

Risk Management

Specifications of Futures and Options Contracts

Mark Welch, John Robinson and David P. Anderson*

There have been organized commodity exchanges in the United States since the Chicago Board of Trade (CBOT) was established in 1848. Other agricultural commodity exchanges today include the Intercontinental Exchange (ICE), Kansas City Board of Trade (KCBT, 1876), and the Chicago Mercantile Exchange (CME, 1919). Nineteenth Century grain traders developed the first exchanges to manage price risk for grain they held in storage. These exchanges and the futures and options tools that have emerged are used today by thousands of farmers and ranchers to manage price risk for the commodities they produce.

Until recently, open outcry pit trading (or floor trading) was the method for trading futures and options. Faster computers and electronic technology have enabled electronic trading to grow in volume. In some cases, like cotton, electronic futures trading has completely replaced open outcry on the floor. In others, like cattle, both methods of trading continue, for now.

Other publications in this series deal with the use of different combinations of cash and futures/options transactions to manage price risk.

To use these tools and strategies correctly, one must understand the specifications of various futures and options contracts.

Contract specifications are the definitions, rules and limits that set the bounds for commodity futures trading. The Commodity Futures Trading Commission (CFTC) reviews the terms and conditions of proposed futures and options contracts. Before an exchange is permitted to trade a futures and options contract in a specific commodity, it must demonstrate that the contract reflects the normal market flow and commercial trading practices in the actual commodity.

Table 1 defines contract specifications for selected futures contracts, and Table 2 covers the specifications for selected options contracts. Table 3 details quality specifications for the most commonly traded agricultural products in the Plains states.

Some of these contracts have the possibility of physical delivery while some are settled for cash. Readers should check with a broker or look at commodity exchange Web sites regularly for information on settlement mechanisms and changes in futures contract specifications.



*Assistant Professor and Extension Economist—Grain Marketing, Professor and Extension Economist—Cotton Marketing, and Professor and Extension Economist—Livestock and Food Marketing, The Texas A&M System.

Table 1. Contract specifications for agricultural crop and livestock futures.

Commodity & size of contract	Ticker symbol	Trading hours (central time)	Months traded	Price quotes	Minimum price fluctuation	Daily limit	Last trading day
Live Cattle 40,000 lb	Electronic	9:05 a.m. - 1:55 p.m. Daily halts 4:00 - 5:00 p.m. Monday - Friday	Feb., Apr., June, Aug., Oct., Dec.	Cents per pound	\$0.00025 per pound (\$10.00 per contract)	\$0.03 per pound	The last business day of the contract month at noon.
	Open outcry	9:05 a.m. - 1:00 p.m. Monday - Friday					
Feeder Cattle 50,000 lb	Electronic	9:05 a.m. - 1:55 p.m. Daily halts 4:00 - 5:00 p.m. Monday - Friday	Jan., Mar., Apr., May, Aug., Sept., Oct., Nov.	Cents per pound	\$0.00025 per pound (\$12.50 per contract)	\$0.03 per pound	The last Thursday of the contract month at noon (with exceptions for November and other months).
	Open outcry	9:05 a.m. - 1:00 p.m. Monday - Friday					
Lean Hogs 40,000 lb	Electronic	9:05 a.m. - 1:55 p.m. Daily halts 4:00 - 5:00 p.m. Monday - Friday	Feb., Apr., May, June, July, Aug., Oct., Dec.	Cents per pound	\$0.00025 per pound (\$10.00 per contract)	\$0.03 per pound	The tenth business day of the contract month at noon.
	Open outcry	9:05 a.m. - 1:00 p.m. Monday - Friday					
Corn 5,000 bushels	Electronic	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Mar., May, July, Sep., Dec.	Cents per bushel	¼ cent per bushel (\$12.50 per contract)	\$0.30 per bushel	The business day prior to the 15th calendar day of the contract month.
	Open outcry	9:30 am - 1:15 pm Monday - Friday					
Soybeans 5,000 bushels	Electronic	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Jan., Mar., May, July, Aug., Sep., Nov.	Cents per bushel	¼ cent per bushel (\$12.50 per contract)	\$0.70 per bushel	The business day prior to the 15th calendar day of the contract month.
	Open outcry	9:30 am - 1:15 pm Monday - Friday					
Hard Red Winter Wheat 5,000 bushels	Electronic	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Mar., May, July, Sep., Dec.	Cents per bushel	¼ cent per bushel (\$12.50 per contract)	\$0.60 per bushel	The business day prior to the 15th calendar day of the contract month.
	Open outcry	9:30 am - 1:15 pm Monday - Friday					

(continued on next page)

Table 1 continued.

