



## Special Executive Report

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S-6498

December 17, 2012

### **FINANCIAL FULL CARRY AND THE VARIABLE STORAGE RATE MECHANISM IN WHEAT FUTURES**

The Variable Storage Rate (VSR) mechanism in Chicago Board of Trade (CBOT) Wheat futures examines nearby calendar spreads to determine adjustments in maximum contract premium (storage) charges.

#### December 2012 – March 2013 wheat spread

During the evaluation period of September 19, 2012 through November 23, 2012, the observed December – March calendar spread averaged 46.11% of financial full carry. This will result in the maximum premium charge that a wheat regular delivery facility may charge holders of its outstanding shipping certificates being lowered from 26.5/100s of one cent per bushel per day (approximately 8 cents per bushel per month) to 16.5/100s of one cent per bushel per day (approximately 5 cents per bushel per month) on December 18, 2012.

This result was communicated in Special Executive Report S-6475 issued on November 26, 2012 and is available here: <http://www.cmegroup.com/rulebook/files/20121126s-6475.pdf>

#### March 2013 – May 2013 wheat spread

During the evaluation period of December 19, 2012 to February 22, 2013, the observed March – May spread will be measured relative to financial full carry and averaged. If it averages 80 percent of financial full carry or greater, the maximum premium charge that a wheat regular delivery facility may charge holders of its outstanding shipping certificates will increase. The change, if made, would go into effect on March 18, 2013. Consequently anyone looking to evaluate taking March delivery and redelivering in May should consider the impact.

#### Financial Full Carry Calculation

The formula for financial full carry used in the VSR mechanism is:

$$\# Days * \left[ \left( \frac{\text{Interest}}{360} * FP \right) + \text{Daily Storage} \right]$$

Where:

# Days = Number of calendar days from first delivery day in the nearby contract to first delivery day in the contract following the nearby contract

Interest = 3-Month LIBOR rate + 200 basis points

FP = Settlement price for the nearby Wheat futures contract

Daily Storage = Current daily premium charge (\$ .00165/day)

#### Financial Full Carry Example

For example, there are 61 days between the first delivery day of the March 2013 Wheat futures contract and the first delivery day of the May 2013 Wheat futures contract. Daily storage used in the calculation is the rate that goes into effect on December 18, 2012 or 16.5/100s of one cent per bushel per day. Suppose the 3-Month LIBOR rate is 0.3 percent giving an interest rate of 2.3 percent (LIBOR plus 200 basis points). Finally, suppose the March 2013 futures contract is priced at \$8.10 per bushel. Under these values, financial full carry for the VSR calculation would be:

# Days = 61

Interest = 0.3% + 2.0% = 2.3%

FP = \$ 8.10

Daily Storage = \$ .00165/day

#### Example Calculation

$$61 * \left[ \left( \frac{.023}{360} * \$8.10 \right) + .00165 \right] = 13.22 \text{ cents}$$

#### March – May Delivery Carry Calculation

If the March – May spread was to trigger a higher maximum storage rate in the VSR mechanism, the storage rate change would occur on March 18, 2013, and the cost of carry for someone taking delivery of Wheat shipping certificates on March 1 and carrying them through May 1 would be one rate from March 2<sup>nd</sup> through March 17<sup>th</sup> and a second rate from March 18<sup>th</sup> through May 1<sup>st</sup>.

- From March 2<sup>nd</sup> to March 17<sup>th</sup> (16 days) the rate would be 16.5/100's of one cent per bushel per day
- From March 18<sup>th</sup> to May 1<sup>st</sup> (45 days) the rate would be 26.5/100's of one cent per bushel per day.

However, regardless of any participant's cost to carry shipping certificates, financial full carry used in the March – May VSR calculation would remain unaffected with one storage rate, 16.5/100s of one cent per bushel per day.

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