



NORTH AMERICAN HARD RED SPRING WHEAT

Futures and Options

LARGEST WHEAT MARKET IN AMERICA

Founded in 1881 as a cash grain market, MGEX continues its long-standing reputation as the principal market for North American Hard Red Spring Wheat (HRSW). Having expanded into offering futures and options, wheat producers, grain elevators, millers, bakers and speculators from around the world look towards MGEX's HRSW contract for their trading needs.

MGEX provides:

- A stable and reliable trading environment
- Liquidity, product line and oversight ensuring fair and accurate trading
- Risk management and price discovery
- Global participation

MGEX North American HRSW futures and options satisfy specific needs of various market participants including:



WHEAT PRODUCERS:

a method for pricing a yet-to-be produced crop



GRAIN ELEVATORS:

risk management and the opportunity to offer forward pricing to customers



MILLERS & BAKERS:

tool to price supplies needed for future flour production



SPECULATORS:

the prospect of profits

MAJOR WHEAT CLASSES

HARD RED SPRING WHEAT (HRSW)

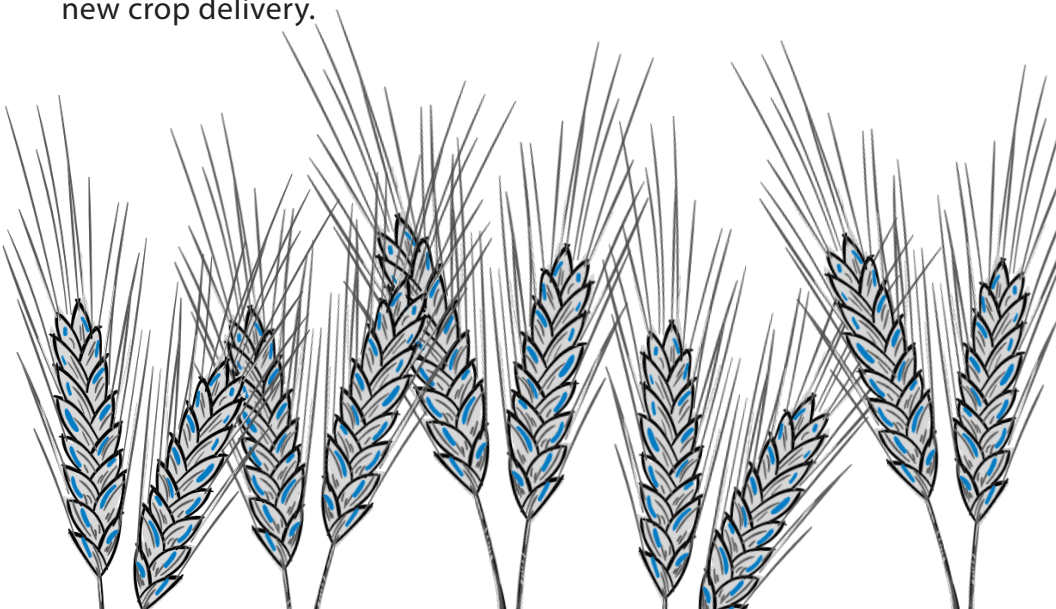
HRSW is a one-of-a-kind, high quality wheat that is the second most produced wheat in the U.S. and the largest produced in North America. Futures trade exclusively electronically on the CME Globex® platform. MGEX North American HRSW options trade both electronically and by open outcry in the MGEX Exchange Room. The futures contract can be physically settled by Federal Warehouse Receipt delivery.

HARD RED WINTER WHEAT (HRWW)

HRWW is the most prominent wheat grown in the U.S. and is often blended with HRSW to produce bread flour. It is planted in the fall and harvested in the summer with the July contract representing new crop delivery.

SOFT RED WINTER WHEAT (SRWW)

SRWW is the third most produced wheat in the U.S. and is often used to produce cake flour used in baked goods. It is also harvested in the summer, with the July contract representing new crop delivery.



GROWING SEASON & CONTRACT REQUIREMENTS

As its name indicates, HRSW is planted in the spring and harvested in late summer. The September contract represents new crop delivery. Of the three domestic wheat contracts, the MGEX North American HRSW contract has the highest minimum protein requirement of 13.5%; however, 13.0% protein may be delivered at a discount.

