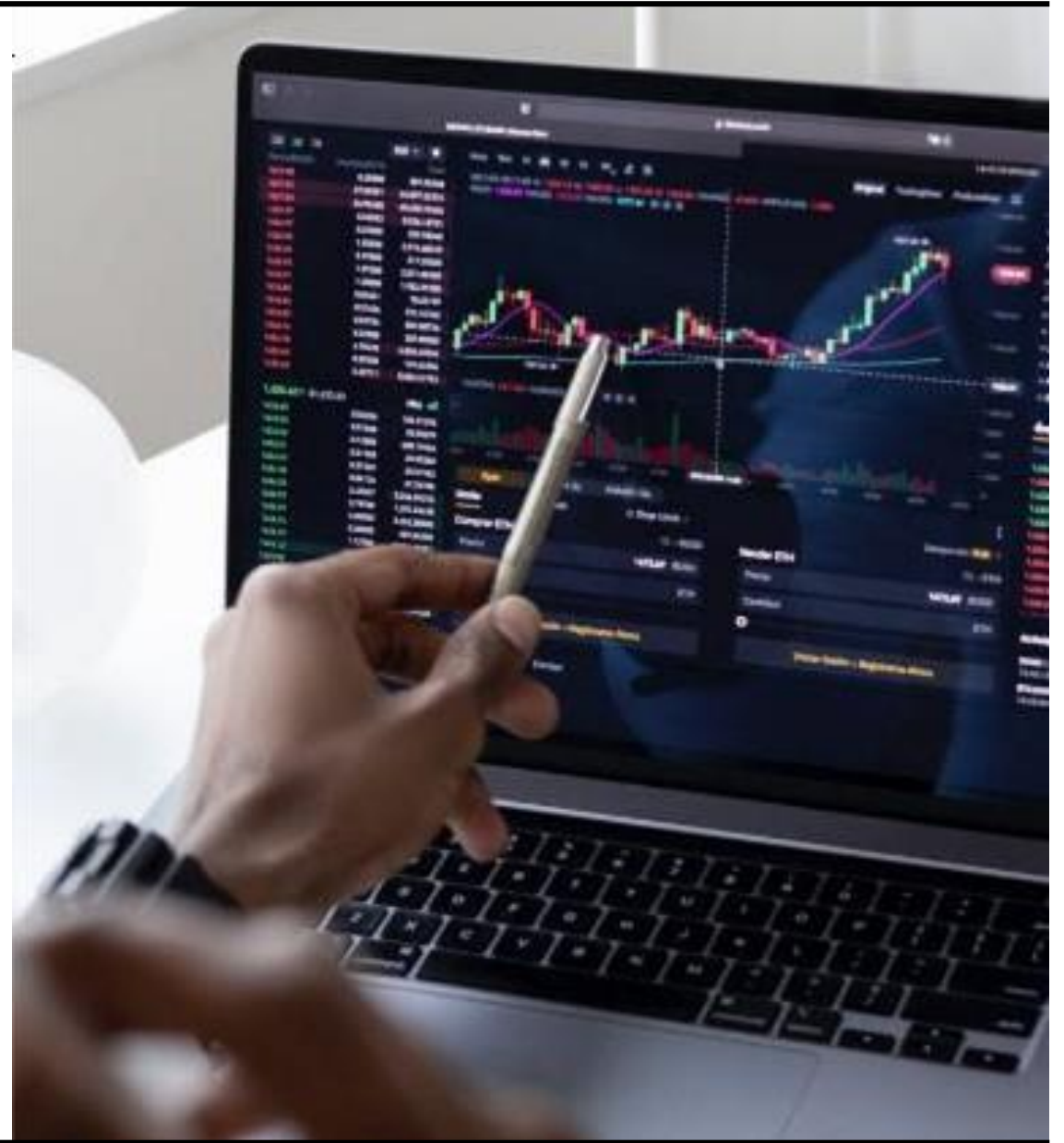


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# Commodity Pitch Workshop

July 15<sup>th</sup>, 2022



# Presenters

**Jordan Carlen**  
**Alexander Graham**

**Mat Deterling**  
**Ryan Watkins**

# **Futures Commodity Recommendation**

# The Strategy

## Intra-Market (Calendar) Spread

1. STO ZCU2 @ \$594
2. BTO ZCH3 @ \$593
3. Spread Differential: 1 point
4. AUM: \$100,000
5. Risk per trade: 2% (\$2,000)
6. Margin allowed: <10% of AUM (\$10,000)
7. Maintenance margin: \$1,000
8. Position Size: 10 contracts (Limited to margin allowed of \$10,000)
9. Notional value per contract:  $50 \times 594 = \$29,700$
10. Notional value for trade:  $\$29,700 \times 10 \text{ contracts} = \$297,000$
11. Leverage Ratio: 306:1