Commodity & size of contract	Ticker symbol	Trading hours (central time)	Months traded	Price quotes	Minimum price fluctuation	Daily limit	Last trading day
Soft Red Winter Wheat 5,000 bushels	Electronic ZW	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Mar., May, July, Sep., Dec.	Cents per bushel	¼ cent per bushel (\$12.50 per contract)	\$0.60 per bushel	The business day prior to the 15th calendar day of the contract month.
	Open outcry W	9:30 am - 1:15 pm Monday - Friday					
Rough Rice 2,000 cwt	Electronic ZR	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Jan., Mar., May, July, Sep., Nov.	Cents per cwt	½ cent per cwt (\$10.00 per contract)	\$0.50 per cwt	The business day prior to the 15th calendar day of the contract month.
	Open outcry RR	9:30 am - 1:15 pm Monday - Friday					
Cotton no. 2 50,000 lb	Electronic CT	9:00 pm - 2:30 pm Sunday - Friday	Mar., May, July, Oct., Dec.	Cents and hundredths of a cent per pound	\$0.0001 per lb equivalent to \$5.00 per contract	\$0.03 per pound	Seventeen business days from the end of the spot month.
Class III Milk 200,000 lb	Electronic DC	9:05 am - 1:55 pm Daily halts 4:00 - 5:00 pm Sunday - Friday	All 12 calendar months	Cents per cwt	\$0.01 per cwt (\$20.00 per contract)	\$0.75 per cwt	The business day immediately preceding the day the USDA announces Class III price for that contract month.
	Open outcry DA	9:30 am - 1:10 pm Monday - Friday					

* Note: For more details, explanations, and updated contract specifications see exchange website addresses in Table 3 or contact your local broker.

Table 2. Contract specifications for agricultural crop and livestock options.

Commodity & size of contract	Ticker symbol	Trading hours (central time)	Months traded	Price quotes	Minimum price fluctuation	Daily limit	Last trading day	Strike price increments
Live Cattle One CME Live cattle futures contract of 40,000 pounds	Electronic LE	9:05 am - 1:55 pm Daily halts 4:00 - 5:00 pm Monday - Friday	Feb., Apr., June, Aug., Oct., Dec.	Cents per pound	Full tick: \$0.00025 per pound (\$10.00 per contract) Half tick: \$0.000125 per pound (\$5.00 per contract)	None	First Friday of the contract month at 1.00 p.m.	\$0.02 per cwt for all months and \$0.01 per cwt for front 2 months only; \$0.005 per cwt for spot month.
Feeder Cattle One CME Feeder cattle futures contract of 50,000 pounds	Electronic GF	9:05 am - 1:55 pm Daily halts 4:00 - 5:00 pm Monday - Friday	Jan., Mar., Apr., May, Aug., Sept., Oct., Nov.	Cents per pound	Full tick: \$0.00025 per pound (\$12.50 per contract) Half tick: \$0.000125 per pound (\$6.25 per contract)	None	Last Thursday of the contract month at noon with exceptions for November and other months.	\$0.02 per cwt for all months and \$0.01 per cwt for front 2 months only; \$0.005 per cwt for spot month.
Lean Hogs One CME Lean hogs futures contract of 40,000 pounds	Electronic HE	9:05 am - 1:55 pm Daily halts 4:00 - 5:00 pm Monday - Friday	Feb., Apr., May, June, July, Aug., Oct., Dec.	Cents per pound	Full tick: \$0.00025 per pound (\$10.00 per contract) Half tick: \$0.000125 per pound (\$5.00 per contract)	None	The tenth business day of the contract month at noon.	\$0.02 per cwt for all months and \$0.01 per cwt for front 2 months.
Corn One CBOT corn futures contract of 5,000 bushels	Electronic OZC	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Mar., May, July, Sep., Dec.	Cents per bushel	1/8 cent per bushel (\$6.25 per contract)	\$0.30 per bushel	The Friday at least two (2) business days before first notice day for corn futures.	\$0.10 per bushel increments in strike price.
Soybeans One CBOT soybean futures contract of 5,000 bushels	Electronic OZS	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday	Jan., Mar., May, July, Aug., Sep., Nov.	Cents per bushel	1/8 cent per bushel (\$6.25 per contract)	\$0.70 per bushel	The Friday at least two (2) business days before first notice day for soybean futures.	\$0.20 per bushel increments in strike price.

(continued on next page)

Table 2 continued.