HRSW FACTS

- The HRSW futures contract started in 1883.
- Canada and the northern U.S. states are the primary growing regions for HRSW.
- HRSW is a favorite of bakers and millers and is typically used in bread, bagels and hard rolls.
- HRSW is a valued protein enhancer in flour blends.
- HRSW is exported to countries around the world.

HRSW CROP PRODUCTION IN NORTH AMERICA:



RISK MANAGEMENT

With exposure to price volatility in the marketplace, risk management tools are essential. MGEX is the place to go for the tools that market participants can use to manage their risk.

The MGEX North American HRSW contract has the flexibility to limit the risk inherent to growing, marketing and trading commodities. HRSW's futures prices follow seasonal patterns which can influence a contract user's focus in the market. From spring planting to late summer harvest, the market is often driven by crop reports on acreage, yields and wheat quality. After harvest, the market focuses on export demand and international supply. Other factors affecting HRSW include:



CROP QUALITY

A cool, wet growing season may increase the chance for crop disease and suppress the wheat's protein potential, thus reducing the amount of quality wheat available for milling. Conversely, a hot and dry summer may encourage protein development but potentially reduce yield. Low protein or quality issues with winter wheat will typically increase demand for HRSW.



EXPORTS

Over 50 countries import HRSW each year. In 2017/2018 the top importers were the Philippines, Japan, Taiwan and China. The level of worldwide demand strongly influences HRSW futures prices. **Source: USDA, FAS, Export Sales



GOVERNMENT POLICY

Changes in government policy influence the acreage allocated to various crops in the United States. For example, a change in ethanol policy benefiting corn may shift acres away from wheat or vice versa.



OTHER MARKETS

Corn, soybean and winter wheat prices have an influence on MGEX North American HRSW futures prices. In addition, exchange rates, energy prices and other commodities can impact wheat supply and demand. For instance, a strong U.S. dollar translates into higher wheat costs overseas, potentially slowing foreign purchases of U.S. wheat.

LIMITED RISK, UNLIMITED PROFIT POTENTIAL

MGEX North American HRSW options continue to grow in popularity with customers around the globe. For hedgers, futures contracts provide protection against volatile price movements by “locking in” desired price levels, while options contracts allow them to benefit if prices move in their favor. For producers, options can be an affordable way to ensure the sale price of a crop. Furthermore, this protection is provided at a known cost; options buyers never have a margin call. For speculators, MGEX North American HRSW options offer seasonal volatility opportunities and liquidity to get in and out of positions when needed.

SPREAD OPPORTUNITIES

The MGEX North American HRSW contract is often traded as part of a spread against other wheat contracts. The margin requirements on this type of trade are often lower, but the opportunities may be great. Prices for the three major wheat classes tend to move in the same direction, but each contract moves at its own pace based on individual fundamentals. MGEX North American HRSW often trades at a premium over other wheat markets because of its quality factors. The spread has adjusted over time due to differences in export demand, growing conditions and supplies. Additionally, the differing new crop months can create interesting trade opportunities.

HRSW CALENDAR SPREAD OPTIONS (CSOs)

CSOs are options on the price differential between two delivery months of the same futures contract. They allow traders to efficiently spread different delivery months in a single transaction, eliminating the need for multiple transactions as part of a spread trading strategy.

WHEAT INDEX SPREADS

The deliverable HRSW contract can be traded against the MGEX wheat index products. These index products are based on cash elevator bids for the three major wheat classes. The index products differ from traditional futures and options because they are financially settled with no delivery. A spread trade executed between the HRSW contract and a wheat index contract has several potential strategies and receive favorable margin treatment. One spread trade strategy is to use futures to create synthetic basis positions, allowing better management of basis risk. Because MGEX wheat index products are highly correlated to their underlying cash markets, basis can be hedged by trading the spread between index futures and their respective deliverable counterparts. For example, a synthetic long basis position for HRSW can be created by buying MGEX Hard Red Spring Wheat Index (HRSI) futures and selling MGEX North American HRSW futures. To create a synthetic short basis position, one would sell HRSW futures and buy HRSI options.

SLEDS

SLEDS (Single Line Entry Differential Spreads) pricing is available in MGEX futures calendar spreads. When used, SLEDS pricing allows the front leg of the spread to be priced at the previous day's settlement price instead of the last traded price.

For more information on contract specifications, please visit:
www.mgex.com/contract_specs.html

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