# Rational

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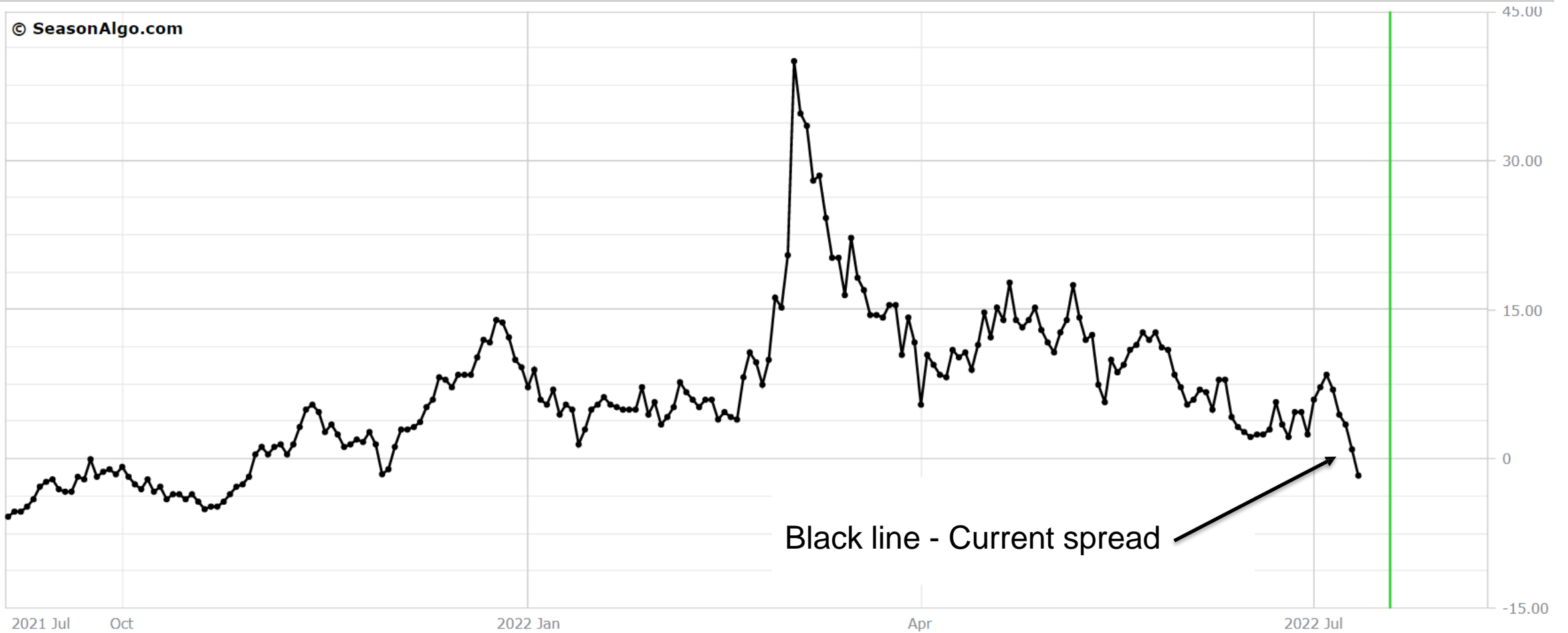
- 1) July is usually the most critical month for the corn crop as it pollinates mid-month. Once corn pollinates, yield is determined.
  - 2) As corn is pollinating, market anxiety about the coming harvest eases
  - 3) If weather is not too hot or dry, yield is determined, and prices can decline sharply into harvest
  - 4) There is usually little to stimulate a rally before harvest and prices tend to decline into September.
  - 5) No law interference presently
  - 6) Entomology – no new present major threats
  - 7) Very high mathematical expectancy.
  - 8) Very high current correlation.
-

# Trade Expectancy

1) Win %:			
2) Average Win Amount:	90%		<b>Mathematical Expectancy</b> <b>8.4</b>
3) Loss %	\$378/contract		
4) Average Loss Amount	10%		
5) Win/Loss Ratio	\$40/contract		
6) Average Drawdown:	9.5		
	\$192/contract		

