

Wheat Price Volatility



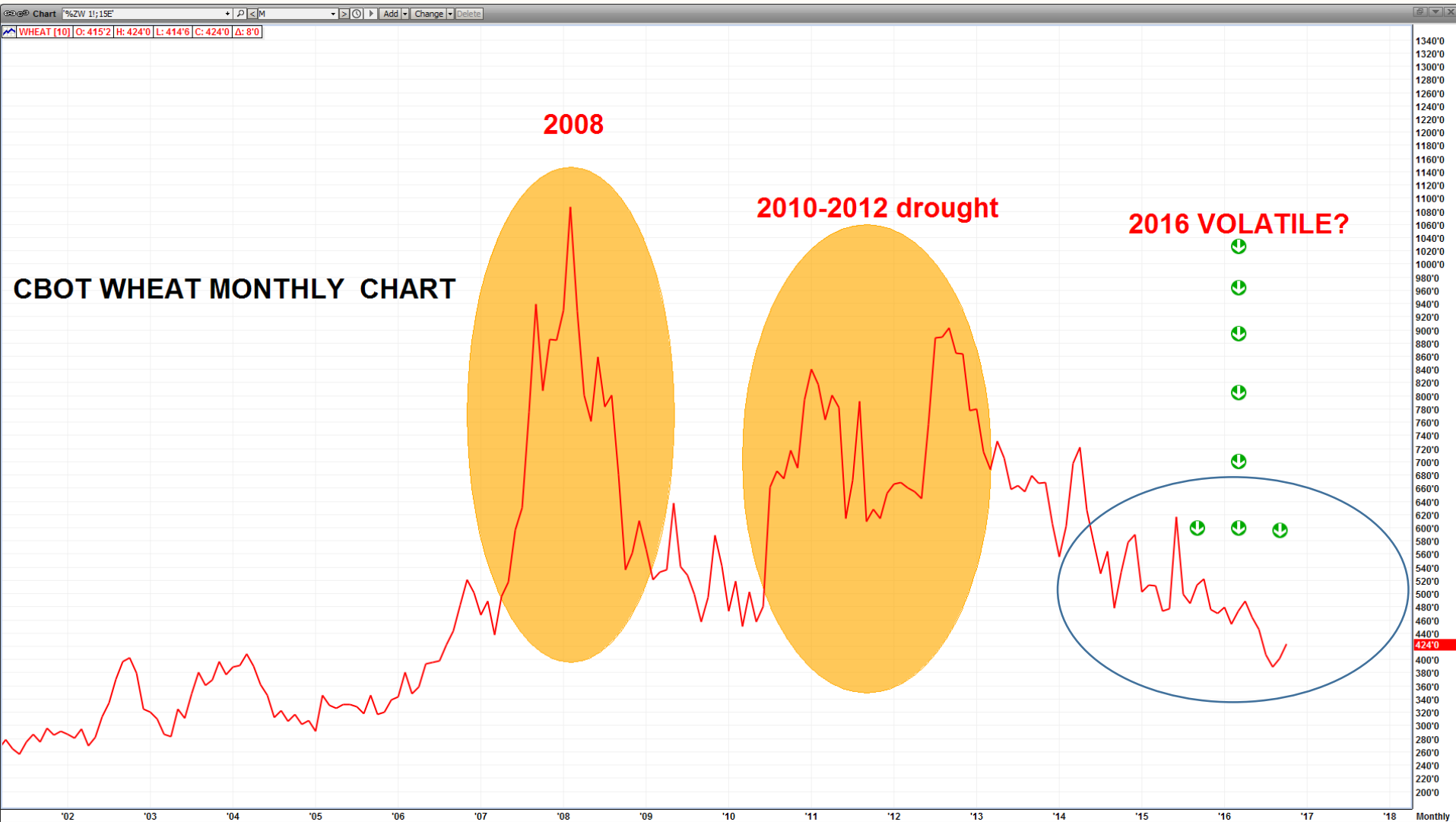
Thursday, October 27th, 2016

Introduction...

