



## OTC MARKETS - CREATIVE RISK MANAGEMENT FOR UNIQUE MERCHANDISING OPPORTUNITIES

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December 12, 2016 – Chicago

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## Is Price Risk Management Difficult?

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NO! Just remember,  
complex concepts  
*stated simply*  
creates opportunity!



Wow, no wonder  
that Elevator  
gets more grain  
origination!

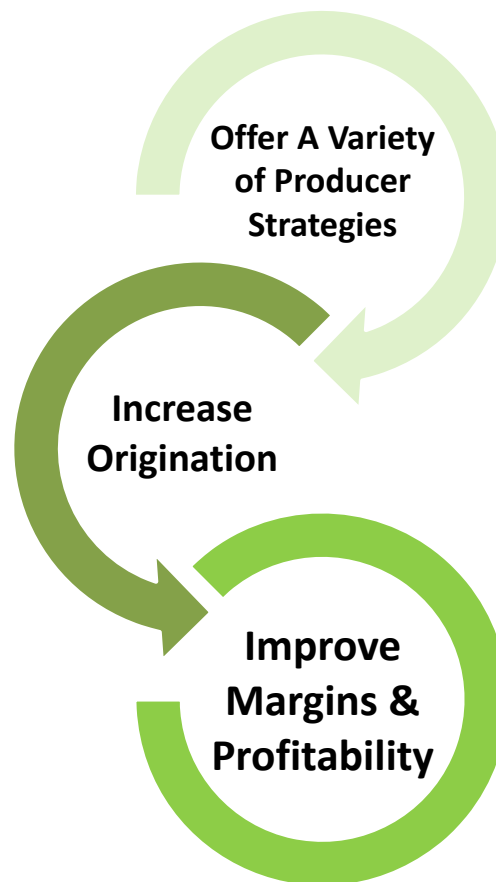


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# Importance of OTC Markets

## A Grain Merchandiser Perspective

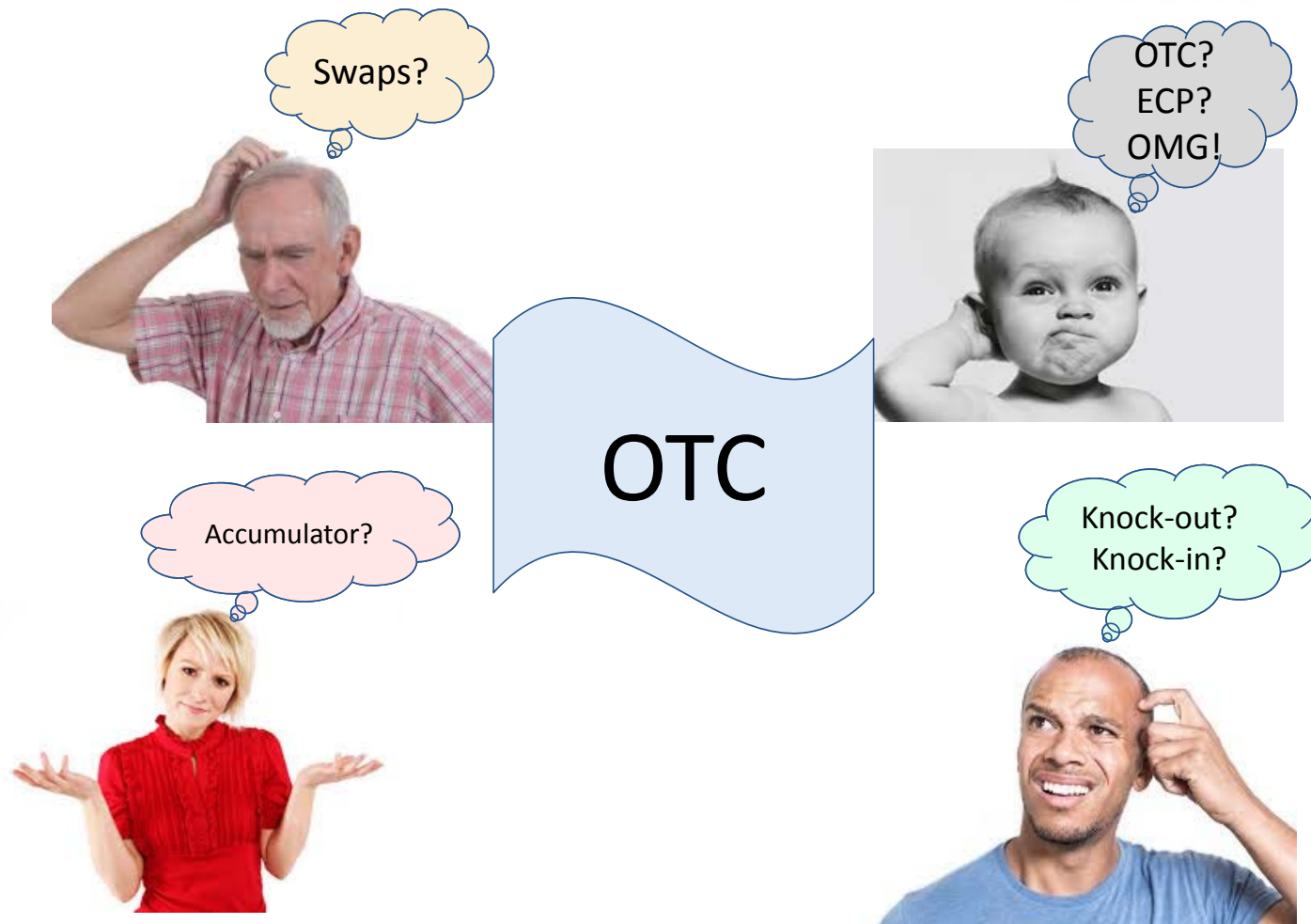
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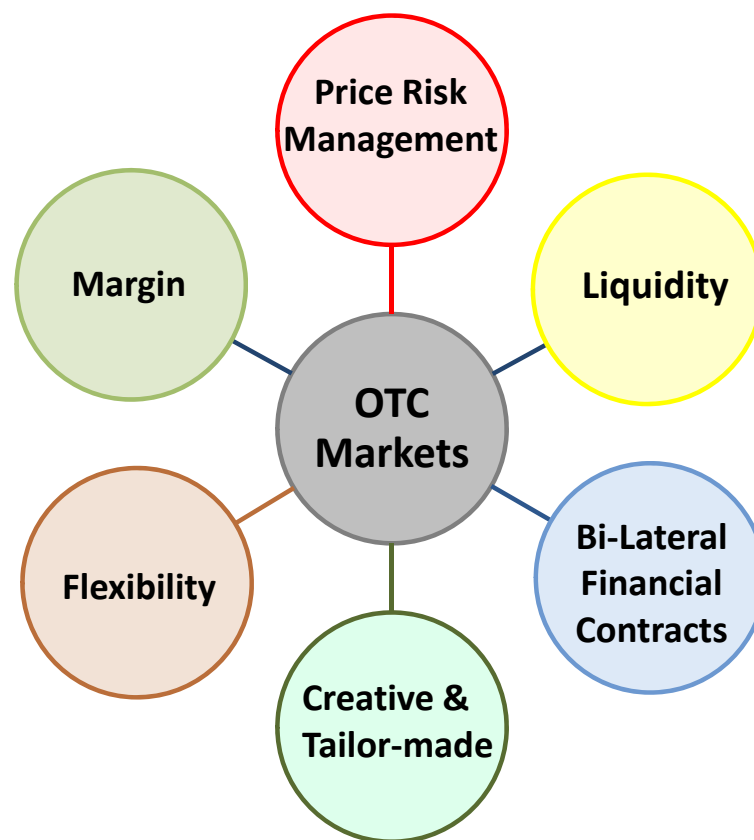
## Introduction to OTC Markets