Approx. three-to-four-week trade duration

# Current Spread

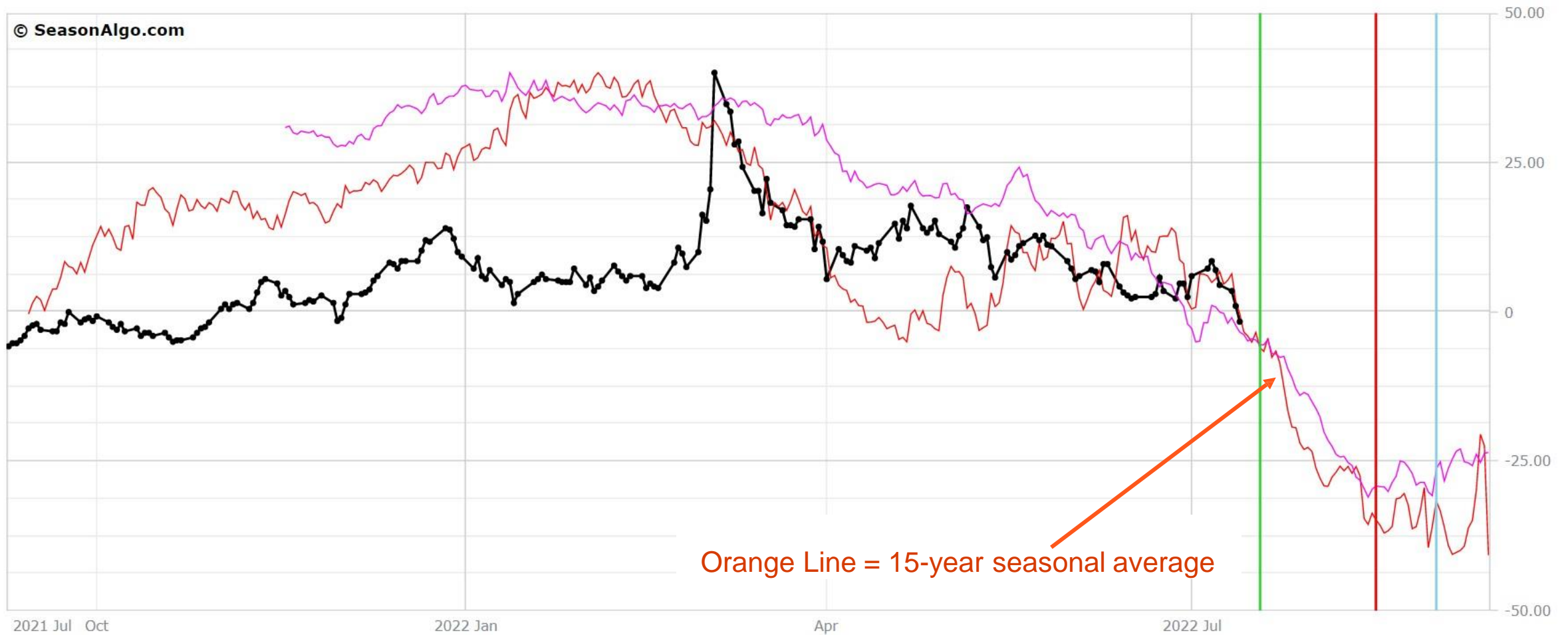


# Correlations

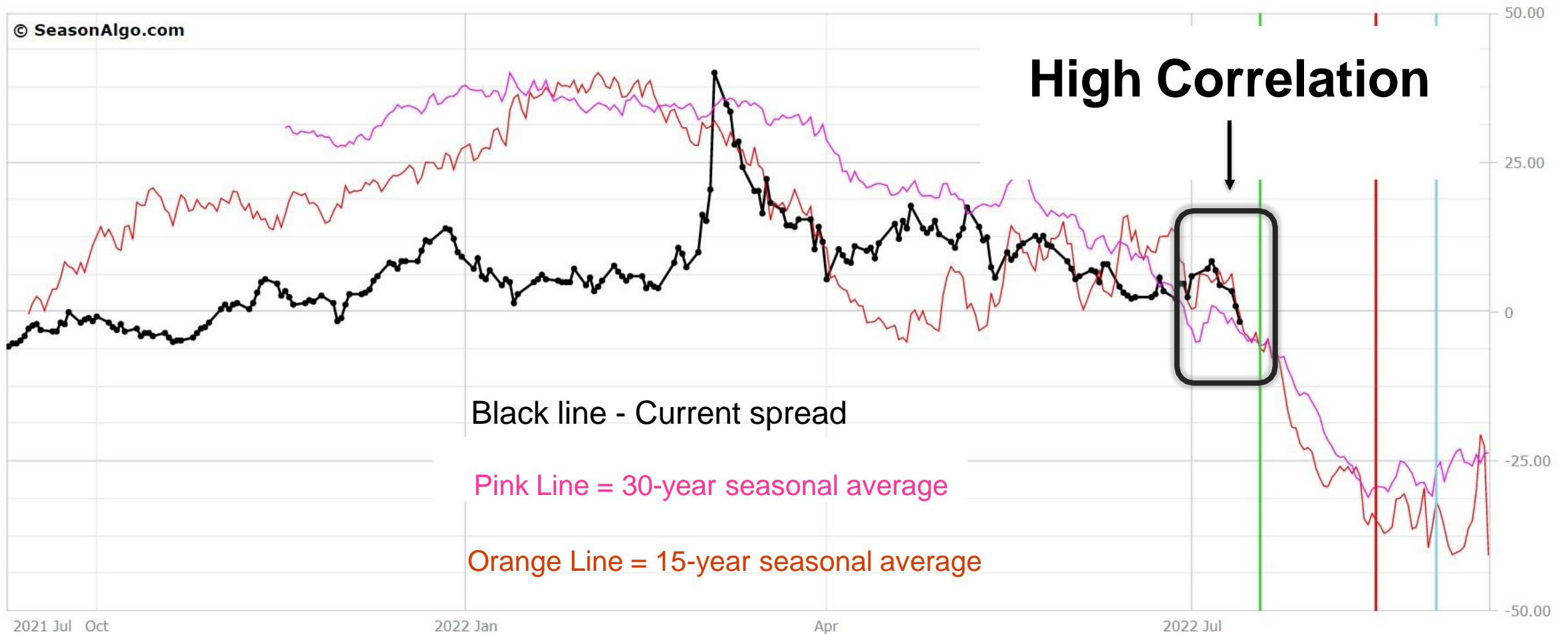




# Correlations



# Correlations



# Correlations

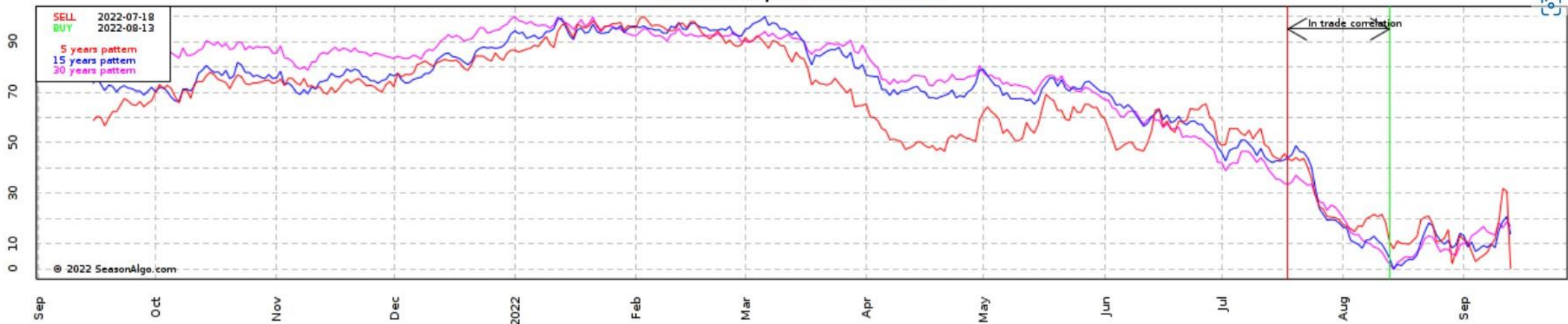
## Rational:

- ✓ 5 & 15 year spread correlation = **95%**
- ✓ 5 & 30 year spread correlation = **91%**

