

**Contract Highlights for National Corn Index (NCI) and National Soybean Index (NSI)
Futures and Options**

Specifications and information contained herein are subject to change without notice.
The Rules and Regulations of the Exchange should be considered the authoritative source on Market Regulations issues.

NCI and NSI Futures	
Trading Hours	8:30 a.m.-1:45 p.m. (CT)
Contract Unit	NCI x 5,000 bu NSI x 5,000 bu
Underlying Asset	NCI (Based on bids for U.S. No. 2 yellow corn and certified by DTN) NSI (Based on bids for U.S. No. 1 yellow soybeans and certified by DTN)
Contract Months	All 12 months
Minimum Price Fluctuation	1/4 cent (\$0.0025) or \$12.50/contract
Daily Price Limits	NCI = Twenty-five cents (\$0.25) NSI = Sixty cents (\$0.60)
Speculative Position Limits (contracts)	Single/Settlement Month: 1,000 All Months Combined: 1,000
Last Trading Day	Last business day of the settlement month
Settlement	Cash settlement based upon the simple average of the last three daily NCI or NSI prices published during the settlement month of the futures contract using standard rounding techniques and rounded to the nearest 1/4 cent (\$0.0025)
Settlement Date	Business day following Last Trading Day

NCI and NSI Options	
Trading Hours	8:30 a.m.-1:45 p.m. (CT)
Underlying Asset	One MGEX NCI or NSI futures contract
Contract Months	All 12 months
Minimum Price Fluctuation	1/8 cent (\$0.00125) or \$6.25 per contract
Daily Price Limits	NCI = Twenty-five cents (\$0.25) NSI = Sixty cents (\$0.60) cents (\$0.25)
Strike Price Increments	NCI = Multiples of five cents (\$0.05) NSI = Multiples of ten cents (\$0.10)
Speculative Position Limits	1,000 futures equivalent contracts net long or net short in all contract months combined OR 1,000 futures-equivalent contracts net long or net short in any contract month
Last Trading Day	Last business day of the underlying futures settlement month
Expiration Date	Business day following Last Trading Day
Automatic Exercise	Based upon the NCI or NSI cash settlement, the Clearing House shall automatically exercise all in-the-money options unless notice to cancel automatic exercise is given to the Clearing House
Exercise Style	American

Nothing herein should be construed as a trading recommendation of the Minneapolis Grain Exchange. Information in this publication is taken from sources believed to be reliable but is not guaranteed by MGEX as to accuracy or completeness and is intended for purpose of information and education only. The Rules and Regulations of the Exchange should be consulted as the authoritative source on all Exchange issues.



MINNEAPOLIS GRAIN EXCHANGE



**NATIONAL CORN INDEX
NATIONAL SOYBEAN INDEX**

futures and options



Cash-settled, index-based and simply effective

“There is every reason to believe that cash-settled futures based on the NCI and NSI will be very effective for the purpose of hedging flat price risk.”

Sparks Commodities Research Study, November 2001

MGEX National Corn Index (NCI) and National Soybean Index (NSI) futures and options offer a new way to trade corn and soybean markets in an extremely easy-to-use package.

These cash-settled contracts trade exclusively on the electronic *MGEXpress* platform, and they provide price discovery based on corn and soybeans originated at country elevators. By representing more than 1,500 elevator bids, NCI and NSI contracts offer broad measures of country prices, creating an alternative for those looking to offset risk or capture spread opportunities.

These contracts are the result of a partnership between two respected institutions in agriculture—MGEX and DTN. MGEX (Minneapolis Grain Exchange) stands behind every NCI and NSI contract, and its history in grain trading dates back more than 120 years. Data Transmission Network (DTN), a leading business-to-business electronic commerce and information services company, collects bids daily, and, in turn, calculates the indexes upon which NCI and NSI futures are settled.

What exactly is a “cash-settled” contract? Cash settlement simply means that when a contract expires it is settled to a cash value, not through a lengthy delivery process. This means there are no delivery specifications, storage costs, grade differentials or load-out costs. Delivery is not an option.

Following the last trading day, outstanding MGEX corn and soybean futures are offset against the average NCI and NSI from the last three trading days of the settlement month. Because there is no delivery period, futures and options expire simultaneously.

Contents of the indexes

Cash-settled contracts are only as good as the indexes behind them.

