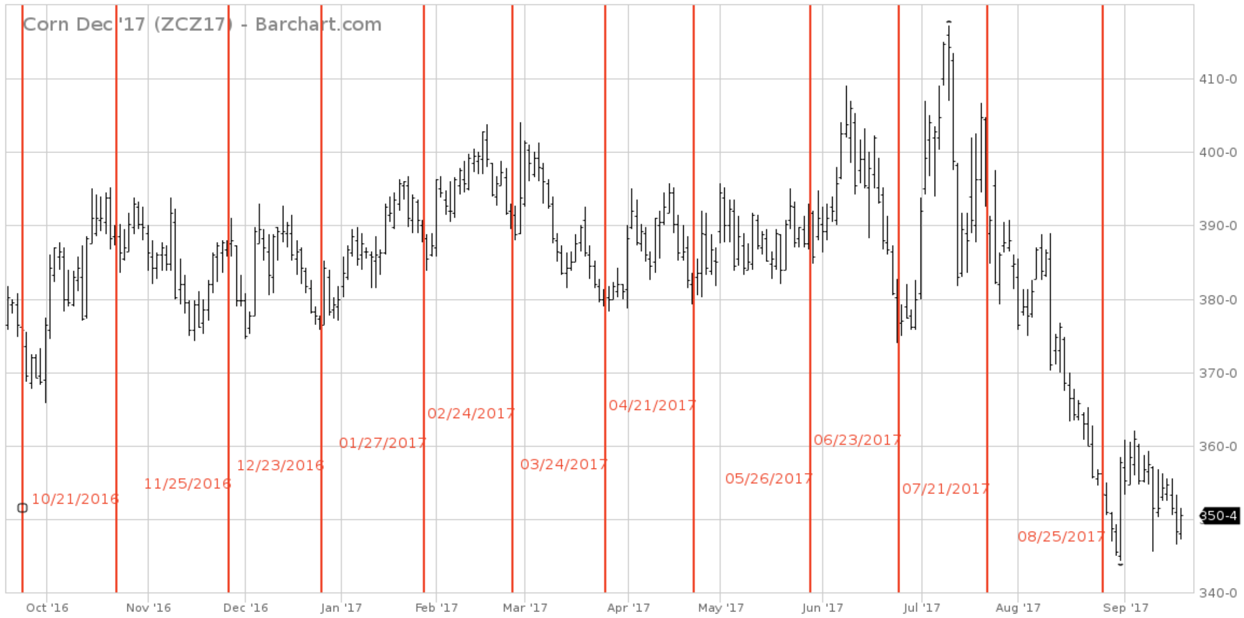
Options Expirations in the Grain Markets

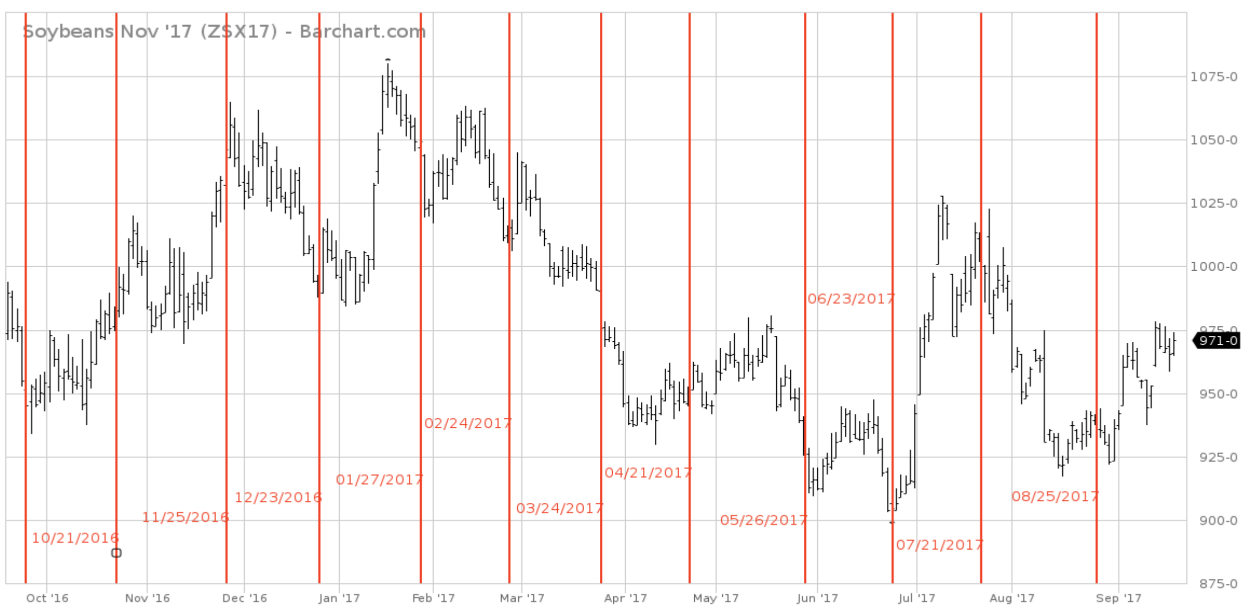
This Friday, September 22nd is the expiration date for October grain options. I frequently examine option open interest as we approach expiration on the ADM Investor Services YouTube channel (subscribe here). The mechanics of hedging the quickly changing option deltas and the subsequent unwinding of those hedges once the options expire can influence the movement of the underlying futures market. With October expiration approaching, can we learn anything from past options expirations?

Below you can see a graph of corn prices for the past year. The red vertical lines represent the expiration dates of past option expiations. As you can see from the graph below, it appears that the option expiration date frequently corresponds with a short-term top or bottom. In October 2016, November 2016 and July 2017, we had established rallies in the 5 to 10 days prior to expiration. After those option expirations, we followed with sell-offs in the days following expiration. In December 2016, January 2017, February 2017, March 2017, April 2017 and June 2017 prices were declining in the 5 to 10 days prior to expiration only to rebound in the days following expiration. In May of 2017 no real trend was established prior to expiration, and last month prices failed to reverse course and continued their trend lower after expiration.

This month we have seemed to establish a trend lower in corn futures headed into expiration. Based on the pattern above, it would not surprise me to see corn trade higher next week. I would be cautious with this trade, however, as I have found the effects of option expiration to be more pronounced in months with large volume and open interest. The October option expiration does not have a large open interest so any effect may be minimal.



Below you will find graphs of both soybeans and wheat with their corresponding option expiration dates. While similar patterns can be found in some of the months, it appears less reliable in these markets. Again, I believe this to be a function of the total option open interest. These patterns form as a function of hedging: as options go in or out of the money, many option traders hedge these options with futures. If option open interest is low, then there will be less hedging required in the futures markets.



As always remember that futures and options trading is a risky endeavor and should only be undertaken after speaking with a qualified professional. Please contact me matthew.krupski@archerfinancials.com or 312-242-7978 to discuss the mechanics of option hedging in more detail, or discover additional tools available to analyze the options markets prior to expiration.

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