

NYC Brewery Co. Weather Hedge

■ Problem

- Brewery Co analyzes their revenue from the sale of beer during the summer months. Over the last 10 years, they found that their sales revenue during the summer months drops if the summer is below average (73°F). This decline in revenue and inventory cost is constant for every degree below 71°F

■ Strategy

- Purchase a CDD Put Option

■ Benefits

- Protects revenue from a cooler than average summer
- Participate in a warmer than average summer

NYC Brewery Co. CDD Put

- Strike Price 1090 CDD*
- Location New York (LGA)
- Tick Size \$12,500
- Limit \$1 million
- Premium \$175,000

* [71°F - 65°F] x 183 days in summer

CDD Summer Put Payout