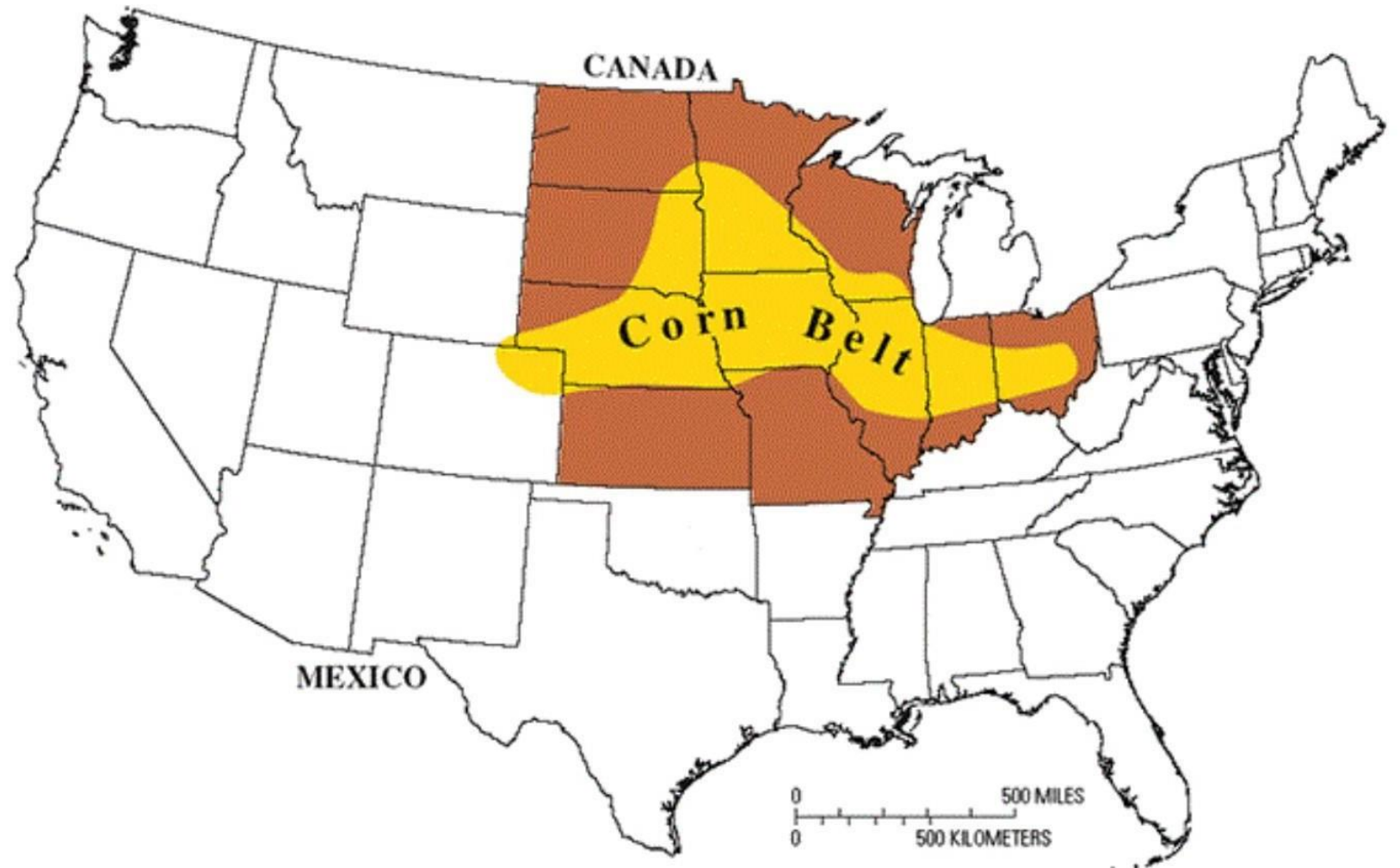
Complete correlation

In trade correlation			
Patterns	5	15	30
5		96.95 %	83.47 %
15	95.7 %		93.08 %
30	91.85 %	96.94 %	

