

2-DAYS ESSENTIALS OF SOFTS, AGRI MARKETS & TRADING – LEVEL 1

Learning objectives

Acquiring insight and knowledge of:

- The fundamentals of softs trading
- The reasons for trading agricultural commodities
- Softs trading platforms
- Agri exchanges, brokers and OTC markets
- Soft commodity derivatives
- Hedging agri exposures with forwards & futures
- Clearing & settlement of soft commodity contracts

Target group

This program is in general suitable for all people that support commodity trading-(related) organizations or traders in general; more in particular the course is suitable for:

- Traders
- Risk managers
- Back Office staff
- ICT staff
- Project managers
- Legal staff
- Compliance officers
- Accountants
- Controllers
- Finance & control staff
- Asset & portfolio managers
- Employees of exchanges
- Staff of transportation organisations
- Staff of clearing organizations

DAY 1 & 2

Session 1

Introduction to metals & metals trading

- Commodities
 - Energy
 - Softs
 - Metals
- Market participants
 - Producers
 - Consumers
 - Investors & Speculators
- Reasons for trading
 - Physical need
 - Sourcing & Sales
 - Financial desire
 - Hedging
 - Arbitrage
 - Speculation
 - Proprietary trading

Session 2

Softs trading & Settlement

- Concluding a transaction in soft commodities
 - Product
 - Specifications
 - p.e. Quality
 - Price
 - USD (cents)
 - Volume
 - Metric tonnes
 - Bushels
 - Spot markets versus Forward markets
 - Definition
 - Settlement: 'instant' delivery
 - Financial instrument versus cash (spot) products
 - Settlement
 - Unwinding a transaction
 - Physical delivery versus cash settlement
 - Physical delivery
 - Delivery versus payment
 - Delivery

- moment (vs. period)
- Cash settlement
 - Paper trading
 - Financial trading
- Spot prices versus Forward prices
 - Volatility of spot products
 - Volatility of forward products
- Spot transactions versus Forward transactions
 - Physical needs versus hedging
- Spot trading versus forward trading
- Soft commodity futures
 - Contracts
 - Legal agreements
 - Contract specifications
 - Trading unit
 - Price quotation
 - Trading months
 - Trading & position limits
 - Deliverable quality
 - Front month (nearby) futures
 - Differences between forwards and futures
- Brokers as members of exchanges
- Master Agreements
- Credit Support Annex
- Credit lines
- Exchange trading
 - Exchanges
 - Familiar names
 - CBOT (CME Group)
 - MATIF (NYSE Euronext)
 - NYBOT (ICE Futures US)
 - TOCOM (Tokyo)
 - MCX (India)
 - Products
 - Futures
 - Options
 - Clearing house
 - Familiar names
 - CME Clearport
 - LCH.Clearnet
 - ICE Clear
 - Clearing member
 - Collateralization
 - (Daily) margining
 - Initial margin
 - Variation margin
- Differences between OTC and Exchange trading
 - Standardization versus tailoring
 - Mandatory clearing
 - Netting
 - Payment (cash transfer)
 - Trading platform
 - Fee structure
 - Transparency
 - Liquidity
 - Anonymity
 - Regulation

Session 3 + 4

OTC versus Exchange trading

- OTC trading versus Exchange trading
 - Counterparty risk
 - OTC trading
 - Bilateral trading
 - Brokers
 - Execution only or trading for their own book
 - Services
 - Fees

Session 5

Liquidity & Volatility

- Trading terminology
 - Long versus Short commodity positions
 - Bullish versus Bearish (1-2)

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- view/commodity markets
- Liquidity
 - Financing liquidity vs. Asset liquidity
 - Liquidity risk in commodity markets
 - Short term contract liquidity vs. from long term contracts
- Price volatility
 - Measure for risk of soft commodity exposures
 - Spot versus forward liquidity in the soft commodity markets
 - Types of volatility
 - Actual future volatility
 - Estimated future volatility
 - Historical volatility
 - Implied volatility
 - How is volatility of softs commodities being measured?
 - Data set
 - Source
 - Time frame

Session 6

Hedging soft commodities producers' exposures

- Hedging output exposure
 - Hedging a long softs position
 - Hedging a long refinery product position
 - Selling a corn/wheat/cocoa/coffee forward or future
 - Selling a soymeal/oil forward or future
 - Mismatch; balancing input and output
 - Buying a floor
 - Constructing a collar

Session 7

Hedging agricultural consumers' exposures

- Hedging input exposure
 - Hedging a (natural) short soft commodity position
 - Hedging a (natural) short refinery product position
 - Buying a corn/wheat/cocoa/coffee forward or future
 - Buying a soymeal/oil forward or future
 - Balancing input vs. output
 - Buying a cap
 - Constructing a collar

Session 8

Crush spreads

- Crush spread of soybean process
 - Gross processing margin
 - Soybean input versus soymeal and soy oil output
 - Output value minus input value
 - Margin is not profit
 - Fixed costs are not considered
 - Cost of overhead are not taken into account
- Efficiency; ratios
 - Beans : Meal : Oil
 - Actual ratios versus tradable ratios
 - CBOT synthetic crush futures
 - 10:11:9
 - Physical delivery