\*OTC products are designed only for individuals or firms who qualify under CFTC regulations as an 'Eligible Contract Participant' ("ECP") and who have been accepted as customers of IFM



# Benefits of OTC Swaps

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# OTC Swaps & Structured Products

## Price Risk Management

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Buy side – Consumer strategies

Sell side – Producer strategies

Merchandiser – Origination strategies

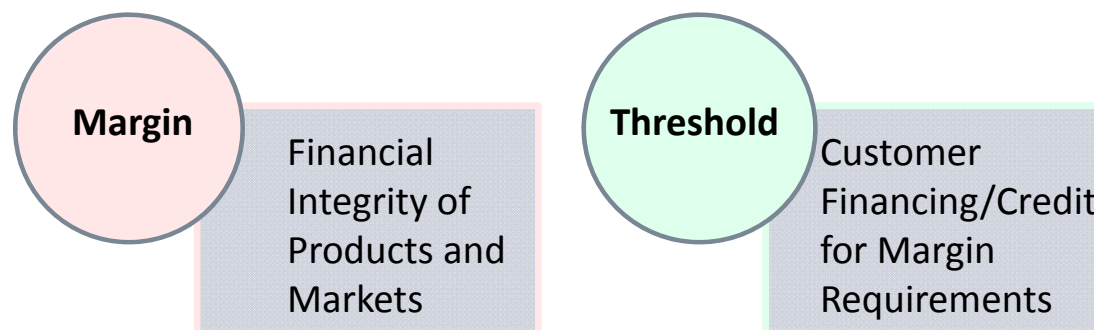
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# OTC Swaps & Structured Products

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## Margin

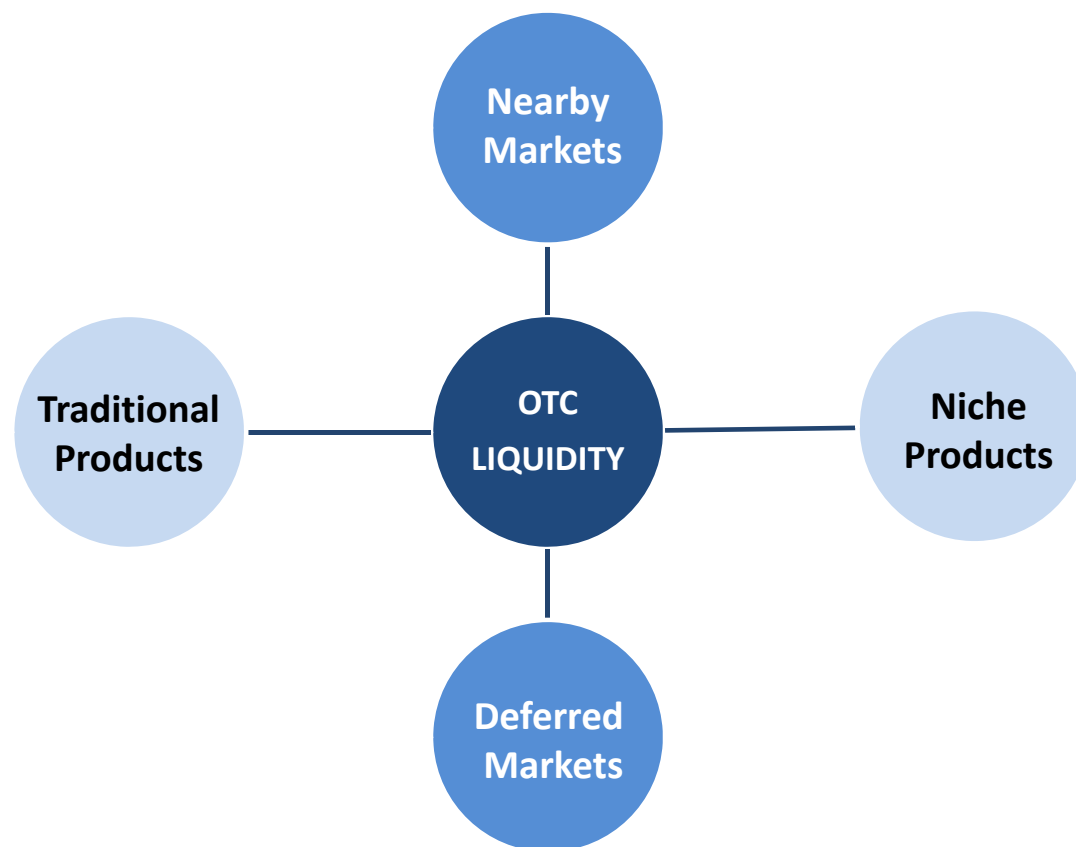


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# OTC Swaps & Structured Products

## Liquidity

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# OTC Swaps & Structured Products

## Flexibility

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# OTC Swaps & Structured Products

## Bi-Lateral Financial Contracts

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### Bi-Lateral Contracts

Two Party Confidential Transaction  
(Customer & Swap Dealer)

Financial Integrity: The Two Parties

IFM: 1<sup>st</sup> Non-bank Swap Dealer\*  
IFM: Experience, Expertise & Service  
IFM: Financial Stability

### Financial Contracts

Cash-Settled Products

Traded separately or

Embedded in Physical market contracts

\*IFM is provisionally registered with the CFTC as a swap dealer

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**Terminology**

**An Intro**

**Vanilla Swap  
Examples**

**OTC Markets  
Simplified**

**Sample  
Structures**

# An Introduction

# OTC Market

## An Introduction

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### Over-the-Counter Market

- Off exchange
- Bi-lateral contracts
- All product complexes
- Financially settled contracts

### Participants

- CFTC Provisionally Registered OTC Swap Dealer - IFM
- Customers: Individuals or Firms
- Participants must qualify under CFTC Regulations
  - Eligible Contract Participant
  - Must be accepted by Swap Dealer (IFM)
  - Producers, Consumers or Merchandisers

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## OTC Market Types of Products

