MACQUARIE

National Coffee Association

Advanced Hedging and Trading using Listed and Over-The-Counter Tools

March 2011

AGRICULTURAL COMMODITIES

Opening Comments

Welcome

Current Climate

- Historic high cash and forward prices
- Historically high volatility
- Margins and credit concerns growing
- Cash flow considerations

I Have a View – How Do I Express This in the Market?

Agenda

Introductions

Zach Hollick – Listed Derivative Specialist

Cameron Maloney – OTC Derivative Specialist

Format

Scenarios = Solutions, both listed and OTC

House Keeping

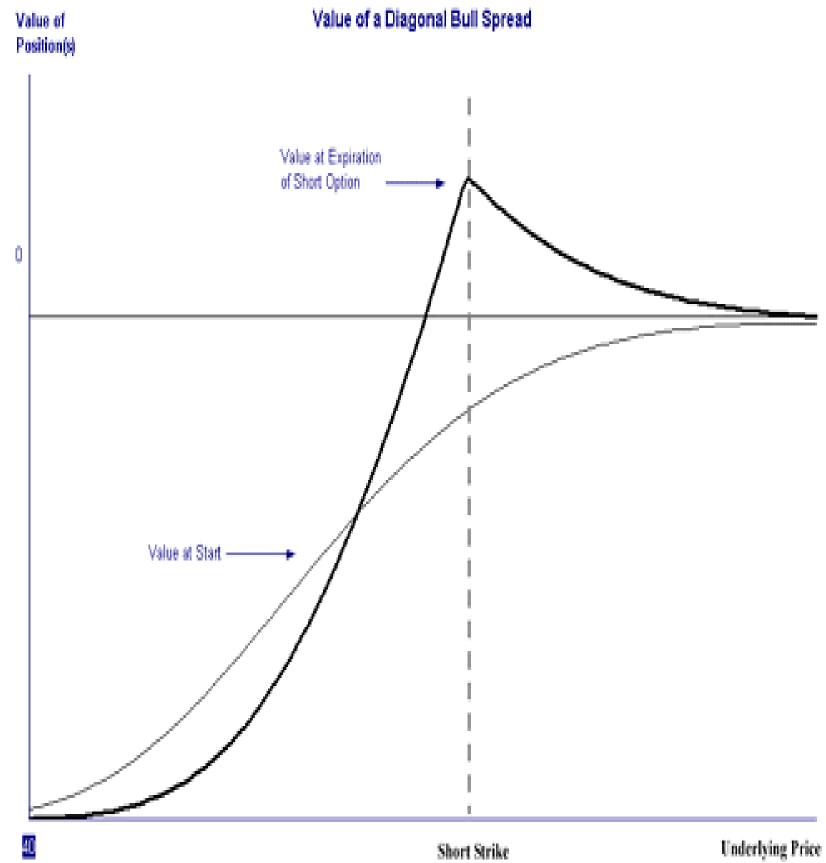
Questions and follow up

Listed Solutions

Scenario	Example Listed Hedge
Market Participant needs to finance a bullish position in a cost prohibitive elevated volatility environment	■ This strategy involves the purchase a long term In The Money or At The Money Call paired with the sale of a near term higher Call strike. This strategy is useful for a longer term bullish views coupled with uncertain or mildly bullish short term views. ■ If the longer term Call purchased is far out enough, multiple near term options may be sold every expiration as/ if they expire worthless further helping to finance the longer term Call ■ If the timing is off and the market moves higher before the projected time horizon the structure still behaves like a bull call vertical spread.
This strategy may be more suitable for “Grinding” or slow moving markets used to take action on a specified bullish price target	■ This is best utilized when the trader expects the underlying to move higher to a certain level but is unsure of how forceful this move will be. ■ The net effect of this trade is to create a range of prices within which the trade will experience a profit over time. ■ The Out of The Money Butterfly is constructed by buying one call, selling two calls at a higher strike price and buying one more call option at a higher strike price.