CU22-CZ22 patterns correlation

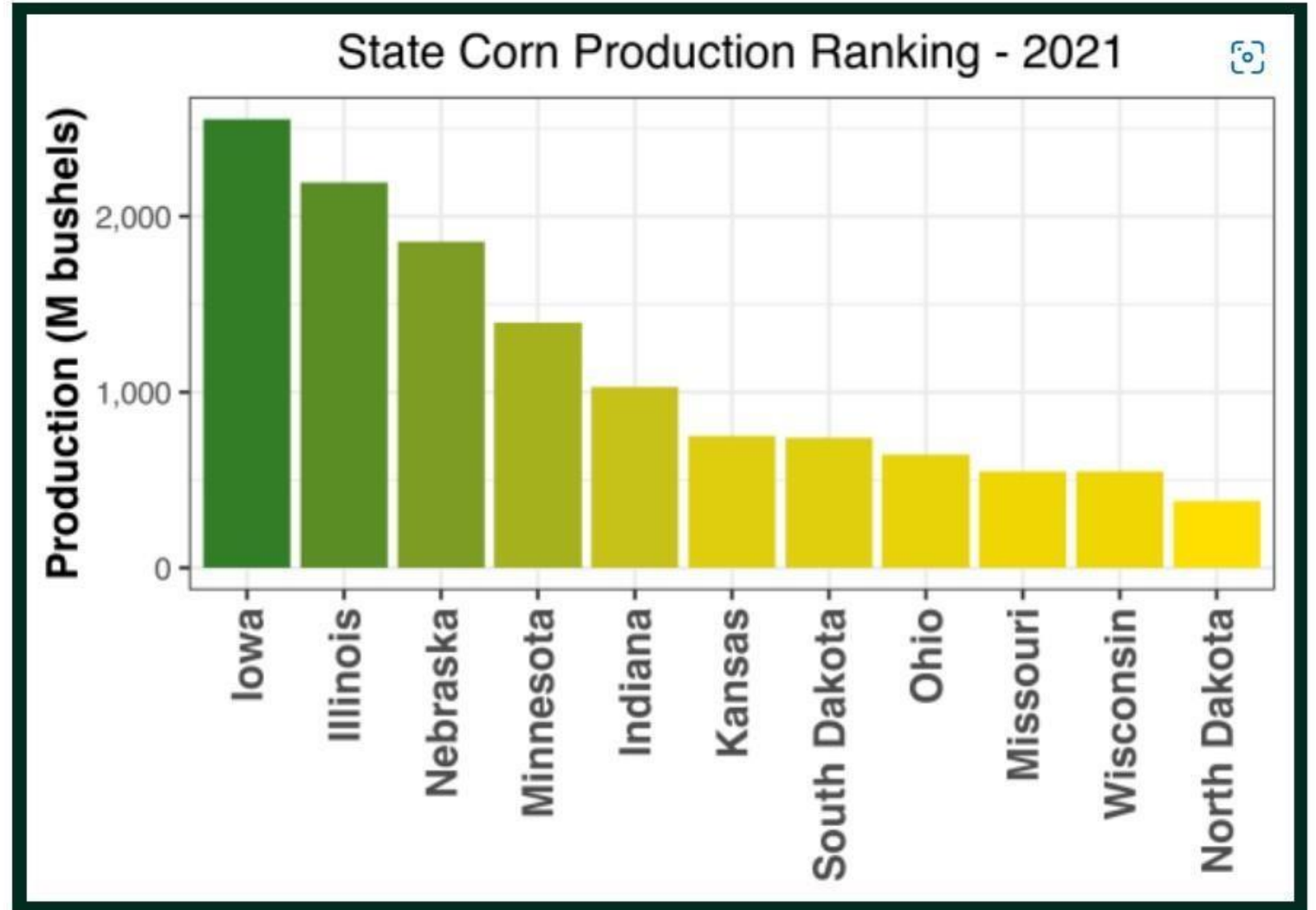


# The Corn Belt



# The Corn Belt

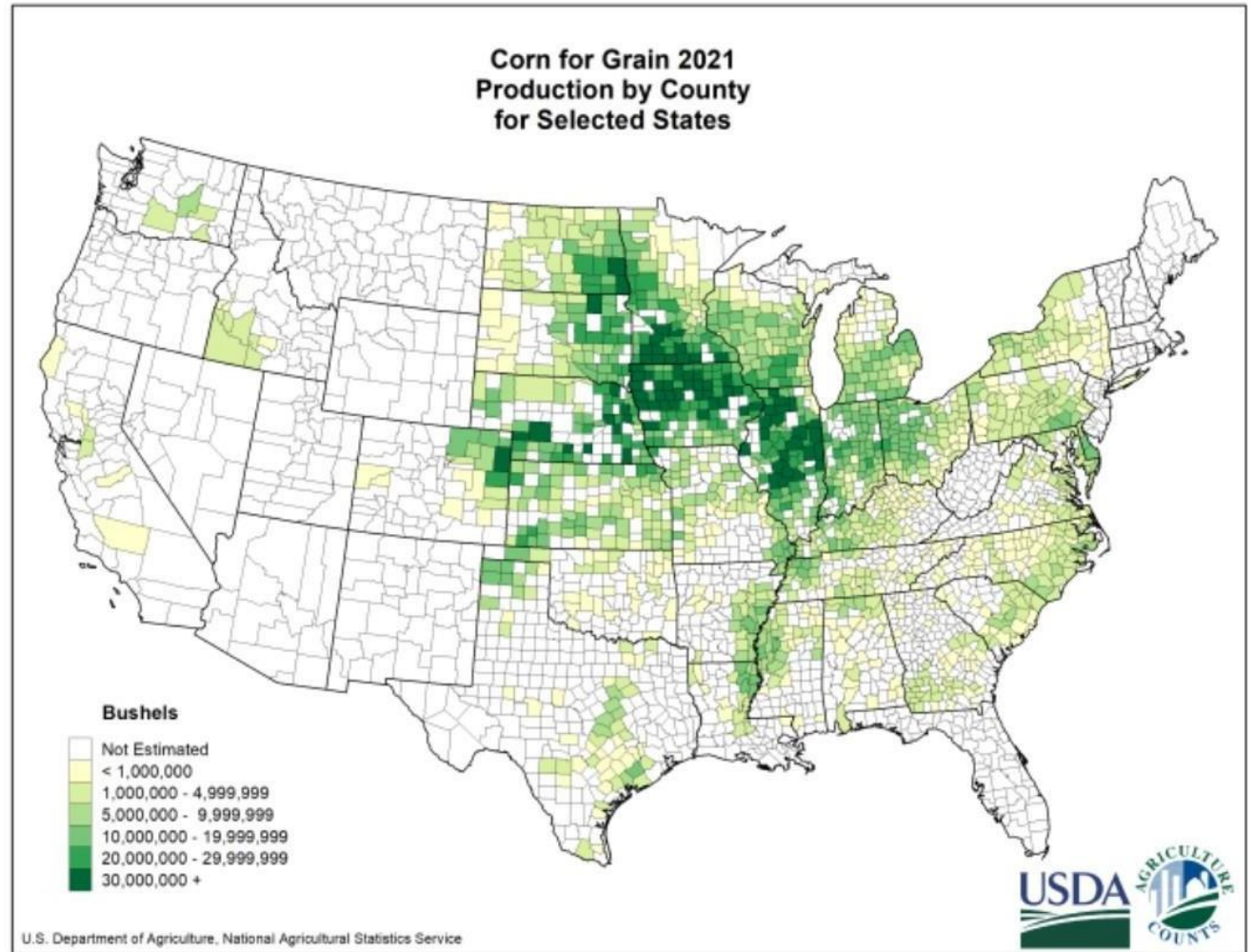
Top corn producing  
states





# Corn Production

## Corn Production 2021

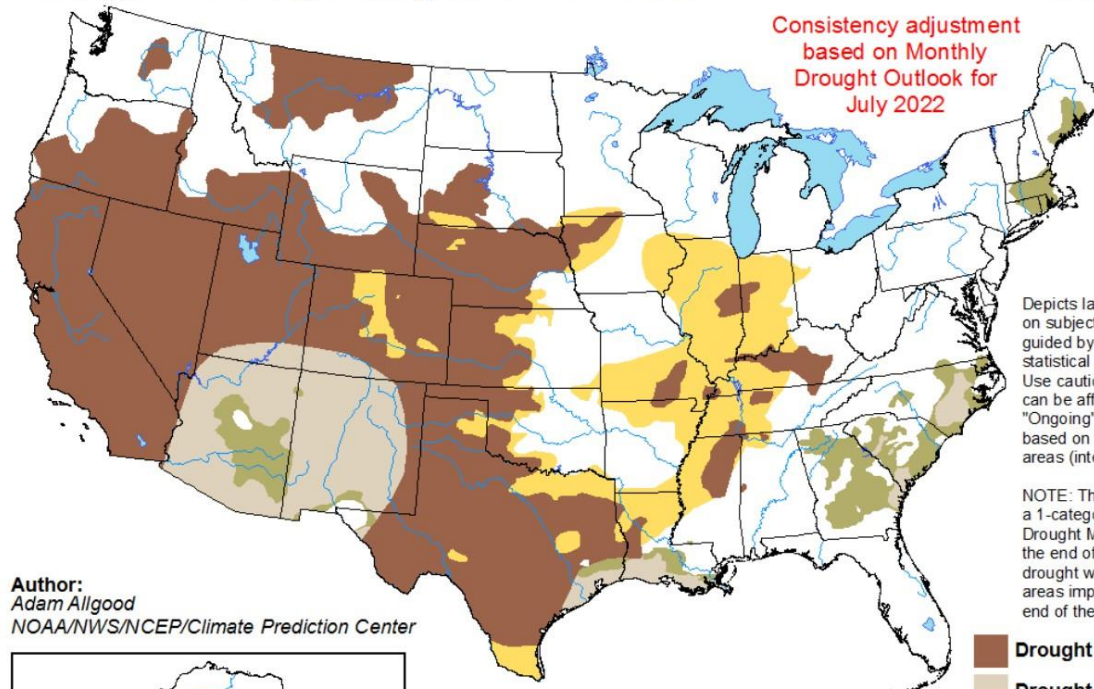


# Corn Production

## U.S. Seasonal Drought Outlook Drought Tendency During the Valid Period

Valid for July 1 - September 30, 2022  
Released June 30, 2022

Consistency adjustment  
based on Monthly  
Drought Outlook for  
July 2022



Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Use caution for applications that can be affected by short lived events. "Ongoing" drought areas are based on the U.S. Drought Monitor areas (intensities of D1 to D4).

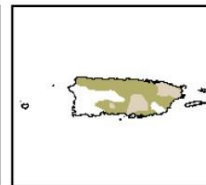
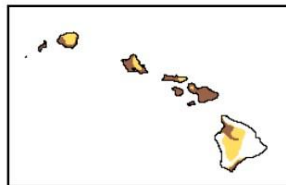
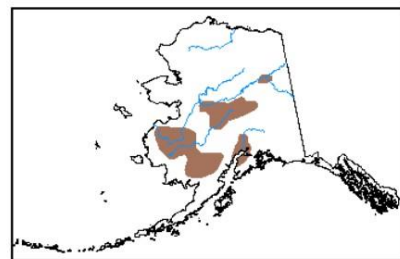