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GRAINS	SOFTS	LIVESTOCK	BASE METALS	PRECIOUS METALS	FX	ENERGY
<ul style="list-style-type: none"> <li>• Corn</li> <li>• Soybeans</li> <li>• Chicago Wheat</li> <li>• Minneapolis Wheat</li> <li>• Kansas City Wheat</li> <li>• Soybean Oil</li> <li>• Soybean Meal</li> <li>• Ethanol</li> </ul>	<ul style="list-style-type: none"> <li>• NY Coffee</li> <li>• LDN Coffee</li> <li>• NY Sugar</li> <li>• LDN Sugar</li> <li>• Cotton</li> <li>• Cocoa</li> </ul>	<ul style="list-style-type: none"> <li>• Lean Hogs</li> <li>• Live Cattle</li> <li>• Feeder Cattle</li> </ul>	<ul style="list-style-type: none"> <li>• Copper</li> <li>• Lead</li> <li>• Aluminum</li> <li>• Zinc</li> </ul>	<ul style="list-style-type: none"> <li>• Gold</li> <li>• Silver</li> <li>• Platinum</li> <li>• Palladium</li> </ul>	<ul style="list-style-type: none"> <li>• G-20</li> <li>• Emerging Market Pairs</li> </ul>	<ul style="list-style-type: none"> <li>• Natural Gas</li> <li>• Crude Oil</li> <li>• Heating Oil</li> <li>• RBOB</li> <li>• ULSD</li> <li>• Ethanol</li> </ul>
					INTEREST RATES	
					<ul style="list-style-type: none"> <li>• Custom Tenors</li> <li>• Varied Hedge Instruments</li> </ul>	

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## OTC Market Types of Contracts

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### OTC Contract Types – Basic to Advanced Hierarchy

- **Swaps** – a futures or forward look-alike
- **Vanilla Option** – an option look-alike
- **Customized Option** – a flex option look-alike
  - Adjust dates and strikes
- **Strips** – a series of options over a period of time
  - Same strikes but different expirations
  - Traded as a package - usually more cost efficient
- **Barrier Option**
  - Knock-in – option rights/obligations are activated
  - Knock-out – initial optionality ends
- **Structures**
  - Combination of the above OTC products – in one line item

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# Terminology

# OTC Market Terminology

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## Swap

- Contract between two parties: Bi-lateral agreement
  - Settled financially
  - A non-standardized product

## Plain Vanilla Swap

- Bi-Lateral Contract – two party agreement
  - One party agrees to a fixed price
  - Second party agrees to a variable (reference price)
  - Financial integrity based on the two parties
- Settlement: financial payment at expiry
- Availability: Virtually all product complexes

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## OTC Market

### Plain Vanilla Swap – Producer Example

- Wheat Producer agrees to a fixed sale price
  - \$4.50/bushel for 42,000 bushels
  - (\$165.35 MT for 1,143 metric tons)
- Swap dealer agrees to a *variable price*
  - Reference Contract: CBOT July Soft Red Winter (SRW) Wheat Futures
- Swap Expiration: June 1

## OTC Market

### Plain Vanilla Swap – Producer Example

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#### ➤ Scenario 1: Lower prices at swap expiration



\*\$0.50 (\$4.50 fixed - \$4.00 variable) x notional quantity (42,000 bushels) = \$21,000

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## OTC Market

### Plain Vanilla Swap – Producer Example

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- Scenario 2: Higher prices at swap expiration



\*\$1.00 (\$5.50 variable – 4.50 fixed) x notional quantity (42,000 bushels) = \$42,000

## OTC Market Terminology

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### Structured Product – a.k.a. Structured Swap

- Customized Risk Management Solution
  - Traded in the OTC space
  - Derived from a combination of products & positions
  - Created with plain and/or exotic future & option positions
  - Each structure is tailor-made to meet customer's needs
  - Often referred to as an "Accumulator"

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## OTC Market Terminology

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### Accumulator

- Type of structured product
  - Name will include “Accumulator”
  
- Commitment to buy or sell a pre-determined notional quantity
  - Per each specified time period
  - Weekly or daily – most common
  - Quantity is negotiated
  - Accumulation Price levels are negotiated
  - Market must meet specific pre-negotiated contract requirements

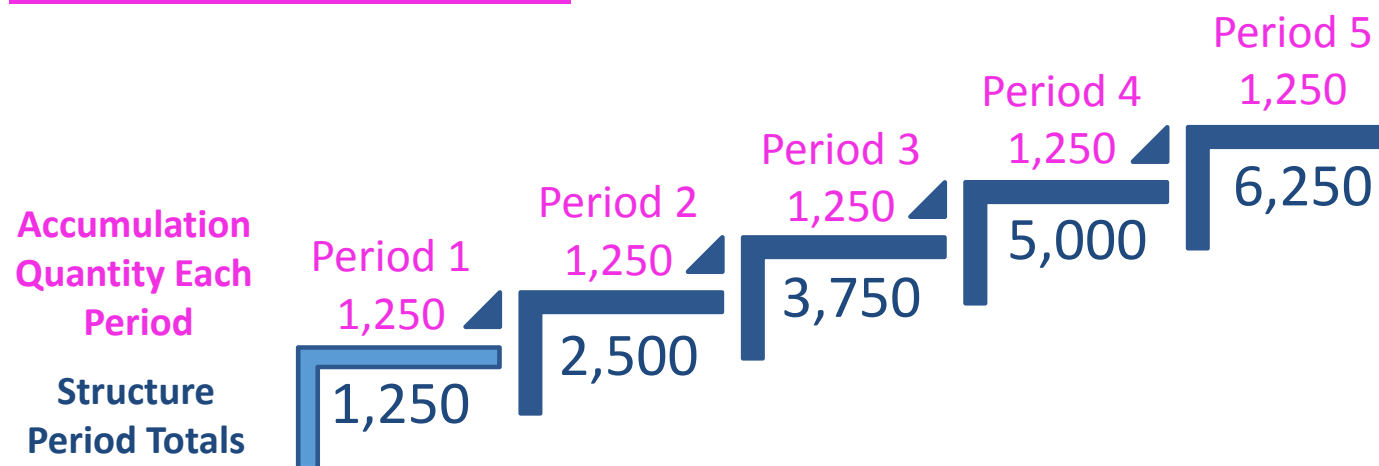
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## Accumulation Quantity Sample Structure 1

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Normal accumulator structure\*