Commodity & size of contract	Ticker symbol	Trading hours (central time)	Months traded	Price quotes	Minimum price fluctuation	Daily limit	Last trading day	Strike price increments
Hard Red Winter Wheat One KCBT wheat futures contract of 5,000 bushels	Electronic EC and EP Open outcry	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday 9:30 am - 1:15 pm Monday - Friday	Mar., May, Jul., Sep., Dec.	Cents per bushel	½ cent per bushel (\$6.25 per contract)	\$0.60 per bushel	The Friday at least two (2) business days before first notice day for wheat futures.	\$0.10 per bushel increments in strike price.
Soft Red Winter Wheat One CBOT wheat futures contract of 5,000 bushels	Electronic OZW Open outcry	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday 9:30 am - 1:15 pm Monday - Friday	Mar., May, July, Sep., Dec.	Cents per bushel	½ cent per bushel (\$6.25 per contract)	\$0.60 per bushel	The Friday at least two (2) business days before first notice day for wheat futures.	\$0.10 per bushel increments in strike price.
Rough Rice One CBOT rice futures contract of 2,000 cwt	Electronic OZR Open outcry	6:00 pm - 6:00 am and 9:30 am - 1:15 pm Sunday - Friday 9:30 am - 1:15 pm Monday - Friday	Jan., Mar., May, July, Sep., Nov.	Cents per cwt	¼ cent per cwt (\$5.00 per contract)	\$0.50 per cwt	The Friday at least two (2) business days before first notice day for rice futures.	\$0.20 per cwt increments in strike price.
Cotton One Cotton No. 2 futures contract of 50,000 pounds	Electronic CT Open outcry	9:00 pm - 2:30 pm Sunday - Friday	Mar., May, July, Oct., Dec.	Cents and hundredths of a cent per pound	\$0.0001 per pound	None	The last Friday preceding the first notice day for the underlying futures by at least 5 business days.	\$0.01 per pound increments in strike price.
Class III Milk One Class III Milk futures contract of 200,000 pounds	Electronic DC Open outcry	9:05 am - 1:55 pm Daily halts 4:00 - 5:00 pm Monday - Friday 9:05 am - 1:12 pm Monday - Friday	All 12 calendar months	Cents per cwt	Full tick: \$0.01 per cwt (\$20.00 per contract) Half tick: \$0.005 per cwt (\$10.00 per contract)	None	The business day immediately preceding the day the USDA announces Class III price for that contract month.	\$0.25 per cwt increments in strike price.

Table 3. Quality specifications for selected agricultural futures and options contracts.

Commodity	Exchange	Quality specifications
Live cattle	CME (www.cme.com)	55% Choice, 45% Select, Yield Grade 3 live steers, as defined by the USDA "Official United States Standards for Grades of Slaughter Cattle"
Feeder cattle	CME	Each futures contract shall be valued at 50,000 pounds times the CME Composite Weighted Average Price per pound for 650- to 849-pound Medium Frame #1 and Medium and Large Frame #1-2 feeder steers.
Lean hogs	CME	Hog (barrow and gilt) carcasses
Corn	CME Group (http://cmegroup.com)	No. 2 Yellow corn at contract price, No. 1 Yellow corn at 1.5¢/bushel premium, No. 3 Yellow corn at 1.5¢/bushel discount. This contract is also used to manage price risk for grain sorghum since seasonal price movements for the two grain products are fairly similar. Many producers use the corn futures contract for their price risk management for grain sorghum after evaluating the historical relationship between the two commodities in their areas. For more information on this subject, see "Cross Hedging Agricultural Commodities" (available at www.oznet.ks.edu/library/agec2/mf2284.pdf).
Rough rice	CME Group	U.S. No. 2 or better long grain rough rice with a total milling yield of not less than 65 percent including head rice of not less than 48 percent. Premiums and discounts are provided for each percent of head rice over or under 55 percent and for each percent of broken rice over or under 15 percent.
HRW wheat	KCBT (www.kcbt.com)	No. 2 Hard Red Winter Wheat at contract price, No. 1 at 1.5¢ premium
Cotton	ICE (www.theice.com)	Strict low middling; Staple length=1 2/32 inch
Soybeans	CME Group	No. 2 Yellow at par and substitutions at differentials established by the exchange
Class III milk	CME Group CSCE (www.csce.com)	An estimate, calculated and announced by the USDA, of the average price paid for Grade B (manufacturing) milk by plants in Minnesota and Wisconsin
SRW wheat	CME Group	No. 2 Soft Red Winter, No. 2 Hard Red Winter, No. 2 Dark Northern Spring, and No. 2 Northern Spring at par, No. 1 Soft Red Winter, No. 1 Hard Red Winter, No. 1 Dark Northern Spring, and No. 1 Northern Spring at 3¢/bushel over contract price

Partial funding support has been provided by the Texas Corn Producers, Texas Farm Bureau, and Cotton Inc.–Texas State Support Committee.

Produced by AgriLife Communications, The Texas A&M System
Extension publications can be found on the Web at: <http://AgriLifeBookstore.org>.
Visit Texas AgriLife Extension Service at <http://AgriLifeExtension.tamu.edu>.

Educational programs of the Texas AgriLife Extension Service are open to all people without regard to socioeconomic level, race, color, sex, disability, religion, age, or national origin.

Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture. Edward G. Smith, Director, Texas AgriLife Extension Service, The Texas A&M System.