Wheat Price Volatility
Introduction...

1. Market Intelligence
2. Trading

....Conclusion
Volatility...
Yes, volatility is Alive and Kicking

![Graph showing price fluctuations](chart.png)

- 2008 Financial Crisis: 61% high price fluctuation
- 2010: Russia Export Ban
- 2012: US Drought
- 2015: EU July Crop Stress

Low price fluctuation: 15%
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*
Problematic:

How to manage price risk in full awareness?
OSTRICH

POLICY?

CHOICE 1....

No!
CHOICE 2....

Step 1
Collect Information

Step 2
Analyse the information

Step 3
Conclusion & Trading Strategy

Step 4
Trade & Manage position

Market Approach Cycle

MARKET INTELLIGENCE

TRADING
### 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

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1. Future & Physical Broker
2. USDA – Abare (Australia) – Conab (Brazil) etc...
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
Step 3
Conclusion
& Trading Strategy

Step 4
Trade & Manage Position

Trading

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 %

100% Risk Averse  →  100% Risk Taker

Company Risk Profile

Company Trading Profile

HEDGING (Neutralise Risk)  →  SPECULATIVE TRADING (Take Risk)

80 %  20 %
B. Main Trading Tools

- Physical Markets
  - Wheat!

- Exchange Markets
  - CBOT, Matif, ASX...
  - Future & Option

- OTC Structure
  - Financial Institutions
  - Structured Product
• **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

- Trading strategies are unlimited
- But the right one can be simple
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
  - 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
THANK YOU!

www.terraxis.ch

Arabic – English – French website