THE 2010 ROAD TO BETTER MARKETING TOUR

FARM MARKETING GLOSSARY

A list of common terms used in farm marketing and their definitions.

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ASSIGNMENT: Notice to an option writer that an option has been exercised by the option buyer and that the writer is thus required to render the underlying futures contract to the buyer.

AT-THE-MONEY OPTION: The option whose strike price nearly equals the underlying futures contract.

AUTOMATIC EXERCISE: A policy where in-the-money options (options with intrinsic value) are exercised at option expiration.

BASIS: The difference between the price of a commodity and the price of a related futures contract.

BEARISH: An outlook for prices to decline.

BID: An offer to buy a commodity at a specific price.

BULLISH: An outlook for prices to increase.

CALL OPTION: An option that allows the option buyer the right, but not the obligation, to purchase the underlying futures contract at the specified strike price on or before the expiration date of the option.

CLOSING RANGE: The range of prices that a futures option contract trades at during the exchange specified closing price time period.

EXERCISE: The action taken by an option buyer to convert the option to the specified underlying futures contract.

EXPIRATION DATE: The last day that an option contract trades.

FIRST DAY NOTICE: The first day on which notices of intention to deliver cash commodities against futures contracts can be presented by sellers and received by buyers through the exchange clearing house.

FUNDAMENTAL ANALYSIS: The use of supply and demand information to analyze and predict price direction and price objectives of a cash, futures, or option market.

IN-THE-MONEY OPTION: An option with intrinsic value. CALL options are in-the-money when strike price is below the current futures price, and PUTs are in-the-money when their strike price is above the current futures price.

INITIAL MARGIN: The minimum amount of margin required to establish a futures or option position.

LAST TRADING DAY: The day that trading ceases for the nearby (expiring) futures or options contract.

LIMIT PRICE MOVE: The maximum price move allowed by exchange rules for a specified futures or options contract.

LONG: The position created by the purchase of a futures or option contract if there is no offsetting position.

MAINTENANCE MARGIN: The minimum amount of margin deposit required to maintain a futures or options position. A margin call is initiated if the customer funds balance falls below this specified amount.

MARGIN: An amount of money deposited to ensure fulfillment of a futures or options contract obligation.

MARKET ORDER: An order to buy or sell futures or options contracts, which is to be executed immediately at the current price trading in the commodity pit.

OFFER: an indication of willingness to sell a futures or option at a specific price; opposite of bid.

OFFSET: Taking a position equal and opposite to the initial transaction to close out a futures or options position.

OPEN INTEREST: The number of futures or option contracts of a given commodity that have not been offset, delivered against, exercised or expired.

OPTION: Within the futures industry, a contract that conveys the right, but not the obligation, to buy or sell a futures contract at a specific price for a limited time. (See also put, call.)

OUT-OF-THE-MONEY OPTION: An option with no intrinsic value. CALL options are out-of-the-money when their strike price is above the current futures price, and PUTs are out-of-the-money when their strike price is above the current futures price.

PREMIUM: The price paid for an option contract excluding commission transaction fees. The premium is made up of intrinsic value and time value.

PRICE ORDER: An order in which the customer sets a price limit for the order to be filled at or better than that price limit.

PUT OPTION: An option that allows the option buyer the right, but not the obligation, to sell the underlying futures contract at the specified strike price on or before the expiration of the option.

RANGE: the difference between the highest and lowest prices that a futures or options contract trades at for a day, week, month, or year.

RESISTANCE: In technical analysis, it is the price area at which prices encounter increasing selling pressure or reduced buying interest.

SHORT: The position created by the sale of a futures or options contract if there is no offsetting position.

SPIKE: A price move that is sharply above or below the preceding price activity.

SPREAD: The price difference between two related futures contract months.

STOP ORDER: A buy order placed above the market (or sell order placed below the market) that becomes a market order when the specified price is reached.

STRIKE PRICE: The price at which the buyer of a call or put may exercise the right to purchase or sell the underlying futures contract.

SUPPORT: In technical analysis, it is the price area at which prices encounter increasing buying or reduced selling interest.

TICK: The minimum possible price movement, up or down, in a specific futures or options contract.

VOLUME: The number of purchases or sales of a given futures or option contract made during a specified period of time.

Do you have a question about any of these terms or is there a word not listed for which you'd like an explanation? Please don't hesitate to contact us and ask to speak with an advisor. We are here to help.

Futures trading is not for everyone. The risk of loss in trading is substantial. Therefore, carefully consider whether such trading is suitable for you in light of your financial condition.

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