\*without a double-up or knock-out feature

# OTC Market Terminology

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## Double-up

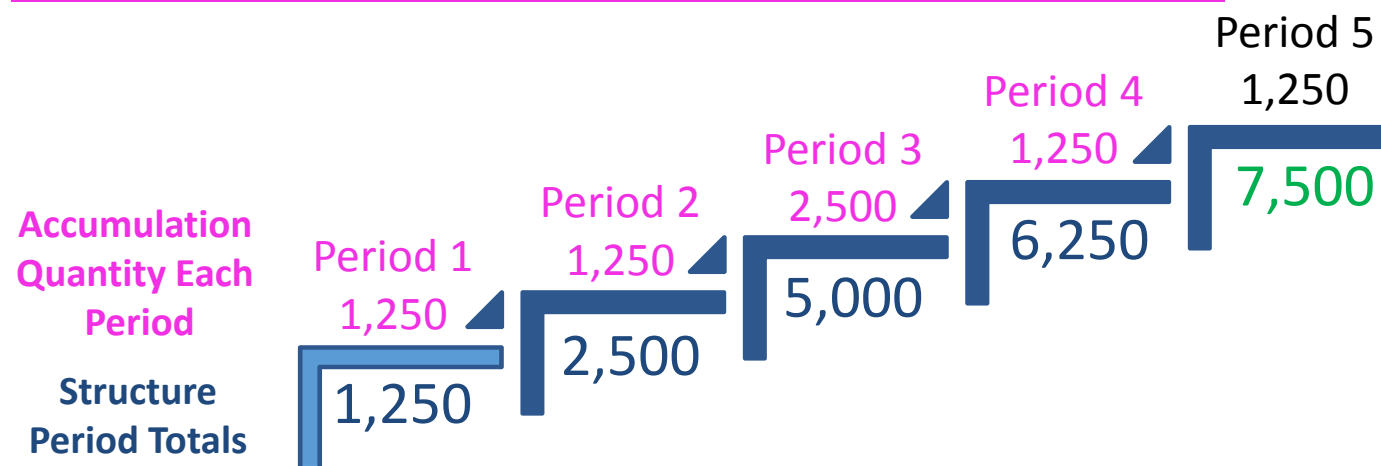
- Price level that will double the purchases or sales
  - Negotiated price level
  - For the specific time period
    - Weekly or daily (most common)
    - European – Entire quantity is doubled-up at contract maturity
  
- Double-up Contracts Vary
  - Sometimes – same or different as the accumulation level
  - Sometimes – double-up feature is in a different month
  - May not include Double-up feature

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## Accumulation Quantity Sample Structure 2

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Sample Structure with a double-up feature, that is activated in Week 3



## OTC Market Terminology

### Knock-out

- Price level that usually concludes accumulations going forward
  - Occurs when market trades/settles “at or better” than KO level
    - At or above KO level for consumer (buy-side structures)
    - At or below KO level for producer (sell-side structures)
  - Accumulations prior to KO – still valid
  - Price level that if/when touched de-activates the option function
  
- May or May Not Include “**Guaranteed Quantity**”
  - Price level, which remaining accumulations will be priced at
  - Usually for accumulations after a knock-out occurred

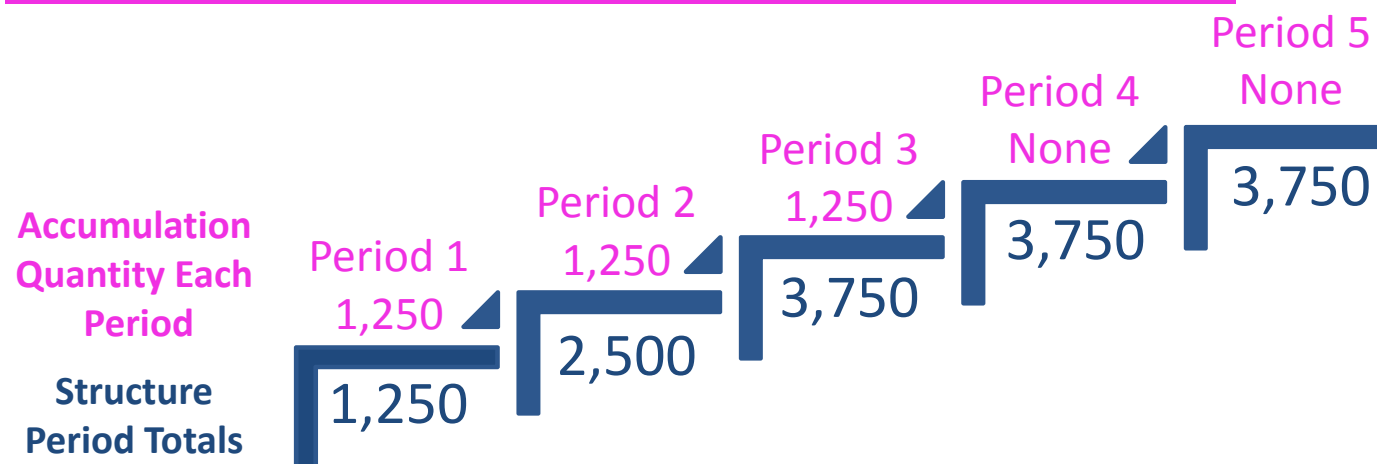
### Knock-in

- Price level that if/when touched activates the option function

## Accumulation Quantity Sample Structure 3

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Sample Structure with a knock-out feature, that is activated in Week 4

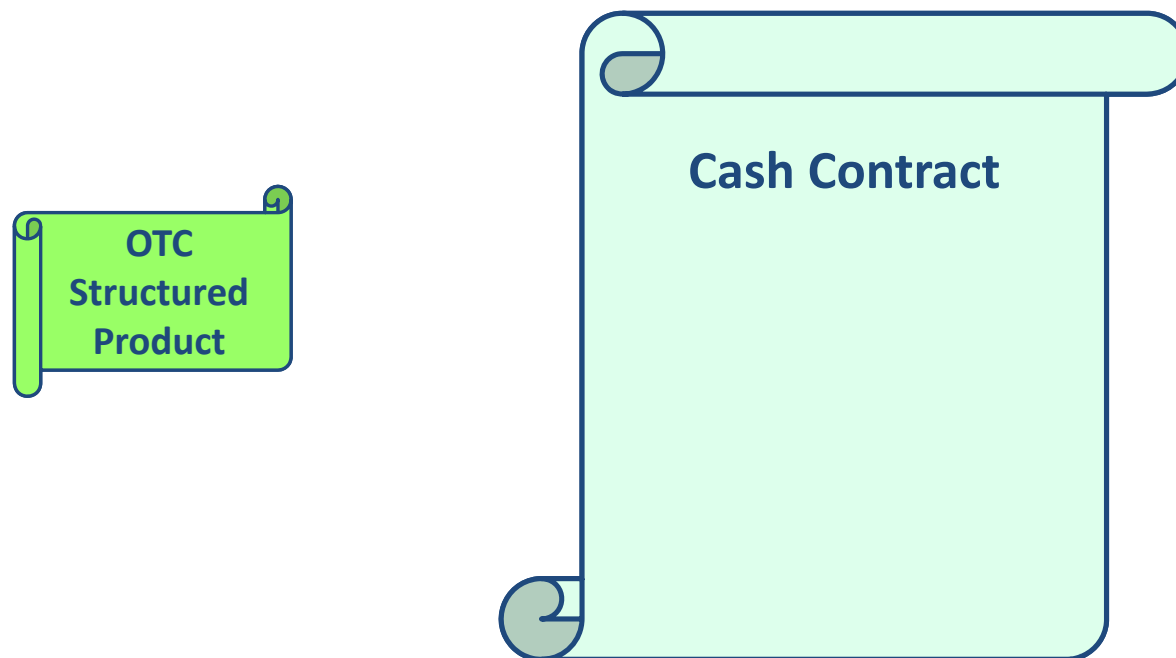


## Embedding OTC Structures

# What is Embedding?

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To incorporate the unique pricing features of one contract into another contract



