



# Session 4 – Trading Tools & How to Get Started

**Tom Clark**  
**Associate Director**  
**CME Group Commodity Products**

**May 22, 2008**

# CME Group Website

Visit CME Group website: [www.cmegroup.com](http://www.cmegroup.com)

## Types of information:

- Current market and exchange Information
- Contract information
- Educational material: publications, tutorials, webinars
- Rules and regulations
- Trading information: margin, fees, price limits, position limits etc.
- Statistical reports

# CME Group Website - Product resources page

---

## Product Education

### Industry Links

[AGEBB Farm Marketing Reports](#)  
[American Meat Institute](#)  
[K-State Livestock Marketing Reports](#)  
[Livestock Marketing Information Center](#)  
[NASS Monthly Cold Storage Report](#)  
[National Pork Producers Council](#)  
[NASS Quarterly Hogs and Pigs Reports](#)  
[National Livestock Producers Association](#)  
[USDA Livestock and Grain Market News Reports](#)  
[USDA Monthly Outlook](#)  
[Virtual Livestock Library](#)

### Learning Links

[Daily Livestock Report](#)  
[Electronic Trading of Livestock with Ken "Woodie" Wood](#)

### Real-Time Quotes

[Free Lean Hog Futures Quotes](#)

---

## Publications

### Brochures

[Pork F&O Fact Card \(PDF\)](#)  
[Guide to Hedging with Livestock Products \(PDF\)](#)

### Subscriptions

[Email Subscription Center](#)  
[Commodity Monthly Newsletter](#)  
[Commodity Monthly Update](#)

---

## Contract Related

[Cash-Settled Index Commodity Reports](#)  
[Lean Hog Basis Reports](#)

[www.cmegroup.com/commodities](http://www.cmegroup.com/commodities)

# CME Group Brochure –

## “Self study guide to Hedging with Livestock F & O”

### IN THIS GUIDE

UNIT 1 THE CONCEPT OF FUTURES	3
UNIT 2 WHO'S WHO IN THE FUTURES MARKETS	6
UNIT 3 THE DEVELOPMENT OF CONTRACT SPECIFICATIONS	8
UNIT 4 THE IMPORTANCE OF BASIS	9
UNIT 5 THE SHORT HEDGE	11
UNIT 6 LOCKING IN A SELLING PRICE – SELLING FUTURES CONTRACTS	13
UNIT 7 THE LONG HEDGE	15
UNIT 8 LOCKING IN A PURCHASE PRICE – BUYING FUTURES CONTRACTS	17
UNIT 9 HOW A HEDGING ACCOUNT WORKS	19
UNIT 10 OPTIONS ON LIVESTOCK FUTURES	24
UNIT 11 HOW OPTIONS WORK	26
UNIT 12 WHICH OPTION TO BUY?	29
UNIT 13 ESTABLISHING A MINIMUM SALE PRICE FOR LIVESTOCK – BUYING PUT OPTIONS	32
UNIT 14 ESTABLISHING A MAXIMUM PURCHASE PRICE FOR LIVESTOCK – BUYING CALL OPTIONS	34
UNIT 15 OPENING A HEDGING ACCOUNT	36
UNIT 16 TYPES OF FUTURES ORDERS	38
UNIT 17 POINTS FOR SUCCESSFUL HEDGING	40
GETTING STARTED	41
CME GROUP COMMODITY PRODUCTS	42

# Real Time Electronic Quotes

CME Group: E-Livestock® - Microsoft Internet Explorer provided by Chicago Mercantile Exchange Inc.

Address: http://elivestockrdc.cme.com:443/index3.html

**CME Group** DATASUITE **E-Livestock** Select a Product: Commodities

Overview Dairy Futures Dairy Options **Livestock Futures** Livestock Options Wood Pulp

Live Cattle/Inter-commodity Spreads | Feeder Cattle | Lean Hogs

Select Front Month: HEK8 Settlements Questions about E-Livestock? Please contact: Anne Carrara (312) 380-4597 Trade Date: Tuesday, April 29, 2008

### HEK8

High	75.300A
Low	73.225
Volume	384
Last	73.550B

#### Outright

Bid Size	Bid Price	Ask Price	Ask Size
2	73.550	73.775	5
3	73.600	74.050	1
2	73.375	74.275	1
5	73.300	74.600	5
10	73.250	74.875	1