An index must contain prices that truly reflect the cash market for a specific, defined commodity, and there must be broad representation of cash market participants. Most importantly, there must be no possibility of index manipulation by market participants. NCI and NSI meet these criteria. The facts:

- NCI is comprised of approximately 1,630 bids and NSI approximately 1,500 bids daily
- NCI and NSI are simple averages of elevator bids
- Bids from more than 90% of U.S. elevators are represented
- 18% of corn bids and 19% of soybean bids in the indexes come from Iowa elevators
- Elevators in seven states provide 75% to 80% of the bids in the indexes
- The single largest owner of corn bids reported in the NCI represents only 3.3% of the index
- The single largest owner of soybean bids reported in the NSI represents only 3.6% of the index

High correlation, low risk To be an effective hedging tool, futures contract prices must closely track the cash market they represent. Without this “correlation,” a cash position is not adequately protected from market swings.

A research study by Sparks Commodities concludes, “Cash-settled MGEX corn and soybean futures will be a highly effective hedging instrument,”

Corn correlation analysis

Location	NCI	CBOT
Central Illinois	99.6%	95.5%
North Central Iowa	99.4%	93.1%
Omaha	99.6%	93.6%
Toledo	99.3%	94.6%
Chicago	99.4%	95.3%
PNW	94.4%	96.7%
Gulf	98.5%	95.6%

because Sparks predicts a high level of correlation to the cash market.

In fact, with regard to hedge effectiveness, Sparks stresses, comparisons indicate that MGEX contracts can be expected to be at least as good as the mature Chicago Board of Trade (CBOT) contracts. For western Corn Belt users, the MGEX contract should have a slight advantage over CBOT instruments.

Soybeans correlation analysis

Location	NSI	CBOT
Central Illinois	99.8%	98.5%
North Central Iowa	99.8%	98.4%
Omaha	99.7%	99.0%
Toledo	99.7%	98.2%
Chicago	99.6%	98.0%
Gulf	99.3%	98.1%

Sparks Commodities calculated the above tables in its analysis of NCI and NSI contracts. These tables show how NCI and NSI correlate to select cash market locations, compared to correlation for CBOT contracts. A reading of 100% means the futures contract correlates perfectly with the cash market, and the lower the reading, the less effective the hedge. The entire research study, including methodology, can be found at www.mgex.com.



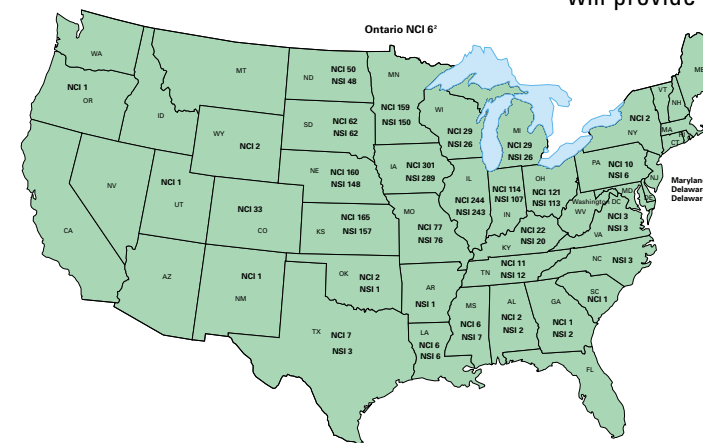
Basis implications Country elevator prices can vary widely for the same commodity because of differences in local demand, freight costs and other factors. This local price is often pegged to a futures price and the difference between the two prices is called the “basis.”

In the Corn and Soybean Belt, country elevator prices are generally below CBOT futures prices. This is because futures prices are based on delivery to a few terminal elevators.

Because NCI and NSI are averages of country elevator prices, they tend to track actual prices to farmers more closely than

contracts traded at the CBOT. However, in most cases, there will be a difference (basis) between local cash prices and NCI or NSI futures prices. This is because these indexes are simple averages of more than 1,000 bids.

Traditionally, basis reflects many factors, including freight costs to specific delivery points. Freight costs may not be as obvious in basis calculations versus NCI and NSI futures, but certainly local supply and demand factors will play a role in basis strength or weakness. NCI and NSI futures should accurately reflect conditions at interior cash locations. Therefore, if high freight prices are depressing local prices these contracts will provide an effective hedge.



Average number* of daily elevator bids collected by DTN

*Bids collected during MGEX 2001 audit period (April 23-25; April 30-May2; July 2-5)

Daily averages for audit period: NCI=1,631 ; NSI= 1,509

Trading opportunities

Because of their unique makeup, NCI and NSI futures and options offer opportunities for both hedgers and speculators.