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# Cash Contract

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## Cash Contract

- Between Merchandiser & Their Customer
- Physical Delivery Required
- Trade Rules – NGFA
- Delivery Terms – Negotiated
  - Commodity
  - Quantity
  - Quality – Buyer's Standard Grades
  - Delivery Period
  - Delivery Location
  - Futures Reference Month
  - Basis – Now or later

### Common Examples

1. Forward
2. Basis

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# OTC Structured Product

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## OTC Structured Product

- Between Merchandiser & INTL FCStone Markets (IFM)
- Structure Terms – Negotiated
  - Pricing Period – Beginning & End Dates
  - Current Futures Price
  - Accumulation/Double-Up Price
  - Guaranteed Price
  - Knock-out Price
  - Weeks to Price
  - Weekly Pricing Day
  - Weekly Pricing Quantity
    - Additional Delivery Quantity & Maximum – When Double-up
  - Basis Setting Deadline
- Risk Management Tool – Creative, Unique, Customizable Solution

**Examples: VIRTUALLY UNLIMITED**

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## Embedding OTC Structures

### Important Notes

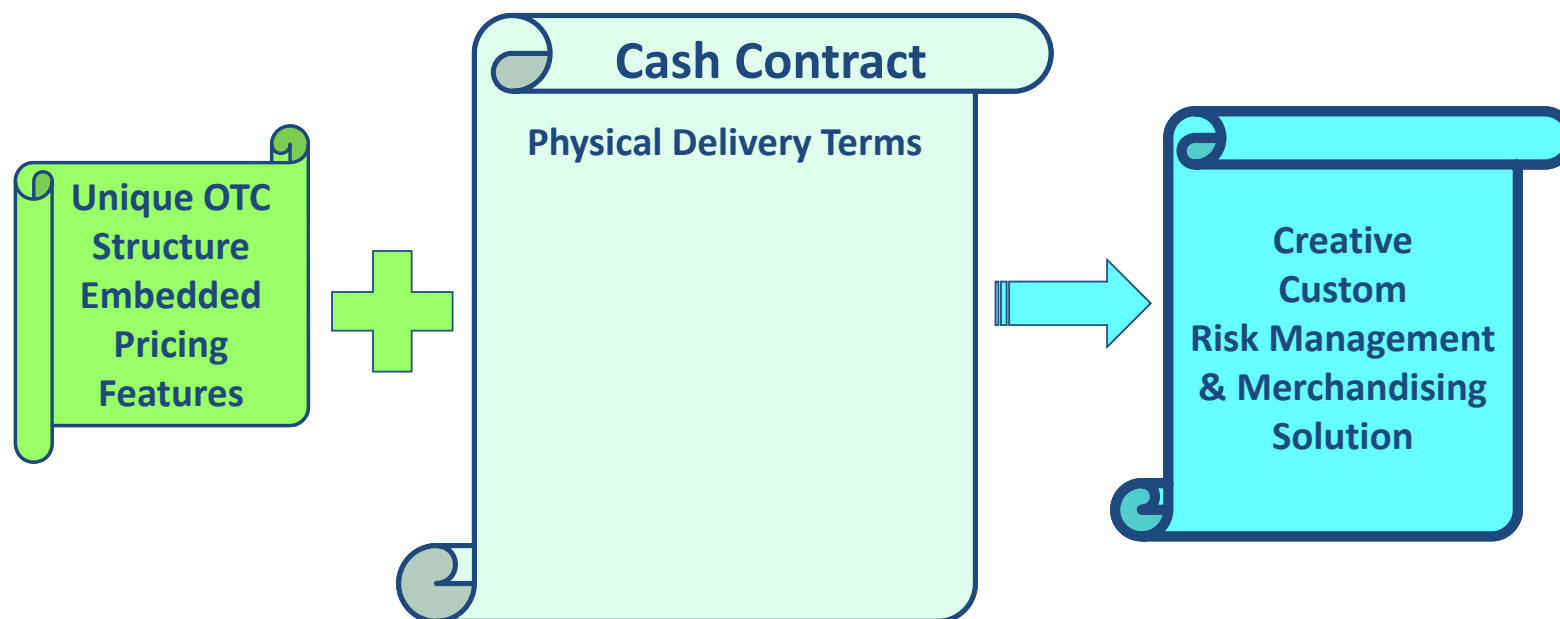
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- Cash Contracts with an Embedded OTC Structure – **may vary**
- FCStone Merchant Services (FMS) is currently allowed to draft Structured Cash Contracts
- Basis setting – negotiated between Merchandiser & Their Customer
  - **Determined upfront upon contract signing**
  - **Determined on structure expiry**
  - **Determined on a variable date thru-out the structure period**
- Knock-out Delivery Requirements
  - **Merchandiser determines delivery requirements**
    - Quantity prior to Knock-out: Delivery required
    - Remaining Balance Quantity: Delivery required or Not required
    - Delivery Requirements determined by the Merchandiser

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# Benefits of Embedding

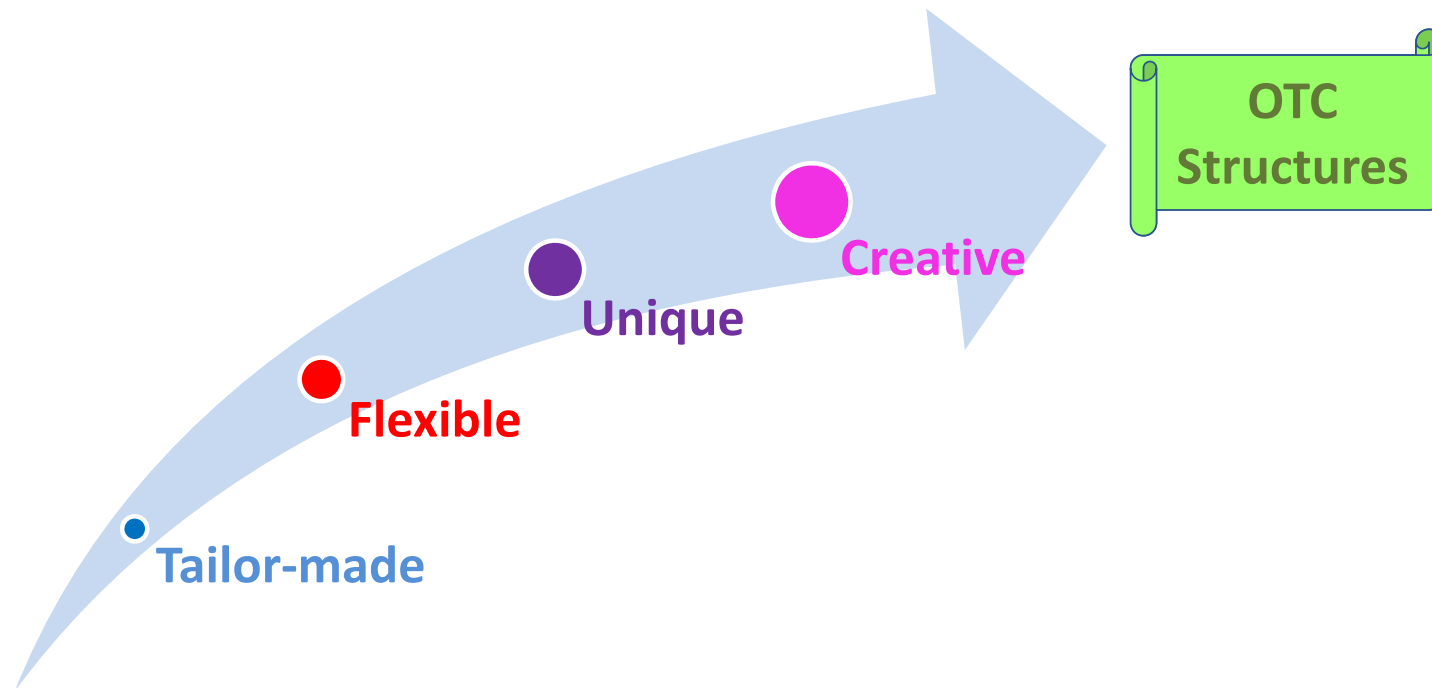
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## Risk Management with OTC Structures Summary