NOTE: The tan areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period, although drought will remain. The green areas imply drought removal by the end of the period (D0 or none).

- Drought persists
- Drought remains but improves
- Drought removal likely
- Drought development likely



<http://go.usa.gov/3eZ73>

Author:  
Adam Allgood  
NOAA/NWS/NCEP/Climate Prediction Center



# Risks and Concerns

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## Concerns:

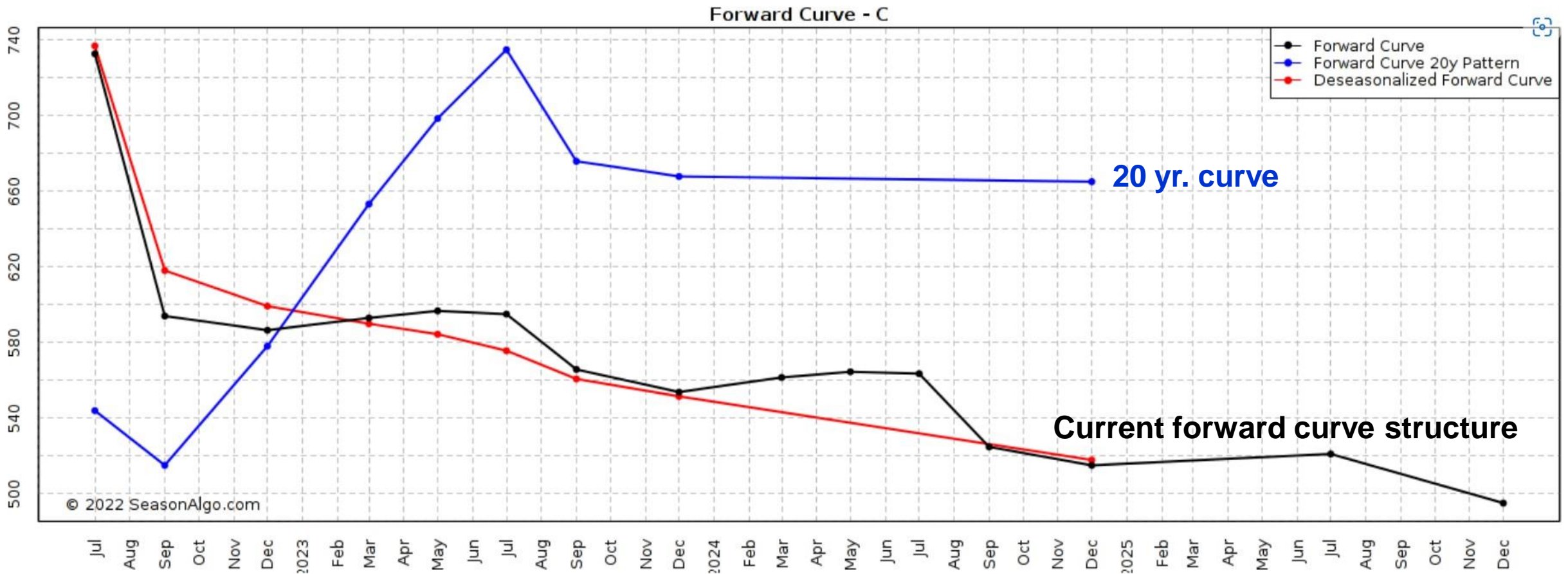
- 1) Extreme weather reduces pollination.
  - 2) Logistics and supply chain disruptions
  - 3) Will the Russian invasion change the forward contract structure (contango/backwardation)?
  - 4) Will the inflation on Corn recently influence structure (contango/backwardation) in a negative way?
  - 5) Possible threats from pests (Cutworms, aphids, thrips, rootworms)
-