### HEM8

High	75.750
Low	72.460
Volume	9319
Last	72.850B

#### Outright

Bid Size	Bid Price	Ask Price	Ask Size
18	72.800	72.875	3
20	72.750	72.900	19
25	72.700	73.000	12
5	72.650	73.050	3
9	72.600	73.075	3

### HEN8

High	77.000A
Low	74.550
Volume	2389
Last	75.250B

#### Outright

Bid Size	Bid Price	Ask Price	Ask Size
1	75.250	75.525	3
4	75.200	75.550	2
10	75.150	75.875	3

#### Spreads

Contracts	Bid Size	Bid Price	Ask Price	Ask Size	High	Low	Volume	Last
HEK8-HEM8	3	0.700	0.975	5	1.100	0.475	113	0.700
HEK8-HEN8	2	-2.325	-1.475	1	-1.250	-1.600	100	-1.500
HEK8-HEQ8	2	-3.000	-2.325	1	-	-	-	-2.175S
HEK8-HEV8	2	1.850	2.625	1	-	-	-	3.300S
HEK8-HEZ8	2	-0.500	0.375	1	-	-	-	1.225S
HEK8-HE99	2	-5.550	-4.600	5	-	-	-	-3.950S
HEK8-HEM8-HEN8	-	-	-	-	-	-	-	2.025S
HEM8-HEN8	5	-2.650	-2.400	4	-1.475	-2.750	1175	-2.400
HEM8-HEQ8	5	-3.500	-3.350	26	-2.525	-3.750	751	-3.400
HEM8-HEV8	5	1.100	1.725	1	1.775	1.125	3	1.125
HEM8-HEZ8	5	-1.000	-0.525	1	0.300	-1.025	95	-1.000
HEM8-HE99	5	-6.300	-5.500	3	-	-	-	-4.250S
HEM8-HEN8-HEQ8	-	-	-0.550	50	-1.325A	-1.325A	-	-1.325A
HEN8-HEQ8	19	-1.000	-0.725	15	-0.850	-1.350	177	-1.000
HEN8-HEV8	1	3.550	4.225	6	4.350A	3.725	56	3.850
HEN8-HEZ8	1	1.200	2.475	1	2.200	2.200	2	2.200

[www.cmegroup.com/elivestockquotes](http://www.cmegroup.com/elivestockquotes)

# The Electronic Quote Page

## •The “book”

HEM8	
High	75.750
Low	72.450
Volume	9319
Last	72.850B

Bid Size	Bid Price	Ask Price	Ask Size
18	72.800	72.875	3
20	72.750	72.900	19
25	72.700	73.000	12
5	72.650	73.050	3
9	72.600	73.075	3

## •Spreads

Spreads								
Contracts	Bid Size	Bid Price	Ask Price	Ask Size	High	Low	Volume	Last
HEJ7-HEK7	-	-	-	-	-	-	-	-9.925S
HEJ7-HEM7	120	-9.900	-9.850	10	-9.700	-9.900	252	-9.900
HEJ7-HEN7	5	-9.975	-9.850	10	-9.900	-10.000	25	-9.975

[www.cmegroup.com/elivestockquotes](http://www.cmegroup.com/elivestockquotes)

# The Electronic Quote Page

## •Options

REAL-TIME OPTIONS PRICES												
Calls						Strike	Puts					
Bid volume@price	Ask price@volume	High	Low	Last	Volume		Bid volume@price	Ask price@volume	High	Low	Last	Volume
10@3.350	4.025@10	3.800B	3.450B	3.800B	-	64.00	50@.550	.800@20	.625B	.550	.625B	11
10@2.650	3.300@10	3.025B	2.700B	3.025B	-	65.00	50@.800	1.100@11	1.000	.875B	.975A	10
10@2.025	2.450@10	2.375B	2.050B	2.325A	-	66.00	5@1.125	1.400@10	1.225B	1.200B	1.225B	-
11@1.500	1.925@10	1.950	1.475B	1.825A	10	67.00	5@1.550	1.925@45	1.725	1.600A	1.700A	10
11@1.075	1.375@10	1.325B	1.075B	1.275A	-	68.00	5@2.025	2.400@10	2.375A	2.075A	2.150B	-
11@.725	1.075@12	1.075	.725B	.975A	10	69.00	10@2.550	3.175@10	2.775B	2.575B	2.775B	-
10@.500	.775@10	.675	.475B	.650	56	70.00	10@3.250	3.900@10	3.475B	3.275B	3.475B	-
11@.300	.575@10	.525	.275B	.500A	10	71.00	10@4.025	4.750@10	4.250B	4.025B	4.250B	-
20@.175	.375@10	.275B	.200B	.275B	-	72.00	10@4.850	5.600@10	5.075B	4.875B	5.075B	-
50@.100	.300@10	.200	.100B	.200	10	73.00	10@5.750	6.525@10	5.975B	5.775B	5.975B	-
-	.200@20	.325A	.150	.150	160	74.00	10@6.675	7.450@10	6.900B	6.725B	6.900B	-
-	.150@10	.250A	.150A	.150A	-	75.00	10@7.625	8.425@10	7.825B	7.700B	7.825B	-

