closing out an option position. You do this by purchasing a put or call identical to the put or call you originally

sold; or by selling a put or call identical to the one you originally bought.

Mini Quiz #5

Would you be exercised against if you sold a CBOT \$2.40 May corn call and CBOT May corn futures fell to \$2.25?

Answer #5

No. The \$2.40 call option has no intrinsic value when May corn is at \$2.25, so the buyer would either let the option expire or sell it back for any remaining time value.

Offsetting an option before expiration is the only way you'll recover any remaining time value. Offsetting also precludes the risks of being assigned a futures position if you originally sold an option and want to avoid the possibility of being exercised against. Your net profit or loss, after a commission is deducted, is the difference between the premium you paid to buy (or received to sell) the option and the premium you receive (or pay) when you offset the option. Market participants face the risk that there may not be an active market for their particular options at the time they choose to offset, especially if the option is out of the money or the expiration date is near.

Expire

The other choice you have is to let the option expire by simply doing nothing. In fact, the right to hold the option up until the final day for exercising is one of the features that makes options attractive to investors. So if the change in price you've anticipated doesn't occur, or if the price initially moves in the opposite direction, you have the assurance that the most you can lose is the premium you paid for the option. On the other hand, option sellers have the advantage of keeping the entire premium they earned provided the option doesn't move in the money by expiration.

Many options expire worthless on their last trading day. It's important to recognize that options on futures frequently follow a different trading schedule than the underlying futures contract, typically expiring a month before the underlying futures contract does. For example, options on December CBOT corn futures stop trading the third week of November, whereas the December CBOT corn futures contract doesn't stop trading until mid-December.

Options that have value are usually offset, rather than exercised, before expiration. However, if you're holding an in-the-money option at expiration, the Board of Trade Clearing Corporation will automatically exercise the option unless you give notice to the Clearing Corporation before expiration.

Futures Positions After Option Exercise

	Call Option	Put Option
Buyer assumes	Long futures position	Short futures position
Seller assumes	Short futures position	Long futures position

Example #1

Situation: A farmer wants protection in case soybean prices fall by harvest

Strategy: Farmer buys a CBOT put option

If falling commodity prices are a threat to your profitability, buying put options allows you to establish a minimum selling price without giving up the opportunity to profit from higher prices.

Assume you're a soybean producer and you have just finished planting your crop. You are worried that prices may fall before harvest and would like to establish a floor price for a portion of your expected soybean crop. You go ahead and purchase a November soybean put with a strike price of \$6.50—this gives you a minimum selling price of \$6.50 a bushel (excluding basis, commissions, and the cost of the option).

If, just before harvest, the November futures price declines to \$5.75 (your put option is in the money), you can exercise your option and receive a short futures contract at the \$6.50 strike price. Buying back the futures contract at the lower market price of \$5.75 gives you a 75-cent per bushel profit (the difference between the strike price and the futures price), which should roughly offset the decline in the price of soybeans. Or, rather than exercising the option, you might be able to earn more by selling back the option to someone else. This would allow you to profit from any remaining time value as well as the 75 cents intrinsic value, both of which would be reflected in the option premium.

When November soybean futures are trading at \$5.75, the \$6.50 soybean put would be worth at least 75 cents plus any remaining time value. Generally, when an option is in the money and has time value it's common for someone to offset—sell back the option rather than exercising it. That's because exercising the option will yield only its intrinsic value. Any time value that remains will be forgone unless it is offset. Also, an extra brokerage commission may be incurred when exercising an option.

If the price of soybeans increases just before option expiration and is above the option strike price (your put option is out of the money), you can simply let the option expire or sell it back prior to expiration to capture any remaining time value. In either case, your loss on the option position can be no larger than the premium paid, and you still will be able to sell your crop at the higher market price.

Example #2

Situation: A food processor wants protection against rising raw material costs

Strategy: Food processor buys a CBOT soybean oil call option

If rising commodity prices are a threat to your profitability, buying call options allows you to establish a maximum purchase price without giving up the opportunity to profit from falling prices.

For example, suppose you're a food processor and you expect to buy soybean oil during the spring. You are worried that prices may rise over the next few months and would like to establish a ceiling price for your eventual purchase. So, you buy a May soyoil call with a 25-cent strike price—this gives you a maximum purchase price of 25 cents a pound (excluding basis, commissions, and the cost of the option).

If, in April, the May futures price increases to 30 cents (your call option is in the money), you can exercise your option and receive a long futures contract at the 25-cent strike price. Selling back the futures contract at the higher market price (30 cents per pound) gives you a 5-cent a pound profit, which should roughly offset the increase in the cost of soyoil. Or, rather than exercising the option, you might be able to earn an even larger profit by selling the option to someone else (offsetting the option position) at a higher premium. This would allow you to profit from any remaining time value as well as the increase in intrinsic value, both of which would be reflected in the option premium.

