

Exercise

Purchase Put: Canola

Part 1

Assumptions

- A canola producer is producing 5,000 Cwt. of canola for August 15 delivery.
- The current date is May 15.
- Variable costs of production are \$6.65/Cwt.
- The August 15 basis is expected to be \$1.00/Cwt. under the WCE November canola futures contract.
- The WCE November canola futures contract (20 Tonnes or 441 Cwt.) is currently trading at C\$320.00/Tonne.
- A WCE November canola \$320.00 put option contract can be purchased for C\$16.25/Tonne.
- The exchange rate is .66 US\$/C\$. There is 22.046 Cwt./Tonne.
- Futures and Options transactions cost of \$.08/Cwt.

Determine

1. Convert the canola futures price to US\$/Cwt.
2. Convert the canola put option premium to US\$/Cwt.
3. How many option contracts would the producer need to purchase to protect the price of the anticipated output?
4. Calculate the expected minimum price.

Part 2

Assumption

- For the following calculations, assume a WCE November canola C\$320.00 put was purchased on May 15 for C\$16.25/Tonne and the canola is being sold on August 15.

Determine

1. If the August 15 canola cash market is \$6.50/Cwt. and a WCE November canola futures contract is trading for \$7.50/Cwt.:
 - a. What is the actual basis?
 - b. What is the minimum value of a WCE November canola C\$320.00 put option contract?
 - c. What is the net price received?
2. If the August 15 canola cash market is \$12.00/Cwt. and a WCE November canola futures contract is trading for \$12.50/Cwt.:
 - a. What is the actual basis?
 - b. What is the minimum value of a WCE November canola C\$320.00 put option?
 - c. What is the net price received?