[www.cmegroup.com/elivestockquotes](http://www.cmegroup.com/elivestockquotes)

# Free Daily Commentary

# Daily Livestock Report

**CME Group**  
 1400 Lakeside Drive, Chicago, IL 60606  
 www.cme.com

**Volume 6, Issue 7**      **January 10, 2008**

<b>E-Livestock Volume</b>	<b>10-Jan</b>	<b>9-Jan</b>	<b>3-Jan</b>
LE (E-Live Cattle):	8,089	11,479	9,591
GF (E-Feeder Cattle):	277	179	342
HE (E-Lean Hogs):	16,592	21,911	6,920

Free real-time Globex quotes: [www.cme.com/livestockquotes](http://www.cme.com/livestockquotes)

**Market Comments**

The increase in feedlot placements during the last quarter of 2007 is likely reflected in the higher slaughter levels so far this year. The chart to the left is a reader. Rather than showing the daily variation in heifer slaughter (too much noise) we have opted to show 7-day total. At the end of each week USDA reports total, which coincides with our Saturday calculation of the rolling seven day average each day. However, we know "weekly" cattle supplies are tracking at any time. On Thursday afternoon, January 10, the net steer and heifer slaughter was at 250,000 head, that the holiday shortened volume of a week ago as a result, 12% higher than the volume during the same frame a year ago. One thing to keep in mind when the last two years is that in 2006 New Year's day was thus pushing some of the slaughter for that day late and boosting the 7-day moving average this week.

In the past two years, weekly steer and heifer slaughter during Q1 of 2008 has averaged 220,000 head. Back in 2006, weak margins caused back slaughter levels for a couple of weeks in Feb. Feedlot placements last fall make it unlikely that slaughter during Q1 of 2008 stay below 2007 as 21,000 head to the December 1 USDA feedlot survey; the 1% more cattle on feed than in 2007 and 3% more than in 2006. These animals were also heavier and to market a bit earlier than the past two years. Drought slaughter levels and deteriorating packer margins, a feedlots have been able to extract a little more margin on Thursday. USDA quoted the accumulated 5-day average for live steers at 244,000 and for live heifers, 167,000 and 162,000. During the same time period, packer prices were in a holding pattern. The 5-day average for live steers at 145.75/cwt compared with 145.00/cwt a year ago.

**ETHANOL:** Ethanol futures settled moderately higher. February ethanol gained 9 cents to \$2.21 per gallon.

**OATS:** Our futures settled sharply higher, making new life-of-contract highs as spillover from corn and final buying pushed prices higher. A commission house analyst said, "March oats jumped 9 cents to \$3.36 per bushel after trading as high as \$3.39.

**RICE:** Rough rice futures settled lower in choppy, mid-aide made at the close, after traders termed a cut in US ending stocks as "disappointing." Rice opened lower on profit-taking after the USDA cut long grain rice ending stocks by 500,000 hundredweight to 11.7 million hundredweight. The market is at all-time highs and needs to see additional bullish news to attract fresh buyers," an analyst said. Early speculative selling and light commercial selling helped drive prices to the lows of the session early. However, prices began to rally after out-of-the-market put selling in March by commercialists pushed a short-covering rally, the analyst said. In a volatile close, Mar rice set another new all-time high on monthly commissions open auction claims on "reverse" local short-covering which was offset by additional selling interest, a trader said.