The 25-cent soyoil call would be worth at least its intrinsic value of 5 cents (the difference between the strike price and the futures price) plus any remaining time value. In most cases, when an option is in the money and has time value it's common for someone to offset, in this case sell back the option, rather than exercising it. That's because exercising the option will

yield only its intrinsic value. Any time value that remains will be forgone unless it is offset. Also, an extra brokerage commission may be incurred when exercising an option.

If the price of soyoil in April declines and is below the option strike price (your call option is out of the money), you can simply let the option expire or sell it back prior to expiration. In either case, your loss on the option position can be no greater than the premium paid, and you still will be able to purchase your soyoil at the lower market price.

Example #3

Situation: An investor wants to profit from an expected fall in corn prices, but wants to limit his risk

Strategy: Investor buys a CBOT corn put option

Just as futures contracts can be used for either hedging or speculative purposes, so can options—but with one important difference: the buyer of an option has a known and limited risk.

To profit from an expected decrease in corn prices, you would purchase CBOT corn put options. Buying calls, on the other hand, is the strategy to use when you're expecting prices to rise.

Let's assume you expect CBOT May corn futures prices to fall. To profit from this possible bear market, but at the same time limit your market exposure,

Mini Quiz #6

If you buy an option and the market moves against you, what is the most you can lose?

you buy a May \$2.40 put for 8 cents a bushel. Purchasing a May corn put with a strike price of \$2.40

gives you the opportunity to profit if corn prices fall below \$2.40 (excluding the cost of the option and commissions).

If, in April, the May futures price falls to \$2.25 (your put option is in the money), you can exercise your option and receive a short futures contract at the strike price of \$2.40. Buying back the futures contract at the lower market price (\$2.25) gives you a 15 cent per bushel profit (the difference between the strike price and the futures price). Or, rather than exercising the option, you might be able to earn more by offsetting—selling the option to someone else at a higher premium. This would allow you to profit from any remaining time value as well as the increase in intrinsic value, both of which would be reflected in the option premium.

When corn futures are trading at \$2.25, the \$2.40 corn put would be worth at least its intrinsic value of 15 cents plus any remaining time value. In most cases, when an option is in the money and has time value it's common for someone to offset—sell back the option rather than exercising it. That's because exercising the option will yield only its intrinsic value. Any time value that remains will be forgone, unless it is offset. Also, an extra brokerage commission may be incurred when exercising an option.

If the price of corn in April increases and is above the \$2.40 strike price (your put is out of the money), you can simply let the option expire or sell it back prior to expiration. In this case, your loss on the option position can be no greater than the premium paid.

Answer #6

The most you can lose is the option premium.

Example #4

Situation: An investor expects wheat prices to remain stable or fall slightly, and is willing to hold a position with unlimited risk

Strategy: Investor sells a CBOT wheat call option

An option seller receives the full amount of the premium paid by an option buyer. In return for the premium, the option seller incurs an obligation: to take an opposite futures position if the option is exercised by the option buyer.

Thus, if a call is exercised, the option seller acquires a short futures position at the option strike price (the buyer of a call receives a long futures position at the same strike price). If a put is exercised, the option seller acquires a long futures position at the option strike price (the option buyer acquires a short futures position at the same strike price).

Mini Quiz #7

If you sell an option and the market moves against you, what is the most you can lose?

Assume you're an investor and expect December wheat futures prices to stay about the same or

fall slightly. So you sell a December wheat call with a strike price of \$3.90 for 10 cents a bushel—this gives you a maximum profit of 10 cents a bushel (excluding commissions).

If, in September, the December wheat futures price fell to \$3.80 (your \$3.90 call option is out of the money), you can offset your position by buying back the call option at its current price. At the time, the call option is only worth its remaining time value of 6 cents a bushel. Your profit under this scenario would be 4 cents a bushel (excluding commissions)—the difference between the price you received for selling the option and the price you paid for buying back the option.

Or, rather than offsetting the option, you might earn an even larger profit by letting the option expire. However, you are at risk since the call option could run in the money if the price of December wheat futures increases above

\$3.90 before the option expires in mid-November. If that occurs, the buyer of the call option would more than likely exercise the call, which means you would be assigned an unprofitable futures position. Obviously then, you would sell an option only when expecting that the option will not be exercised. Or, if the option is exercised, you expect the loss on the futures position to be less than the premium received. Of course, if your expectations are wrong, you will likely have an unprofitable trade. It is important to remember that option sellers face potentially unlimited risk.