Diagonal Bull Call Spread

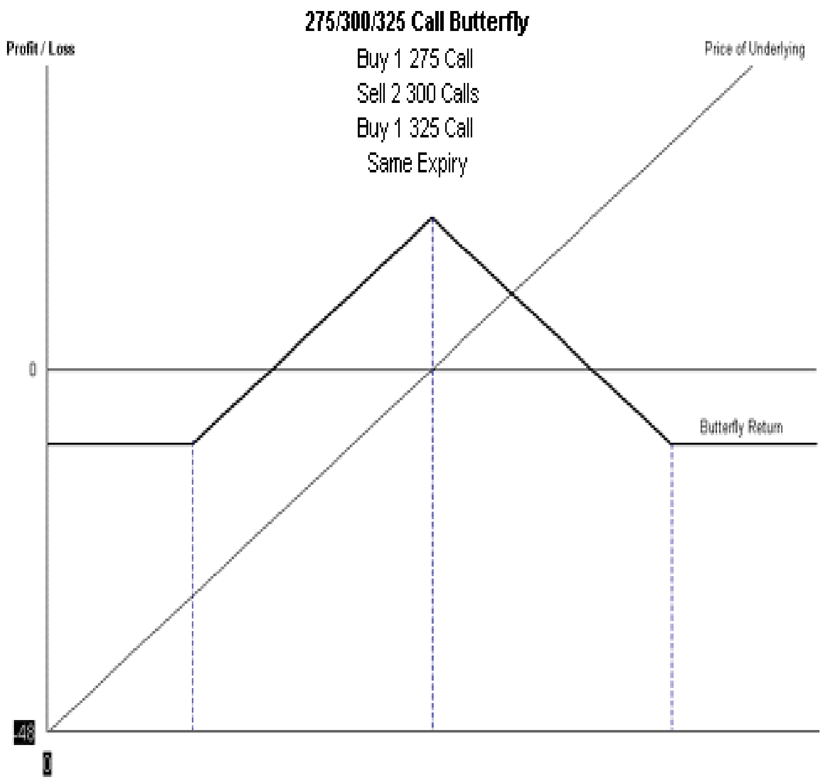
Scenario	Diagonal Bull Spread
Market Participant needs to finance a bullish position in a cost prohibitive elevated volatility environment.	■ This strategy involves the purchase a long term In The Money or At The Money Call paired with the sale of a near term higher Call strike. This strategy is useful for a longer term bullish views coupled with uncertain or mildly bullish short term views. ■ If the longer term Call purchased is far out enough, multiple near term options may be sold every expiration as/ if they expire worthless further helping to finance the longer term Call ■ If the timing is off and the market moves higher before the projected time horizon the structure still behaves like a bull call vertical spread.



Source: www.riskinstitute.ch

Directional Butterfly / Condor

Scenario	Directional Butterfly
This strategy may be more suitable for “Grinding” or slow moving markets used to take action on a specified bullish price target	■ The net effect of this trade is to create a range of prices within which the trade will experience a profit over time. ■ The Out of The Money Butterfly is constructed by buying one call, selling two calls at a higher strike price and buying one more call option at a higher strike price. ■ The futures must move in the anticipated direction in order for the trade to ultimately show a profit. ■ This is best utilized when the trader expects the underlying to move higher to a certain level but is unsure of how forceful this move will be.



Source: www.riskinstitute.ch

Over-the-Counter Solutions

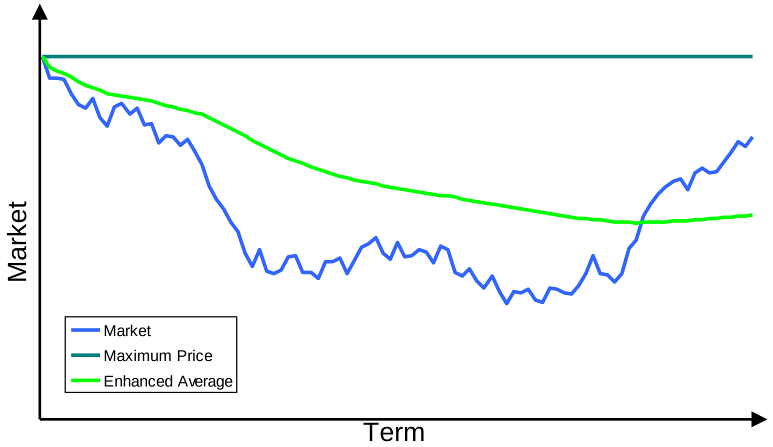
Scenario	Example OTC Hedge

Roaster needs to build long coverage, but wants to protect itself from a pullback in futures prices	***Enhanced Average*** – Provides hedgers with a cap on its purchase price while allowing for participation in downside market moves
	▪ The structure provides for daily commodity purchases according to the following terms:
	  ▪ A *Maximum Price* is established at the time of execution;
	  ▪ Everyday, roaster's purchase price will be the *lesser* of the *Maximum Price* and the *Market Settle*
	▪ The structure will create an enhanced average of all purchases