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## Popular OTC Strategies

## How does a producer benefit from participating in structured physical cash contracts

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- **Flexibility - the products available are highly customizable to fit each producers individual needs, concerns, and tolerances**
- **Gives the producer another option to market their grain as part of their overall marketing plan by bundling complex pricing mechanisms into a valuable marketing tool**
- **In many of the products, the producer is getting a premium for their grain in exchange for a potential additional sale at a higher level**
- **Producer is able to participate in a pricing structure that he/she would not otherwise have had access to**

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## What are some of the challenges in offering structured physical cash contracts to the producer

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- Educating the producer on how the structure functions
- Getting the producer comfortable with marketing grain in this fashion
- Helping the producer understand all the risks and benefits of each product by explaining the product in a simple but thorough manner
- Getting a comprehensive cash contract in place between yourself and the producer
- Deciding which product(s) to offer
- Planning for ownership/storage needs
- Accounting for grain purchases derived from structures

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## How do we account for a merchandiser's OTC structured products

- We have a web based platform (Portfolio Manager) which all structured products get pushed into
- Breaks each structure down into a customer report
- Bushels can be assigned to individual producers
- Your total position is compiled by contract month

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### Accumulations for 8053

Prod Accum w/Euro DU KO and Guaranteed Quantity

Accumulated Positions		
Contract	Price Level	Accumulated
CZ2015	4.8100	18,611.1111 (Bu.)
CZ2015	5.0600	6,388.8889 (Bu.)
Quantity Not Accumulated		0.0000 (Bu.)

Cash Settlements	
Total	
1.0000	

Accumulation Completion



Quantity Not Accumulated  
0.0000

### Explanation

- From 3/7/2014 to 11/13/2015 for CZ2015
  - If the price is above 4.0000 then the accumulation will be 277.7778 Bu. (100%) at 5.0600
- On 11/20/2015 for CZ2015
  - If the price is above 4.0000 and at or below 5.0600 then the accumulation will be 277.7778 Bu. (100%) at 5.0600
  - If the price is above 5.0600 then the accumulation will be 25277.7778 Bu. (9100%) at 5.0600
- Starting on 3/6/2014, if the market touches or falls below 4.0000 accumulations will price as follows:
  - From 3/7/2014 to 11/20/2015 for CZ2015
    - The accumulation will be 277.7778 Bu. (100%) at 4.8100

### Price History



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## How do you benefit from offering structured physical cash contracts

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### Competition for every bushel is growing

- Increased on farm storage
- Strong balance sheets give the producer the cushion to be patient/stubborn in marketing bushels
- Producers are getting more savvy in marketing their grain and are demanding products like these from their grain buyers
- Increase in bushels originated
- Products offered can be tailored to work into your ownership needs

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## Cash Market Contract Pricing Alternatives

Producer Accumulator with Weekly Double Up

Producer Accumulator with Euro Double Up

Producer Accumulator with Euro Double Up and GQ

Old/New Producer Accumulator with Euro Double Up

Q & A w/ Matt Zeman

## Example #1

### Producer Accumulator with Weekly Double Up

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Commodity	Corn
Contract month(s)	CZ17
Execution Level:	\$409
Accumulation/Weekly DU Level:	\$432
Knock-Out (KO) Level:	\$350
Accumulation Period	50 weeks
Potential Double-Up Date:	Weekly
Initial Cost to Client:	Zero
Example Quantity	25,000 bu
Example Quantity Per Week	500
Max Quantity if Double Up	50,000 bu
Delivery Period	Fall 2017
Example Basis	40 Under
Forward Cash Price	\$369
Cash Price with Accumulator	\$392

As long as the underlying price of the futures contract does not touch the Knock-Out Level (\$350), the structure is accumulating sales at the Accumulation Level (\$432), which is a significant price increase to the board level (\$409).

Each week that the referenced futures contract settles above the Accumulation Level (\$432), 200% of the weekly quantity is priced at the Accumulation Level.

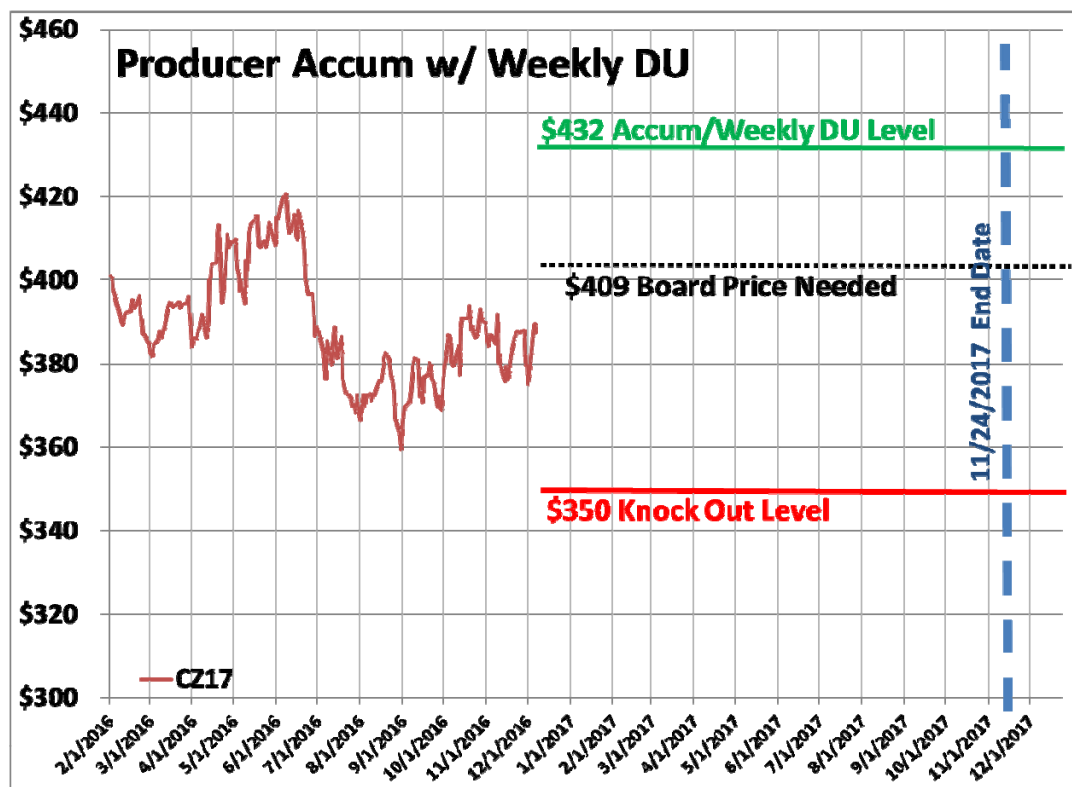
If at any time during the Accumulation period the underlying price of the futures contract touches the Knock-Out Level (\$350), the Accumulations cease for the remaining life of the structure. However, all Accumulations up to this point are locked in at the Accumulation Level (\$432).