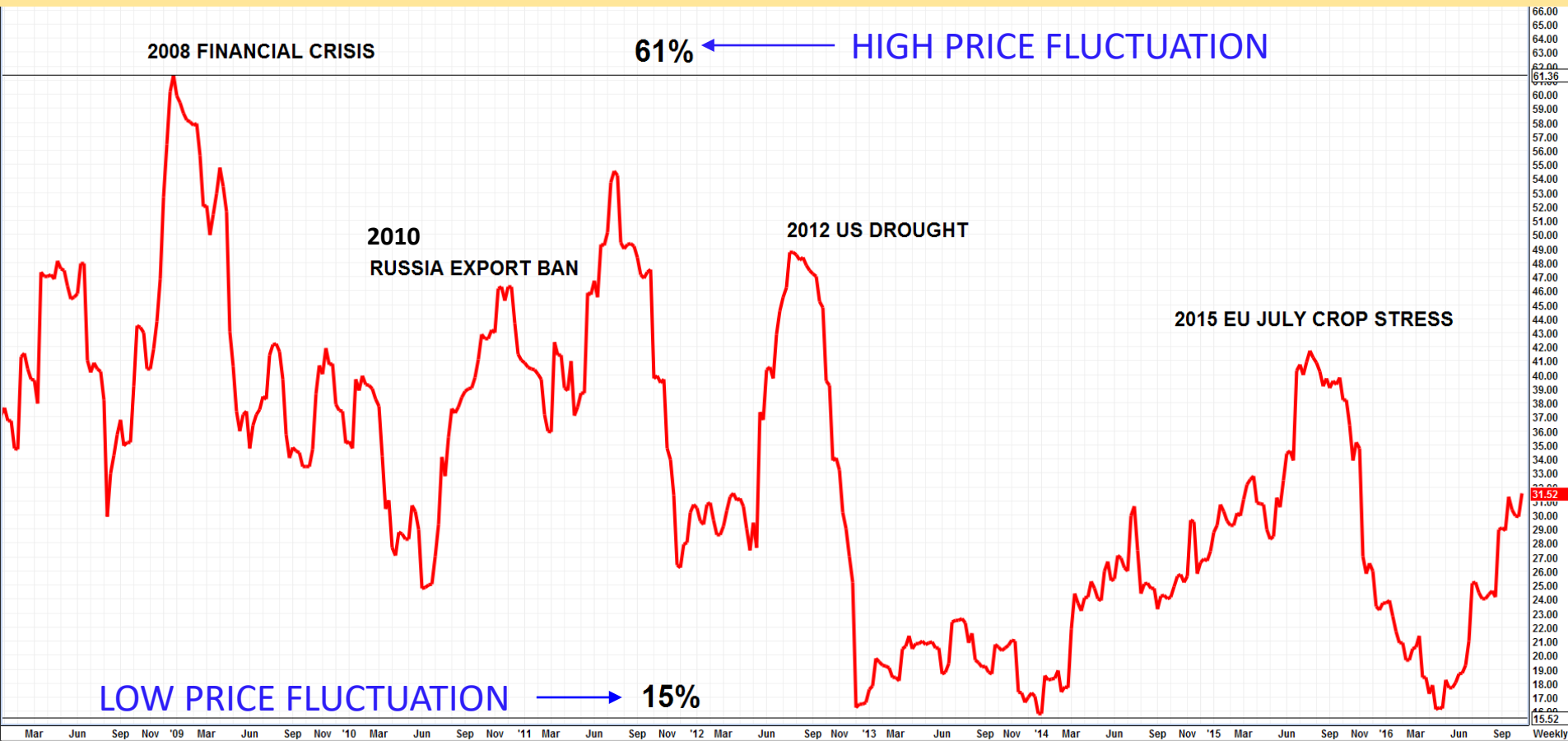
1. Market Intelligence
2. Trading

....Conclusion

Volatility...



Yes, volatility is Alive and Kicking



&...

WEATHER...

- Wheat crop (and price) are sensitive to weather pattern changes
- By 2050. temperature may grow by 1-4 Degrees (WMO*)
- => Global Warming, which may likely induce:
 - important weather pattern changes
 - if not Extreme weather event

*World Meteorological Organisation

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Problematic:

How to manage price risk in full awareness?

OSTRICH

POLICY?

CHOICE 1....



CHOICE 2....



Step 1 Collect Information

MARKET INTELLIGENCE

Physical Market

- Independent
- Broker (1)
- Supplier
- **Network**

Supply & Demand

- Official (2)
- Independent
- Supplier
- In-House
- **Network**

Exchange, Forex & News

- News Agency

Freight

Baltic Dry Index
Matrix
FOB + Freight =
CIF price
To compare
origin at
destinations
Port Line up
• **Network**

Market Opinion

- **Network**

1. Future & Physical Broker
2. USDA – Abare (Australia) – Conab (Brazil) etc...

Step 2
Analyse the
information

MARKET
INTELLIGENCE

1. **FUNDAMENTAL Analysis**

- Supply (Existing price, Surface, Input, **Climate driven**)
- Demand (GDP growth, Consumption habits...)
- **Objective:** Anticipate upcoming S&D dynamic as Price is the equilibrium of both.