Roaster would like to build some length but thinks the market will behave in a bearish or sideways manner	***Re-Pricing Swap*** – Provides hedgers with structure that participates aggressively in downward markets
	▪ The structure provides for daily commodity purchases according to the following terms:
	  ▪ *Swap Price* at current market
	  ▪ A *Lower Re-Price* below the current market price is established at the time of execution
	  ▪ An *Upper Re-Price* above the current market
	  ▪ Everyday, roaster's purchase will be determined one of two ways: one, if the market settles above the *Swap*, roaster prices at the *Swap*; two, if the market settles at or below the *Swap*, client prices at the lesser of the *Lower Re-Price* or *Market Settle*
	  ▪ At expiration, if the market settles above the *Upper Re-Price*, all longs are priced upwards by the difference between *Market Settle* and *Upper Re-Price*

Enhanced Average

Scenario	Enhanced Average
Roaster needs to build long coverage, but wants to protect itself from a pullback in futures prices	■ The enhanced average provides hedgers with a cap on its purchase price while allowing for participation in downside market moves ■ The structure provides for daily commodity purchases according to the following terms: ▪ A *Maximum Price* is established at the time of execution; ▪ Everyday, roaster's purchase price will be the *lesser* of the *Maximum Price* and the *Market Settle* ■ The structure will create an enhanced average of all purchases



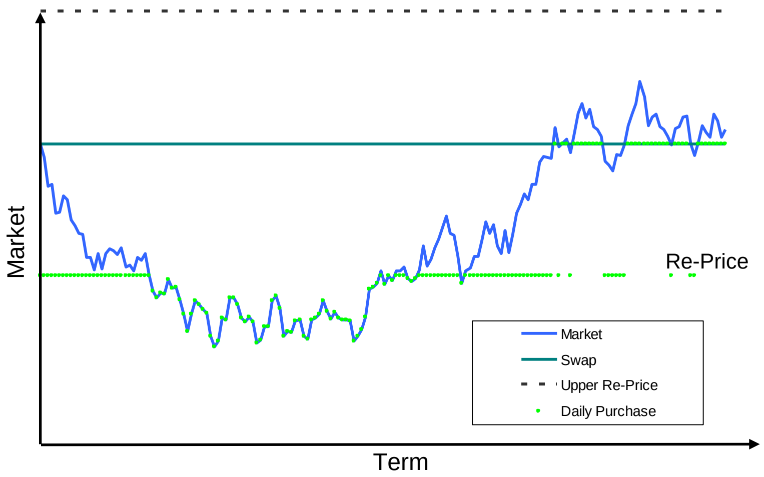
Considerations

- Structure requires less investment than a comparable strike ETO
- Requires only an upfront hedge decision, allowing the Enhanced Average to unfold passively
- Flexible pricing – features such as a *Minimum Price* can be added to lessen premium cost
- Prices consistently over the chosen term
- Different pricing periods result in different costs

Re-Pricing Swap

Scenario	Re-Pricing Swap

Roaster would like to build some length but thinks the market will behave in a bearish or sideways manner	Provides hedgers with structure that participates aggressively in downward markets
	- The structure provides for daily commodity purchases according to the following terms:
	  - *Swap Price* at current market
	  - A *Lower Re-Price* below the current market price is established at the time of execution
	  - An *Upper Re-Price* above the current market
	  - Everyday, roaster's purchase will be determined one of two ways: one, if the market settles above the *Swap*, roaster prices at the *Swap*; two, if the market settles at or below the *Swap*, client prices at the lesser of the *Lower Re-Price* or *Market Settle*
	  - At expiration, if the market settles above the *Upper Re-Price*, all longs are priced upwards by the difference between *Market Settle* and *Upper Re-Price*



Considerations

- Structure does not place a hard cap on upside risk – is more of an opportunistic trade
- Requires only an upfront hedge decision, allowing for management of further upside risk
- Flexible pricing – features such as a *Additional Quantity* can be added to enhance levels
- Prices consistently over the chosen term
- Different pricing periods result in different costs

Macquarie "Client Solutions" Platform

Macquarie – Fully Integrated Commodity Platform

Listed Platform

- CFTC regulated FCM – Clearing and Execution Services
- Margin Financing Facilities

OTC Platform

- Client Solutions – Customized Structures
- Risk Management Partnership

Financing Platform

- Export and Import Finance
- Inventory and Margin Financing
- Commodity Re-purchase Agreements
- Participation at all Levels of the Capital Structure

Closing Comments

Feedback and Questions

What does the future hold?

Close Session

Appropriate Disclaimers and Disclosures