Typically, option sellers profit by capturing option time value—selling options at the most opportune time to benefit from decreasing time value. Rather than waiting for an option to be exercised or expire, many times option sellers will buy back an option, profiting from the price change in the two premiums—selling options at a higher price and buying them back at a lower premium.

As a hedging strategy, selling options provides only limited protection—the amount of premium received—against a change in price. Unlike option buyers, whose maximum loss is limited to the cost of the option, the potential loss for option sellers is unlimited. In fact, an option seller's maximum profit equals the premium.

Answer #7

Your losses are potentially unlimited.

How to Open an Account

Local brokerage offices are usually the most convenient outlet for futures and options on futures transactions. Brokerage offices are located in most towns and cities throughout the United States. Some local grain elevators provide futures brokerage services.

To be sure that you use a reputable broker, you should:

1. Contact current and past customers.
2. Check to see if the broker is registered with the National Futures Association (NFA) and that no complaints have been registered. Federal law requires that all brokers are registered with the NFA. You can contact the NFA by calling 800-621-3570 outside of Illinois and 800-572-9400 within Illinois.

Also, when you open an account, you should inform the broker whether your account will be used for hedging or speculating purposes.

Brokers charge customers a commission fee to buy or sell option contracts. Commission rates will vary depending on the kind and amount of service offered, but are generally competitive. For example, a full service broker provides a wide range of services to clients, while a discount broker specializes in executing trades.

Where to Go from Here

If you would like to begin trading agricultural options at the Chicago Board of Trade, contact a commodity broker of your choice who specializes in agricultural option markets or call one of the Chicago Board of Trade's product managers at 312-341-7955.

We also offer a number of free publications on futures and options. If you'd like to receive a free copy of our publications catalog, call or write:

Chicago Board of Trade
Publications Department
141 W. Jackson Blvd., Suite 2210
Chicago, IL 60604-2994
800-THE-CBOT or 312-435-3558
or fax your request to: 312-341-3168

Most Commonly Used Terms

at-the-money option—an option whose strike price equals, or is approximately equal, to the current market price of the underlying futures contract.

call option—an option that gives the option buyer the right to buy (go “long”) the underlying futures contract at the strike price on or before the expiration date of the option.

exercise—the action taken by the holder of a call if he or she wishes to purchase the underlying futures contract, or by the holder of a put if he or she wishes to sell the underlying futures contract.

expiration date—the last day an option can be exercised. Options expire during the month preceding the futures contract delivery month. For example, March wheat options expire in February; September corn options expire in August.

futures contract—a contract traded on a futures exchange for the delivery of a specified commodity at a future time. The contract specifies the item to be delivered and the terms and conditions of delivery.

in-the-money option—a call is in the money if its strike price is below the current price of the underlying futures contract (i.e., if the option has intrinsic value). A put is in the money if its strike price is above the current price of the underlying futures contract (i.e., if the option has intrinsic value).

intrinsic value—the dollar amount that would be realized if the option were to be exercised immediately. See in-the-money option.

margin—in commodities, an amount of money deposited to ensure fulfillment of the contract at a future date. Buyers of options do not post margins, since their risk is limited to the option premium, which is paid in its entirety when the option is purchased.

offset—taking a second option position equal and opposite to the initial or opening position, “close out.”

open interest—the number of futures or option contracts of a given commodity that have not been offset, delivered against, exercised or expired.

option—within the futures industry, a contract that conveys the right, but not the obligation, to buy or sell a futures contract at a certain price for a limited time. See call option and put option.

out-of-the-money option—a put or call option that currently has no intrinsic value. That is, a call whose strike price is above the current futures price or a put whose strike price is below the current futures price.

premium—the price of an option which equals the option's intrinsic value plus its time value.

put option—an option that gives the option buyer the right to sell (go “short”) the underlying futures contract at the strike price on or before the expiration date of the option.

serial option—short-term option contracts that trade for approximately 30 days and expire during those months in which there is not a standard option contract expiring. These options are listed for trading only on the nearby futures contract, unlike standard options, which can be listed for nearby and deferred contract months.

standard option—traditional option contracts trading in the same months as the underlying futures contracts. Standard option contracts can be listed for nearby and deferred contract months.

strike price (or exercise price)—the price at which the holder of a call (put) may choose to exercise his or her right to purchase (sell) the underlying futures contract.

time value—the amount by which an option's premium exceeds the option's intrinsic value. If an option has no intrinsic value, its premium is entirely time value. Also referred to as extrinsic value.

underlying futures contract—the specific futures contract that may be bought or sold by the exercise of an option.

volume—the number of purchases or sales of a given futures or option contract made during a specified period of time.

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