2. **MATHEMATICS**

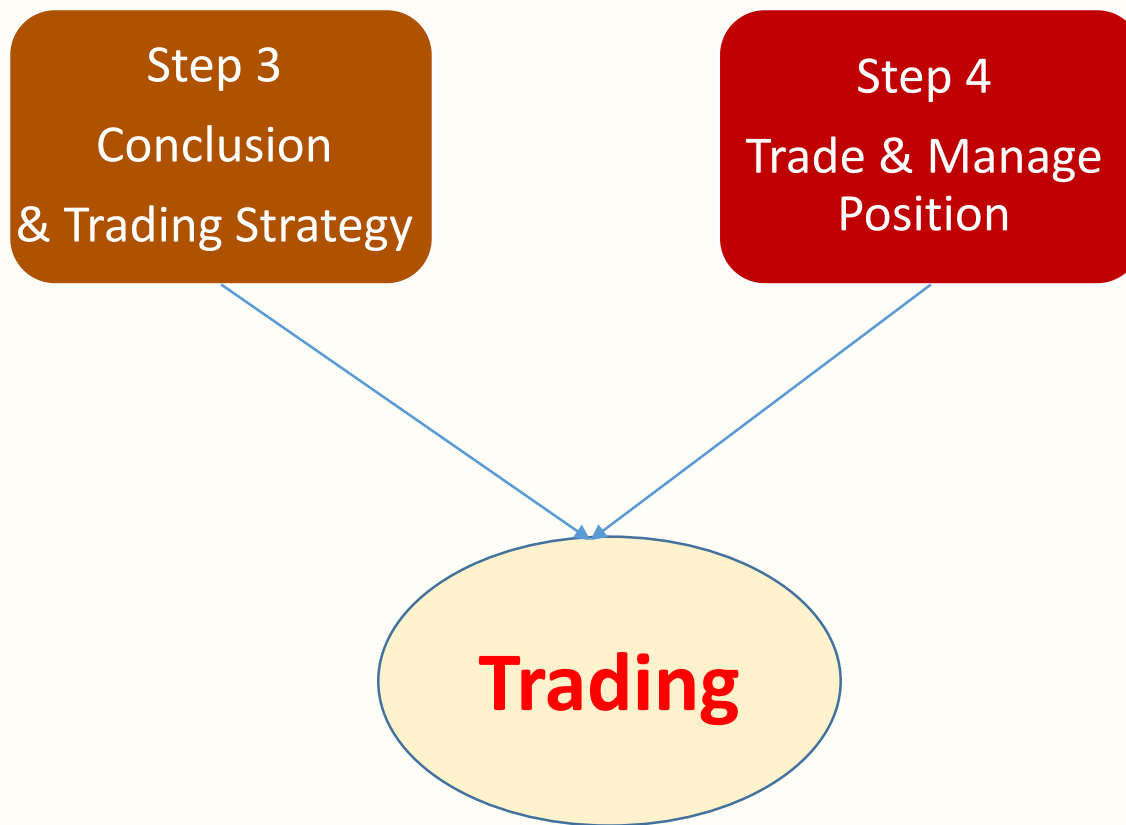
- Ex: Wheat-Corn Spreads / Soya-Corn ratio / Production Cost etc...
- **Objective:** Do they confirm Fundamentals or not

3. **MACRO Indicators**

- Currencies – Credit crunch – Geopolitics
- **Objective:** Do they enable 1 & 2 to develop?

4. **TECHNICAL Analysis:**

- Price action study - Independent of 1-2 & 3.
- Detect Trend reversal - Market Entry-Exit & Stop points
- **Objective:** When & Where to Take or Exit a position



- is a function of :
- A. Company Risk Profile
 - B. Trading Tool Used
 - Physical
 - Financial
 - C. Know How and Experience involved

A. First question that
a decision maker should ask
him/herself.....

What is the company profile vis-à-vis risk?