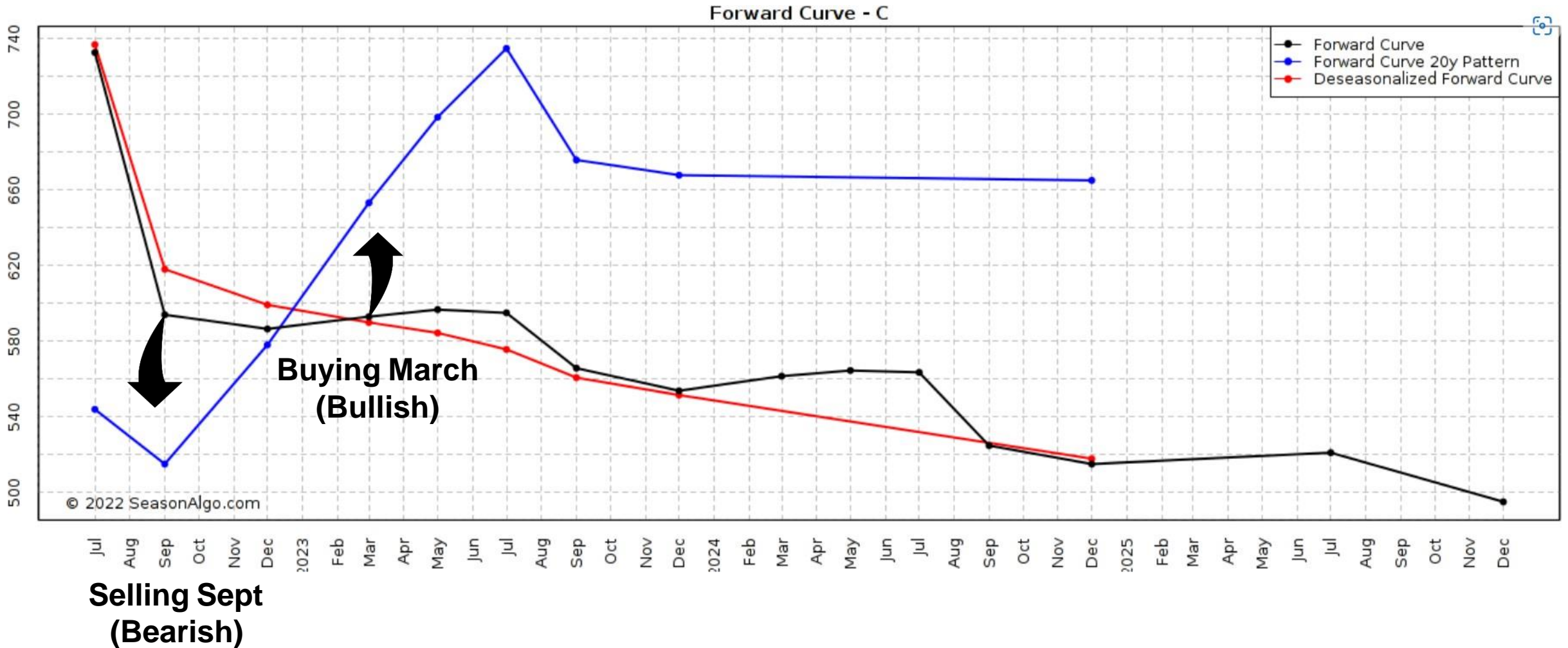
# Futures Recommendation



# Forward Curve



# Forward Curve



# Summary

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- 1) STO ZCU2 @ \$594
- 2) BTO ZCH3 @ \$593
- 3) Position Size: 10 contracts
- 4) Entry: at or around \$1-2 spread or lower, Monday July 18th to July 22nd, 2022
- 5) Exit for profit: \$4,500 (\$450/contract)
- 6) Exit for loss: Stop loss set at \$2,000 (\$200/contract)
- 7) If trending let profits run to \$6,000+ range
- 8) If stalling exit 50% of position at \$3,000-\$4,000 range
- 9) Mandatory exit: before FND (Aug 31<sup>st</sup>)



# **Options on Commodity Recommendation**



# Options Recommendation

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**Market:** Natural Gas

**Ticker Symbol:** NGZ2

**Time Frame:** August to early September

**Type of Trade:** Vertical Debit or Credit Spread (depending on IVR)

**Action:** Take a Long position in Support in late August or early September

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# Options Recommendation

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**AUM:** \$100,000

**Risk per Trade:** \$2,000 (based on 2% of AUM)

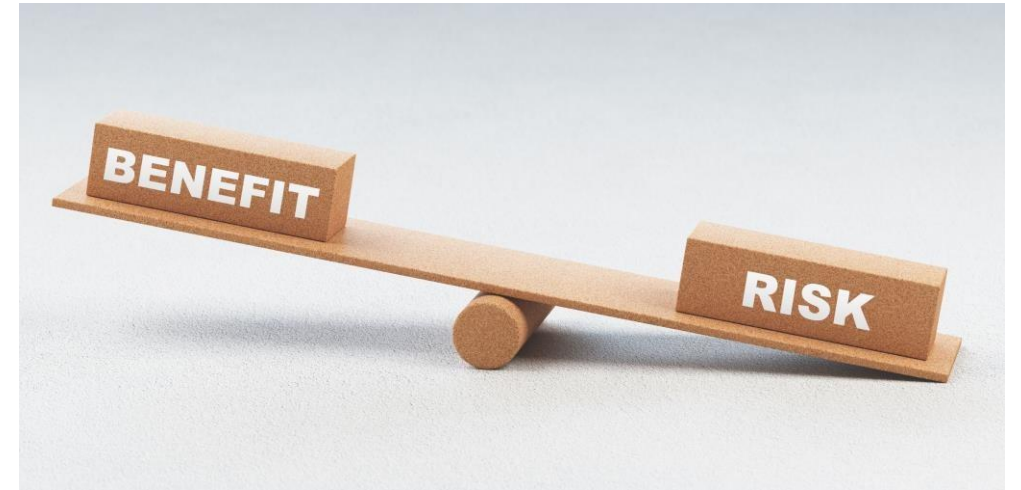
**Maintenance Margin:** \$7,700

**Maximum Margin Allowed:** 10% of AUM (\$10,000)

**Position Size:** 1 contract

**Leverage Ratio:** 10:1 (Credit Spread) 6:1 (Debit Spread)

**Notional Value/contract:**  $\$10,000 * 6.3 = \$63,000$



# Options Recommendation

## Rational

- 1) Winter is the primary season for Natural Gas consumption
- 2) Natural Gas is used to heat homes/offices during cold winter months
- 3) Supply builds up prices higher into winter





