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?