- Cash settlement
- No deliveries
- Exclusively electronic
- Futures and options expire simultaneously
- All calendar months traded, with trading from 8:30 a.m. to 1:45 p.m.
- 60-cent daily limit for soybeans
- 25-cent daily limit for corn
- More than 1,500 elevator locations represented

Hedging NCI and NSI futures and options can be used to hedge price risk, like any traditional contract. However, these contracts have added benefits of more closely tracking country elevator prices, cash settlement (no deliveries), and monthly expirations, which allow hedgers to more easily tailor their trades.

NCI and NSI contracts track prices at U.S. elevators. As such, they truly reflect strength or weakness in the domestic market. The charts on the opposite page show the difference in price between CBOT prices and the NCI and NSI, and they

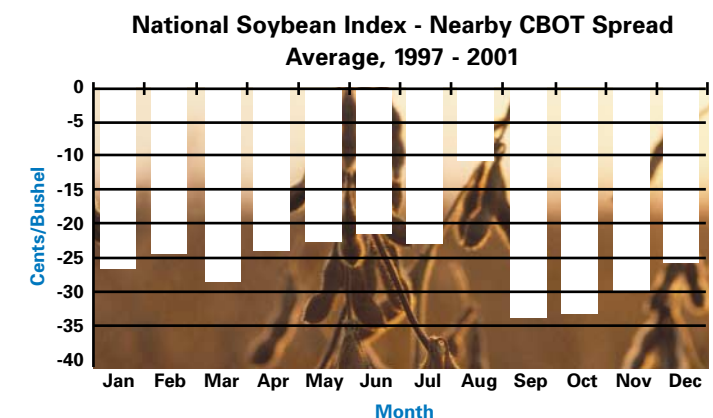
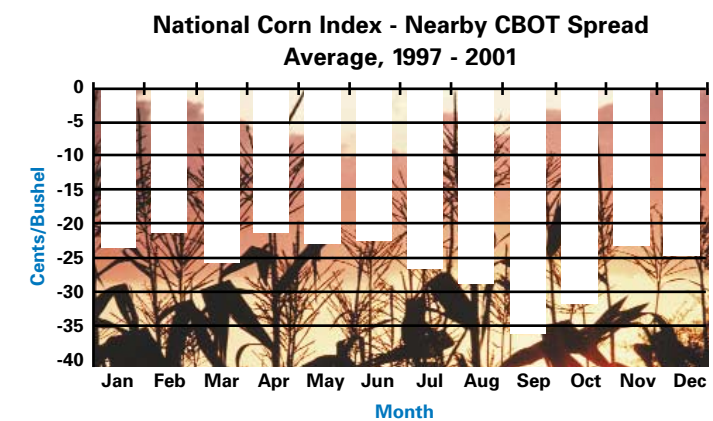
graphically illustrate how the NCI and NSI react to the surge in supplies at harvest and tightening supplies in summer. When hedgers use NCI or NSI, they are using a tool that closely offsets their flat price risk because local basis is incorporated in the index to certain extent.

Spread trading Because there are differences in the NCI/NSI and CBOT corn and soybean products, there will be opportunities to trade the spread (buy one contract while selling the other) between these contracts.

For example, in its research report, Sparks Commodities points out that spread positions taken between MGEX and CBOT futures contracts for similar expirations have the potential to hedge general basis levels. The reason this is a general basis hedge is that it will lock the spread between NCI or NSI and CBOT futures, and it “could provide some basis protection.”

Speculators also will appreciate the cash settlement aspect of NCI and NSI contracts, which eliminates the delivery period and allows for simultaneous expirations of futures and options.

For quotes and additional information on the NCI and NSI futures and options contracts, or other contracts traded at MGEX, see our *Trading Trends* newsletter at www.mgex.com, or call MGEX at 800.827.4746.



These charts demonstrate the price difference, or spread, between CBOT corn and soybean futures prices and the NCI and NSI. Because the NCI and NSI are averages of country elevator bids, they tend to be weaker at harvest when demand is seasonally lowest. As a result, the NCI and NSI futures settlement prices should

more closely reflect actual prices of corn and soybeans in the country. Cash settlement guarantees convergence between cash and futures prices, and frequent contract settlements (every month) help insure there is convergence close at hand.