

Learning objectives

Acquiring insight and knowledge of:

- Soft commodity swaps
- Soft commodity options
- Hedging strategies with softs options & swaps
- Sophisticated strategies with softs derivatives
- Time spreads, location spreads & cross-softs spreads
- Spread trading in agri markets
- Arbitrage & proprietary trading in the agri markets
- Portfolio management of soft commodity positions
- Risk management of agri portfolio
- Value at Risk
- Stress testing
- Conditional value at Risk & Expected shortfall
- Reporting
- Scenario analysis of softs portfolio
- Sensitivity analysis of softs portfolio

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

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

DAY 1 & 2

Session 1 + 2

Risk management – Value at Risk of agri portfolios

- Scenario analysis versus sensitivity analysis
 - Confidence level
 - Time horizon
- Addition to VaR methodology
 - Stress tests
- Correlation coefficients
- The value at risk of a soft commodities portfolio
 - VaR of softs position
 - VaR of related USD vs. EUR position
- Normal distribution pattern
 - Skew & Kurtosis
 - Volatility curve

Session 3

Risk management – Greeks variables for soft commodity positions

- Sensitivity analysis for softs portfolio
 - Sensitivity with respect to a change in:
 - Price of the underlying forward price of softs
 - Volatility of the underlying forward price of softs
 - Remaining lifetime of the softs contracts
 - Interest rates
 - Greeks
 - Delta
 - Vega
 - Theta
 - Rho
 - Gamma

Session 4

Weather impact on softs production & transport

- Weather impact on soft commodity production
- Weather impact on soft commodity transport

- Weather events
 - Insurance against negative financial impact of weather circumstances
 - Weather derivatives
 - Weather futures
 - Weather options
 - Other weather contracts
- Weather trading
 - Weather derivatives
 - Hedging an metals portfolio against negative weather influences
 - Setting up prop positions in the weather markets

Session 5

Freight trading

- Location differentials
 - Buying at location A
 - Selling at location B
 - Buying (booking/reservation) of transport (capacity)
 - Physical
 - Time charter
 - Voyage charter
 - Freight derivatives
 - Forward freight agreements (FFAs)

Session 6

Forward curves for soft commodities

- Forward curves
 - Theory versus practice
 - Shape of the curve
 - Agri market in contango
 - Agri market in backwardation
 - Normal backwardation
 - Convenience yield
 - Level of the curve
 - Shifts in height
 - Nearby prices versus far-out prices

- Volatility of spot prices vs. volatility of forward prices

Session 7

Swap contracts for softs

- Swaps
 - Cash-and-Carry principle
 - Types of agri swaps
 - Fixed-for-Floating agri swaps
 - Fixed-for-Fixed agri swaps
 - Floating-for-Floating agri swaps
 - Examples of softs swaps
 - Location (basis) swaps
 - Cross-product swap
 - Quality swaps
- Settlement of an agri swap contract
 - Periodic; yearly, half yearly
 - Floating price calculation at the end of periods

Session 8

Proxy hedge

- Introduction
- Correlation trading for hedging purposes
 - Imperfect 'substitute' as hedge
 - Dirty hedge
 - Imperfectness described as proxy
- Proxy hedge in agri markets
 - Corn as proxy for soybeans
- Criteria for the use of a proxy:
 - Most liquid product
 - Liquidity of corn contracts
 - Liquidity of soybean contracts
 - Comparison to traded volumes for corn, soybeans and others
 - Most related (and correlated) product