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## Example #1

### Producer Accumulator with Weekly Double Up

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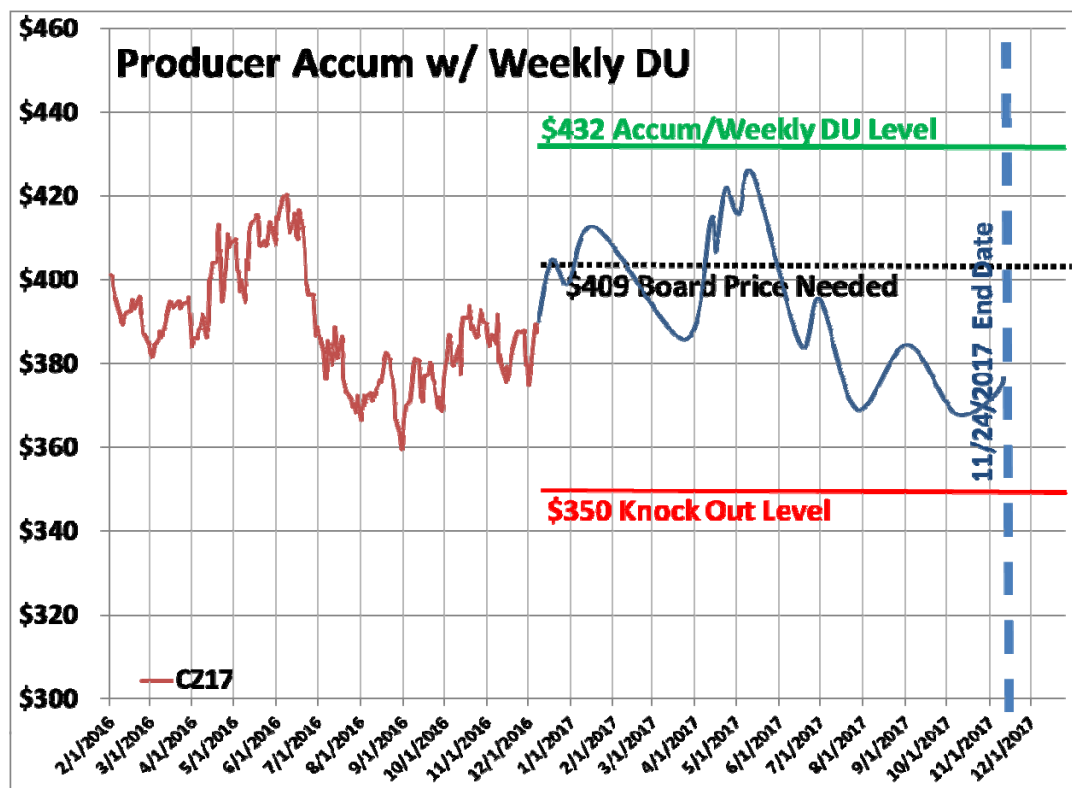
When does this fit best?

- In range bound markets
- When double up risk is preferred on a weekly basis
- When knock out risk is acceptable to the customer

## Example #1

### Producer Accumulator with Weekly Double Up

INTL FCStone®



### Scenario: Market Stays Flat

Result: **25,000** bu of corn sold by producer at accumulation level (\$432).

Futures Sale: \$432

Basis: -40

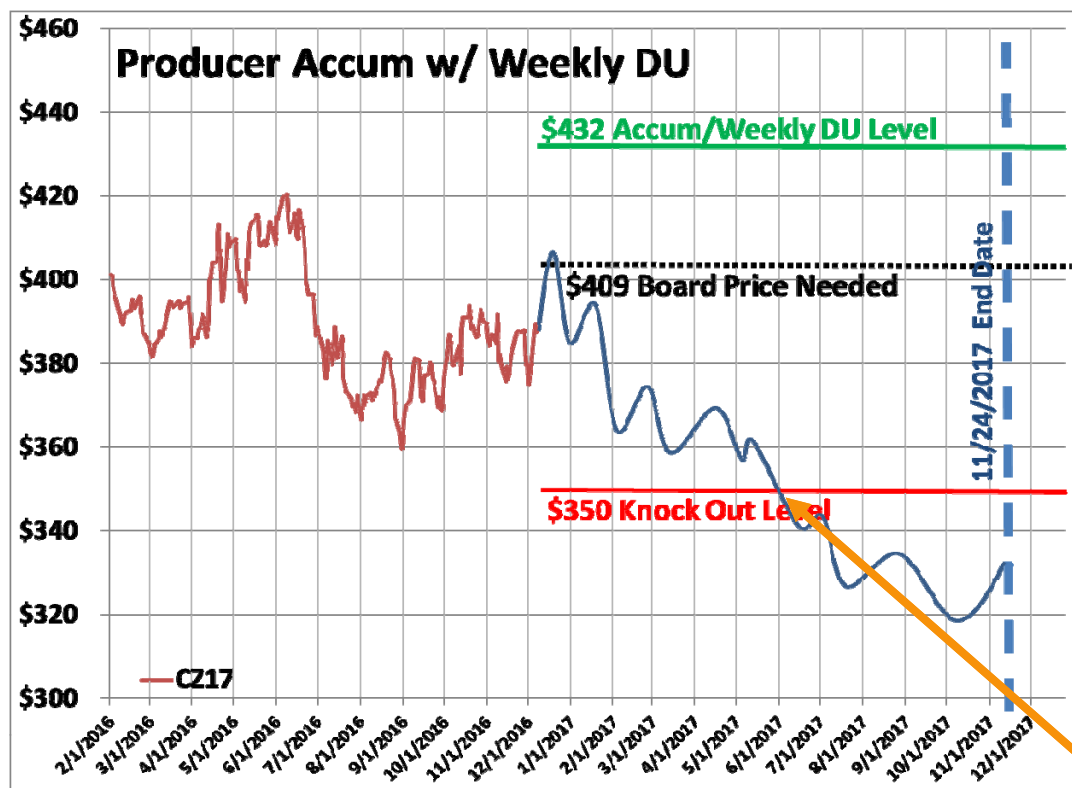
Cash Price = \$392

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## Example #1

### Producer Accumulator with Weekly Double Up

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### Scenario: Market Goes Down

Result: **12,500** bu of corn sold by producer at accumulation level (\$432).

