

Risk Management Using Options

What is a Commodity Option

An option is the right but not the obligation to purchase a commodity.

The option buyer has the right to purchase or sell a commodity at a specific price (strike price) on a certain date. There are two basic options calls and puts.

A call is the right to purchase a commodity

A put is the right to sell a commodity

One party pays a premium, while the other pays the difference between a pre-agreed purchase price (strike price) and the settlement price.

Who Can Use Hemp Option

A hemp options are appropriate for those looking to hedge their hemp exposure or those who are looking to speculate on the future direction of hemp prices.

For example, a farmer might want to purchase a put option on hemp seed grain to mitigate exposure to falling prices.

How is the Settlement Prices of Hemp Calculated

The monthly settlement price is calculated by averaging all the daily prices of hemp during a calendar month

The Jacobsen-Fastmarkets currently calculates average monthly prices for every month.

How is the Payout Calculated?

A farmer purchase hemp seed grain put (the right to sell) option at a strike price at \$0.50 for \$0.02(theoretical estimate).

The payout is calculated by determining the the difference between the strike price (\$0.50) and the settlement price (which is the average monthly price of hemp seed grain calculated by The Jacobsen).

If the price of hemp seed grain when calculated at the end of the month is \$0.45, the farmer will receive $\$0.50 - \$0.45 = \$0.05$ times the volume that was traded.

The net profit will be the amount received \$0.05 minus the amount of premium paid \$0.02, = \$0.03.

The Stable Platform

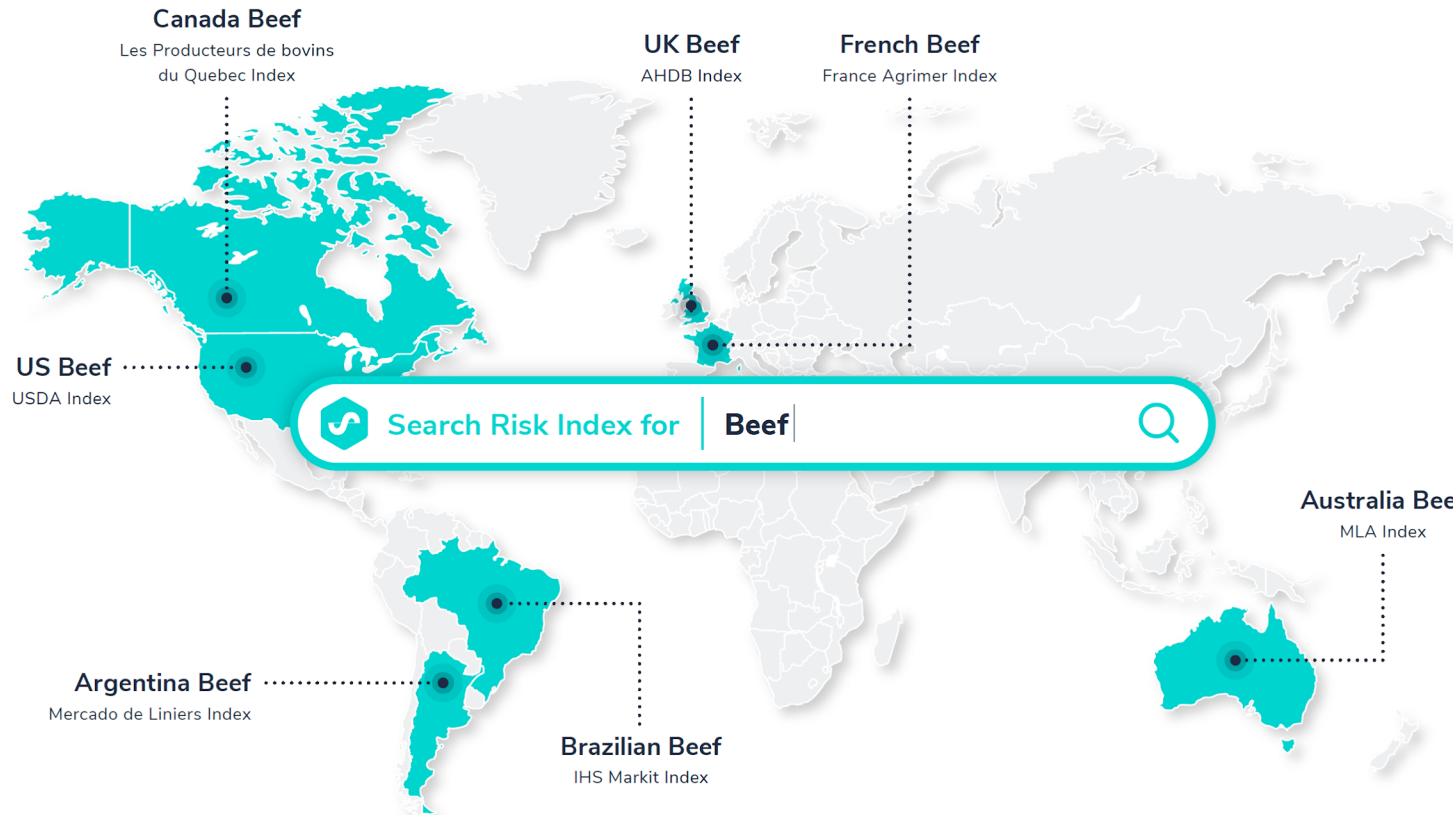


We host 3000+ benchmark indexes, from several price reporting agencies, Including The Jacobsen – Fastmarkets. That means clients can match their risk to a highly targeted index to reduce basis risk.



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What Governs an Option Agreement

Stableprice.com uses a long form confirmation. This has language in it from The ISDA Master Agreement which is the most commonly used master service

The framework consists of a schedule, confirmations, definition booklets, and credit support documentation.

The ISDA master agreement is published by the International Swaps and Derivatives Association.

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