**CME Group**  
 1400 Lakeside Drive, Chicago, IL 60606  
 www.cme.com

**Commodity News For Tomorrow**

January 11, 2008 3 p.m. CT

**MARKET RECAP**

**CORN:** Corn futures settled last up as lower-than-expected crop production, quarterly stocks and ending stocks data pushed prices to new 12-year highs in nearby March. The same factors led new-crop December to trade over \$5.00 per bushel. "The corn market had a little bit of a cushion in ending stocks going into the report, but the USDA estimating ending stocks below 1.5 billion bushels eliminated that perception, and pushed the market sharply higher," said Jason Britt, an analyst at Central States Commodities. "It's a bullish situation; we have produced a record corn crop and cannot rebuild corn stocks. Demand is outpacing supply," said Britt. Speculative buying pushed prices higher with unfilled buy orders in electronic trading at 139,000 contracts at the close. March corn settled 30 cents higher at \$4.95 per bushel, a new life-of-contract high and a 12-year high. December, which represents the crop that will be harvested this fall, also rose 20 cents to \$5.13 1/4 per bushel.

**ETHANOL:** Ethanol futures settled moderately higher. February ethanol gained 9 cents to \$2.21 per gallon.

**OATS:** Our futures settled sharply higher, making new life-of-contract highs as spillover from corn and final buying pushed prices higher. A commission house analyst said, "March oats jumped 9 cents to \$3.36 per bushel after trading as high as \$3.39.

**RICE:** Rough rice futures settled lower in choppy, mid-aide made at the close, after traders termed a cut in US ending stocks as "disappointing." Rice opened lower on profit-taking after the USDA cut long grain rice ending stocks by 500,000 hundredweight to 11.7 million hundredweight. The market is at all-time highs and needs to see additional bullish news to attract fresh buyers," an analyst said. Early speculative selling and light commercial selling helped drive prices to the lows of the session early. However, prices began to rally after out-of-the-market put selling in March by commercialists pushed a short-covering rally, the analyst said. In a volatile close, Mar rice set another new all-time high on monthly commissions open auction claims on "reverse" local short-covering which was offset by additional selling interest, a trader said.

**ETHANOL:** Ethanol futures settled moderately higher. February ethanol gained 9 cents to \$2.21 per gallon.

**OATS:** Our futures settled sharply higher, making new life-of-contract highs as spillover from corn and final buying pushed prices higher. A commission house analyst said, "March oats jumped 9 cents to \$3.36 per bushel after trading as high as \$3.39.

**RICE:** Rough rice futures settled lower in choppy, mid-aide made at the close, after traders termed a cut in US ending stocks as "disappointing." Rice opened lower on profit-taking after the USDA cut long grain rice ending stocks by 500,000 hundredweight to 11.7 million hundredweight. The market is at all-time highs and needs to see additional bullish news to attract fresh buyers," an analyst said. Early speculative selling and light commercial selling helped drive prices to the lows of the session early. However, prices began to rally after out-of-the-market put selling in March by commercialists pushed a short-covering rally, the analyst said. In a volatile close, Mar rice set another new all-time high on monthly commissions open auction claims on "reverse" local short-covering which was offset by additional selling interest, a trader said.