Risk taker or... **Risk averse**

- Be clear about this
- And define your Trading accordingly

Example

80 %

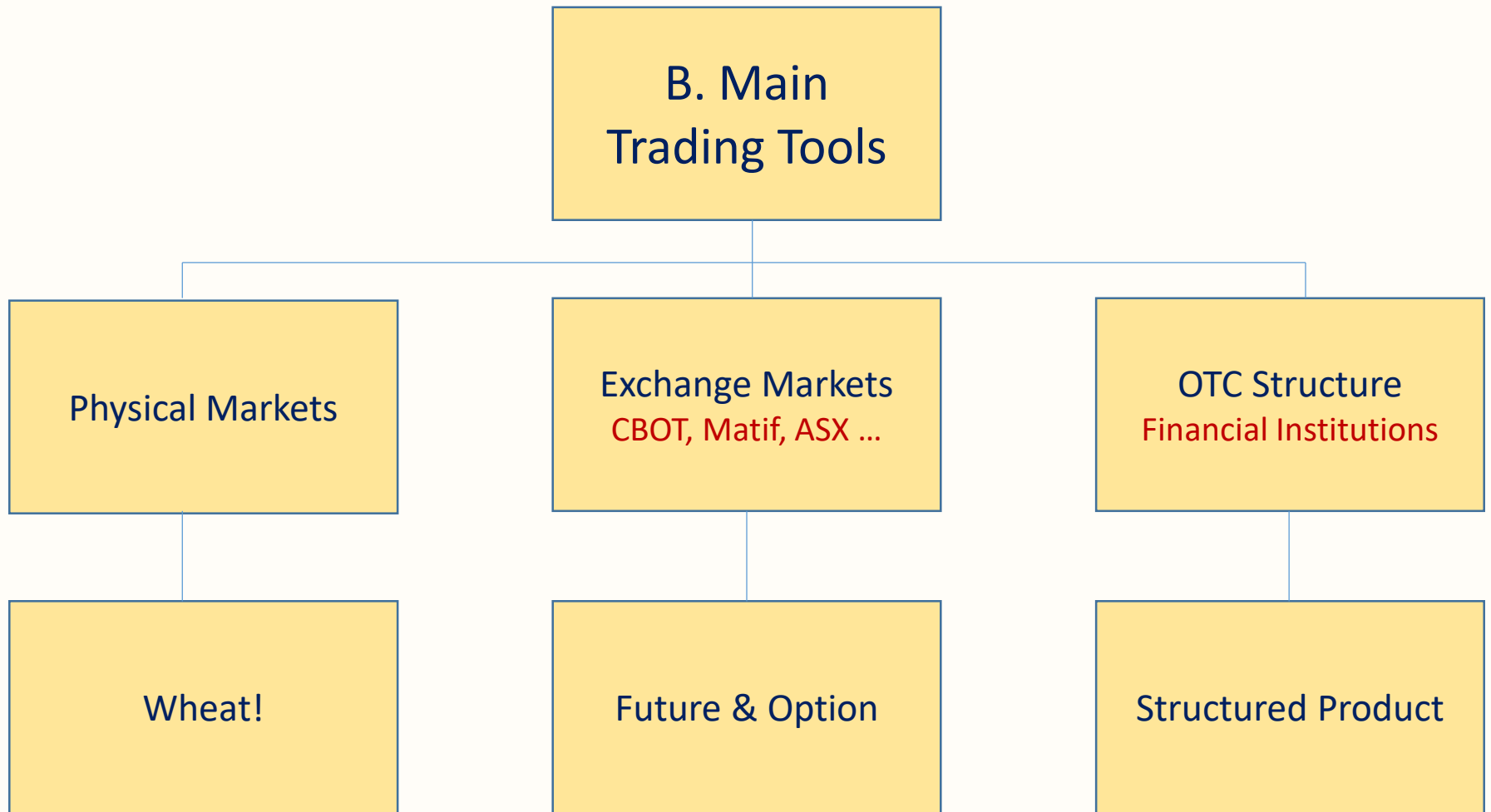
20 %

**Company Risk
Profile**



**Company Trading
Profile**





SPEC Trading Strategy Example

- **Structured Product example "Double Booster"**

- ⇒ Market is at price Z & $Y < Z < X$
- ⇒ max price X guaranteed.
- ⇒ In case markets goes down, quantity is doubled at price Y.
- ⇒ Customized solution

- **Directional (Long – Short)**

- Wheat itself!
- Futures
- Options

- **Volatility & Time**

- Options
- Extremely powerful trading instrument in respect to the possibilities it offers

Unlimited Possibilities

Hedging Strategy Example

Local Market Purchase

If domestic market permits it, buy the wheat as long as you sale the Flour

Buy Basis

- Price indexed on a future
 - Flexibility to fix price independently of the physical purchase

Buy Call Options

- Similar to an insurance
 - Max purchase price guaranteed
 - Max loss = premium

Unlimited Possibilities

C. How to access Know- How?

1. Broker and/or Supplier

- Cheap solution but not neutral

2. In-House trading team

- Autonomy but expensive.

3. External Trading Advisor (Terraxis Commodities SA)

- Cost efficient & Independent

Conclusion



1. However you deal with the unknown
2. Difficulty lies in establishing the right strategy according to:
 - Market situation at the time
 - Company risk profile
 - Capital available
 - Trading tools being used
3. Successful strategy is a function of Skills & Experience.

Should your market exposure justifies it:

- Invest in:
 - In-house trading team
 - or
 - External advisor
- They will protect your interest
- It is a worth while investment.

➤ First 4 Added Values are:

- ✓ Buy the right origin at the right time
- ✓ Wheat and currency market risk managed on a daily basis
- ✓ Remain confident in a chaotic market
- ✓ Insure stable and long term revenues

➤ Condition for successful collaboration is that you share
a common objective: **YOUR SUCCESS**

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Arabic – English – French website

THANK YOU!


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COMMODITIES