# Options Recommendation

## Rational (cont.)

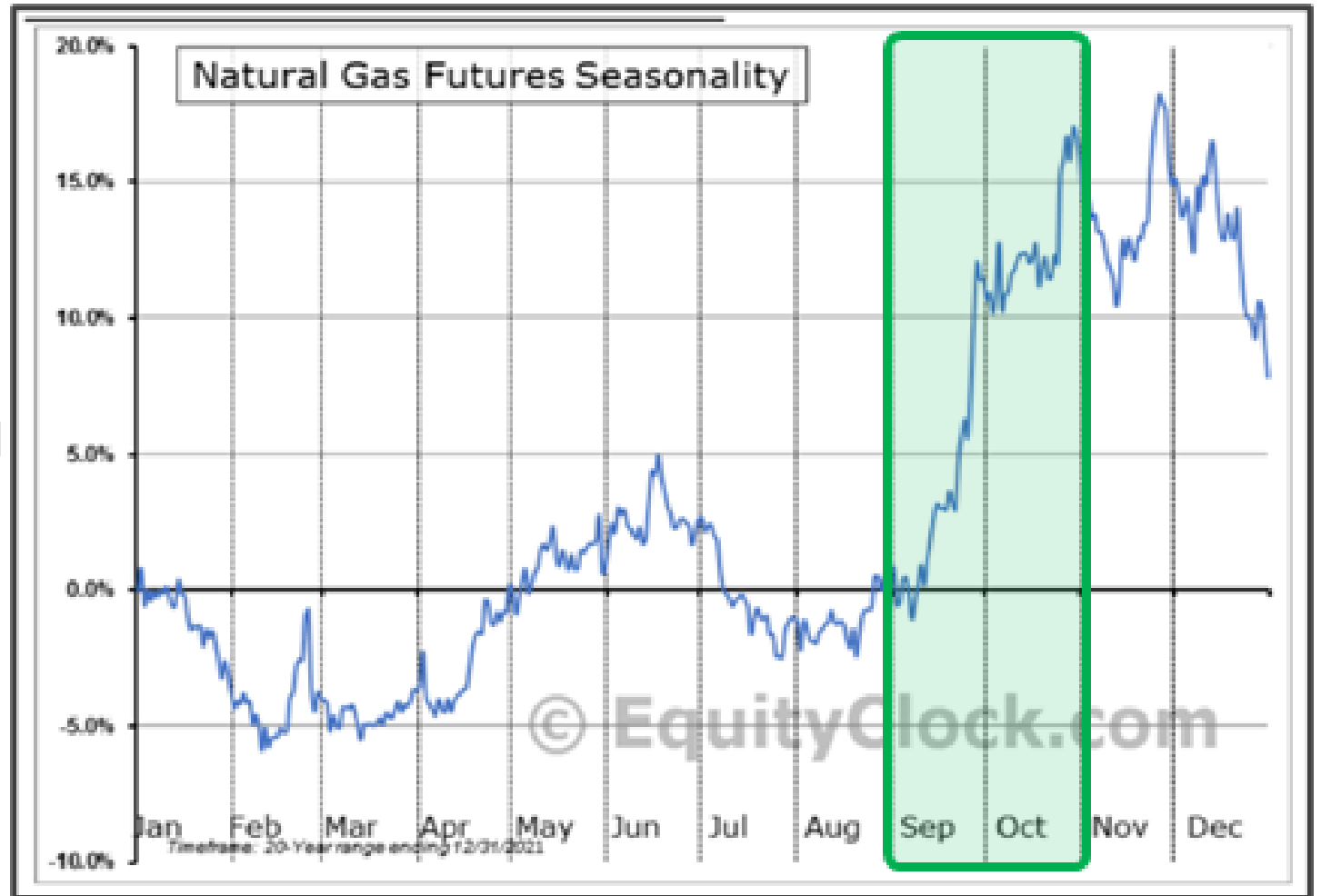
- 4) Nord stream conflict – Russia shutting off gas to Europe. “Our gas, our rules”!
- 5) Possible demand increases due to war (Russia/Ukraine)



# Options Recommendation

## Rational (cont.)

- 6) Very bullish seasonal rhythm
- 7) Strong expectancy
- 8) High probabilities
- 9) High percentage gain expected



# Options Recommendation

## Quantitative Analysis (20 years)

### September:

Win %: 65%  
Average Win Amount: 9.9%

### October:

Win %: 70%  
Average Win Amount: 6.2%

Monthly Averages over past 20 years:												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-3.7%	-0.9%	1.7%	3.7%	1.3%	1.7%	-1.6%	0.8%	9.9%	6.2%	0.3%	-5.5%
Gain Frequency	40%	45%	55%	75%	50%	40%	30%	55%	65%	70%	50%	40%

# Options Recommendation

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## Concerns:

- 1) Extreme weather (hurricane in southern LA (Henry Hub).
- 2) Will the Russian invasion change the forward contract structure (contango/backwardation)?
- 3) Will the strong seasonal rhythms change this year?
- 4) Possible recession will decrease demand slightly, but people will still need heat.

## Solutions:

- 1) Pay close attention to seasonal rhythm correlation shifts
  - 2) Pay close attention to geopolitical events (Russia/Ukraine mostly)
  - 3) Have stop loss set as GTC at \$2,000
-

# Options Recommendation



## Entry area:

~ If IVR is high, use Short Put Vertical Credit Spread

~ If IVR is low, use Bull Call Debit Spread

# Options Recommendation



## Exit area:

~ If using Short Put Vertical Credit Spread, exit at 50% of credit

~ If using Bull Call Debit Spread exit below 8.000

# Discussion Q&A