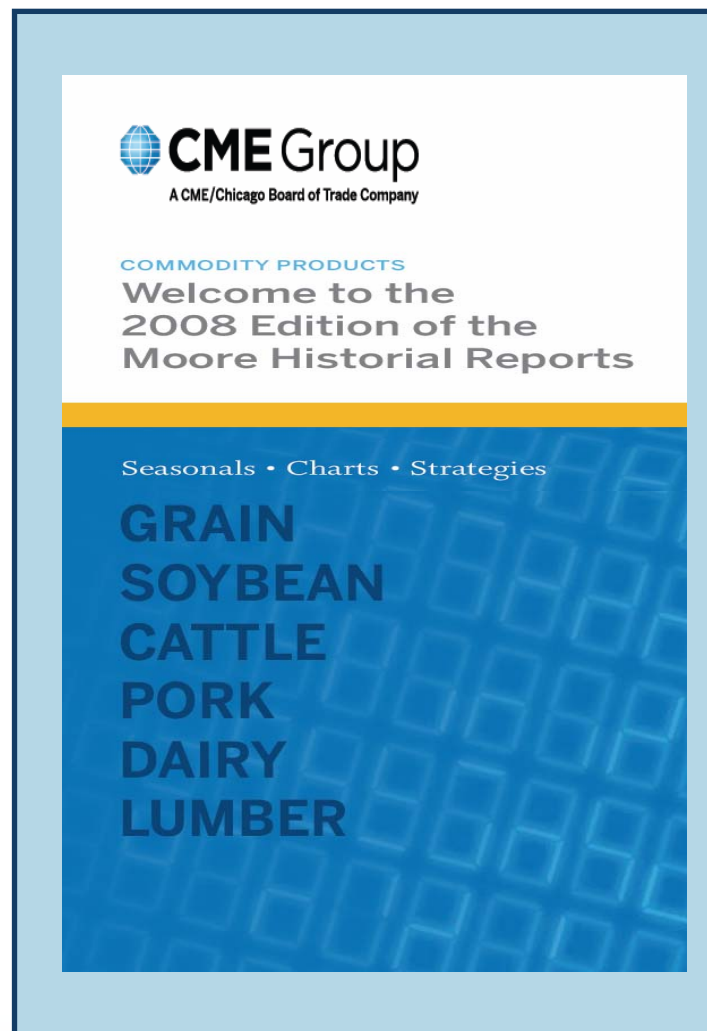
- Latest industry news
- Prices
- Fundamentals
- [www.dailylivestockreport.com](http://www.dailylivestockreport.com)

# Commodity News for Tomorrow

# 2008 Moore Historical Reports

- Historical daily charts
- Cash and basis charts
- Seasonal strategies
- And other research data to help you trade

Now all in  
one CD



Contact: [thomas.clark@cmegroup.com](mailto:thomas.clark@cmegroup.com)

# Other Web Resources

**USDA** – [www.usda.gov](http://www.usda.gov)

**NASS** – [www.nass.usda.gov](http://www.nass.usda.gov)

**LMIC** – [www.lmic.info](http://www.lmic.info)

**NPB Pork Checkoff**- [www.pork.org](http://www.pork.org)

**NFA** - [www.nfa.futures.org](http://www.nfa.futures.org)

# How to find a Broker

1. Referrals
2. Specialization & Background
3. Connection
4. Services
  - A. Information resources
  - B. Market Guidance
  - C. Hedging Strategies/Advice
  - D. Systems/models/programs
5. Check them out! [www.nfa.futures.org](http://www.nfa.futures.org)



# Session 1 - Futures and Options: The Basics

**Tom Clark**  
**Associate Director**  
**CME Group Commodity Products**

**May 19, 2008**



# What are Futures & Options?

- **Futures contracts** are standardized, legally binding agreements to buy or sell a specific product or financial instrument in the future. The buyer and seller of a futures contract agree on a price today for a product to be delivered or settled in cash at a future date. Each contract specifies the quantity, quality and the time and location of delivery and payment.
- **Options** can be thought of as insurance policies. The option buyer pays a price for the right – but not the obligation – to buy or sell a futures contract within a stated period of time at a predetermined price.

# Contract Trade Positions

## Futures Contract:

- An obligation to buy or sell a commodity that meets set grades and standards on some future date.

Types	Terminology	Price Advantage	Deliver/Offset Cash Settle
Sell	Short	Prices down 	Long
Buy	Long	Prices up 	Short

# How Are Prices Determined?

## Actions of hedgers and speculators looking at:

- Supply
  - Demand
  - Political factors
  - Psychological factors
- 
- And coping with price volatility

# Options Terms: Puts and Calls

## Put Option: A right to SELL:

- a futures contract
- at a fixed price
- before an expiration date

## Call Option: A right to BUY:

- a futures contract
- at a fixed price
- before an expiration date

**Note:** The opposite of a put.

Does not offset a put.

# Put Option Buyers and Sellers

Put Buyer	Put Seller
Pays premium	Collects premium
Has right to exercise into a <u>short</u> futures position	Has obligation to accept <u>long</u> futures position if assigned
Pays no Performance Bond	Insures put buyer by paying Performance Bond



# Session 2 - Introduction to Hedging

**Tom Clark**  
**Associate Director**  
**CME Group Commodity Products**

**May 20, 2008**

# Hedging (Risk Shifting)

## Definition of Hedging:

- Taking an opposite position in futures from your present cash position.

Cash	Futures
<b>Owner</b> of inventory • <b>Risk</b> in <b>down</b> markets	<b>Seller</b> of contracts (Short) • <b>Gain</b> in <b>down</b> markets
<b>User</b> of inventory • <b>Risk</b> in <b>up</b> markets	<b>Buyer</b> of contracts (Long) • <b>Gain</b> in <b>up</b> markets

# Hedging with Futures and Options

- **Hedging consists of defining:**
  - Your open cash pricing risk,
  - The corresponding futures contract to offset the risk,
  - The futures contract month closest to cash risk production/procure period in question,
  - An estimated basis in the marketing/ procure month in order to project a hedged price.
  - Plus, firm's hedge policy plans; such as price objectives, percentages to hedge, and the offset policy to meet overall risk management objectives.

## Basic approaches to hedging price risk:

Buy (long) hedging – Procurement

Sell (short) hedging – Production

# Steps to Hedging Summary

**Know costs**

**Contract specifications**

**Basis**

**Performance bond requirements**

**Hedging costs**

- Commission
- Interest

**Knowledgeable**

- Broker
- Lender

**Marketing plan**



# Session 3 - Developing a Marketing Plan

**Tom Clark**  
**Associate Director**  
**CME Group Commodity Products**

**May 21, 2008**

# Marketing Alternatives

Marketing Alternative	Advantages	Disadvantages
Cash sales	<ul style="list-style-type: none"> <li>• Easy to transact</li> <li>• Immediate payment</li> <li>• No set quantity</li> </ul>	<ul style="list-style-type: none"> <li>• Maximize risk</li> <li>• No price protection</li> <li>• Less flexible</li> </ul>
Forward contract	<ul style="list-style-type: none"> <li>• Easy to understand</li> <li>• Flexible quantity</li> <li>• Locked-in price</li> <li>• Minimize risk</li> </ul>	<ul style="list-style-type: none"> <li>• Must deliver in full</li> <li>• Opportunity loss if prices rise</li> </ul>
Futures contract	<ul style="list-style-type: none"> <li>• Easy to enter/exit</li> <li>• Minimize risk</li> <li>• Often better prices than forward contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity loss if prices rise</li> <li>• Commission cost</li> <li>• Performance bond calls</li> <li>• Set quantities</li> </ul>
Options contract	<ul style="list-style-type: none"> <li>• Price protection</li> <li>• Minimize risk</li> <li>• Benefit if prices rise</li> <li>• Easy to enter/exit</li> </ul>	<ul style="list-style-type: none"> <li>• Premium cost</li> <li>• Set quantities</li> <li>• Commission cost</li> </ul>

# Marketing Plans Are Critical To Success

## A Seven-Step Marketing Plan

1. **Know your costs of production and determine your break-even levels**
2. **Utilize sound market information**
3. **Know your product**
4. **Set target price(s)**
5. **Evaluate pricing alternatives**
  1. Forward contract
  2. Auction
  3. Futures/Options Hedging
6. **Execute when target prices are hit.**
7. **Review results to determine what works best for your operation**

# Further Information

**CME Web site:** [www.cmegroup.com](http://www.cmegroup.com)

**CME commodities Web site:** [www.cmegroup.com/commodities](http://www.cmegroup.com/commodities)

**USDA reports:** [www.nass.usda.gov](http://www.nass.usda.gov), [www.usda.gov](http://www.usda.gov)

## **CME contact information:**

- Commodity Products 312-338-2080
- Customer Service and Publications 800-331-3332
- Thomas Clark, Associate Director 312-930-4595

[Thomas.clark@cmegroup.com](mailto:Thomas.clark@cmegroup.com)

# Disclaimer

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

All references to options refer to options on futures.

The Globe logo, CME® and CME Group™ are trademarks of Chicago Mercantile Exchange Inc. CBOT® and Chicago Board of Trade® are trademarks of The Board of Trade of the City of Chicago, Inc. All other trademarks are the property of their respective owners.

The information within this presentation has been compiled by CME Group for general purposes only. Although every attempt has been made to ensure the accuracy of the information within this presentation, CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this presentation are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT and CME Group rules. Current rules should be consulted in all cases concerning contract specifications.