Futures Sale: \$432

Basis: -40

Cash Price = \$392

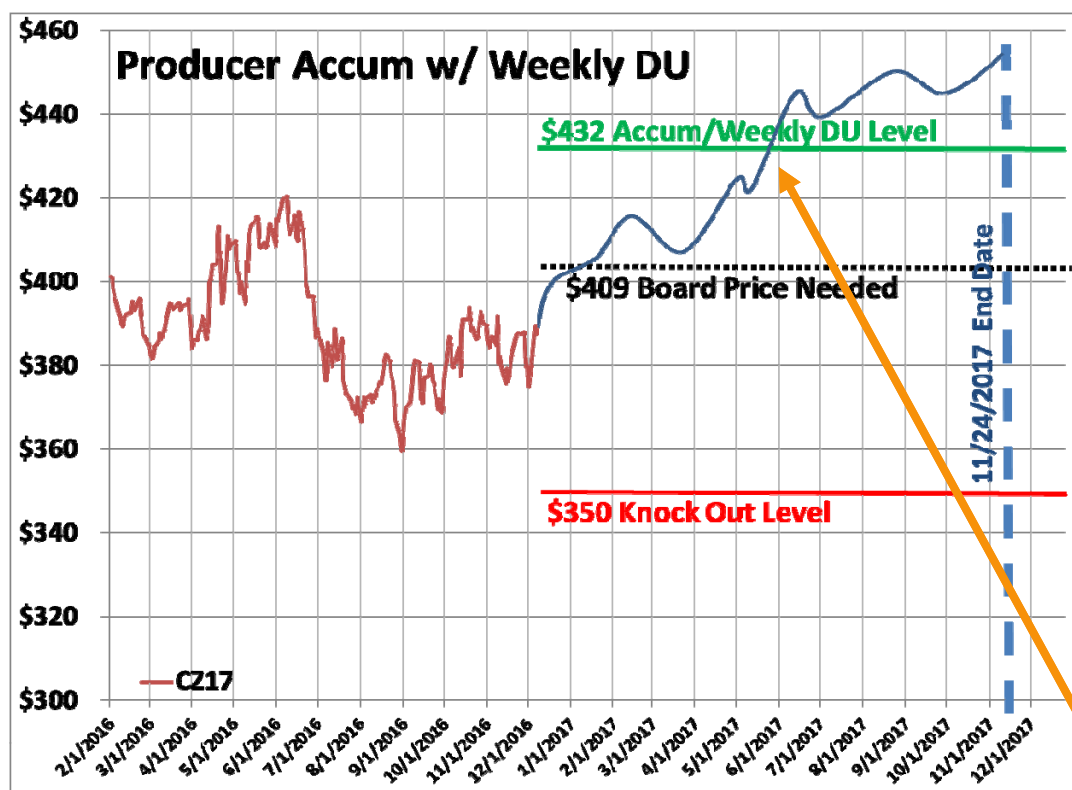
Knock out occurs in week 26 when CZ17 futures touch \$350.

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## Example #1

### Producer Accumulator with Weekly Double Up

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### Scenario: Market Goes Up

Result: **37,500** bu of corn sold by producer at accumulation level (\$432).

Futures Sale: \$432

Basis: -40

Cash Price = \$392

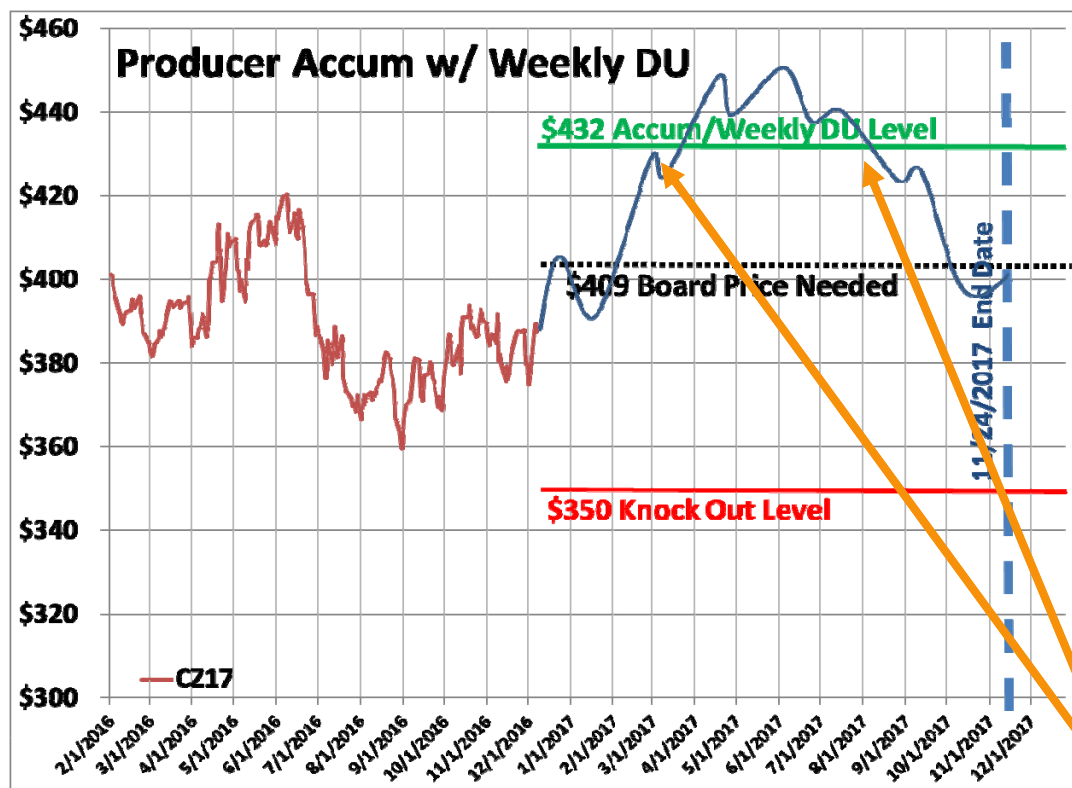
In week 1-25, 500 bushels are sold each week at \$432. In weeks 26-50, sales double and 1,000 bushels are sold each week.

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## Example #1

### Producer Accumulator with Weekly Double Up

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### Scenario: Market Goes Up Then Down

Result: **30,000** bu of corn sold by producer at accumulation level (\$432).

Futures Sale: \$432

Basis: -40

Cash Price = \$392

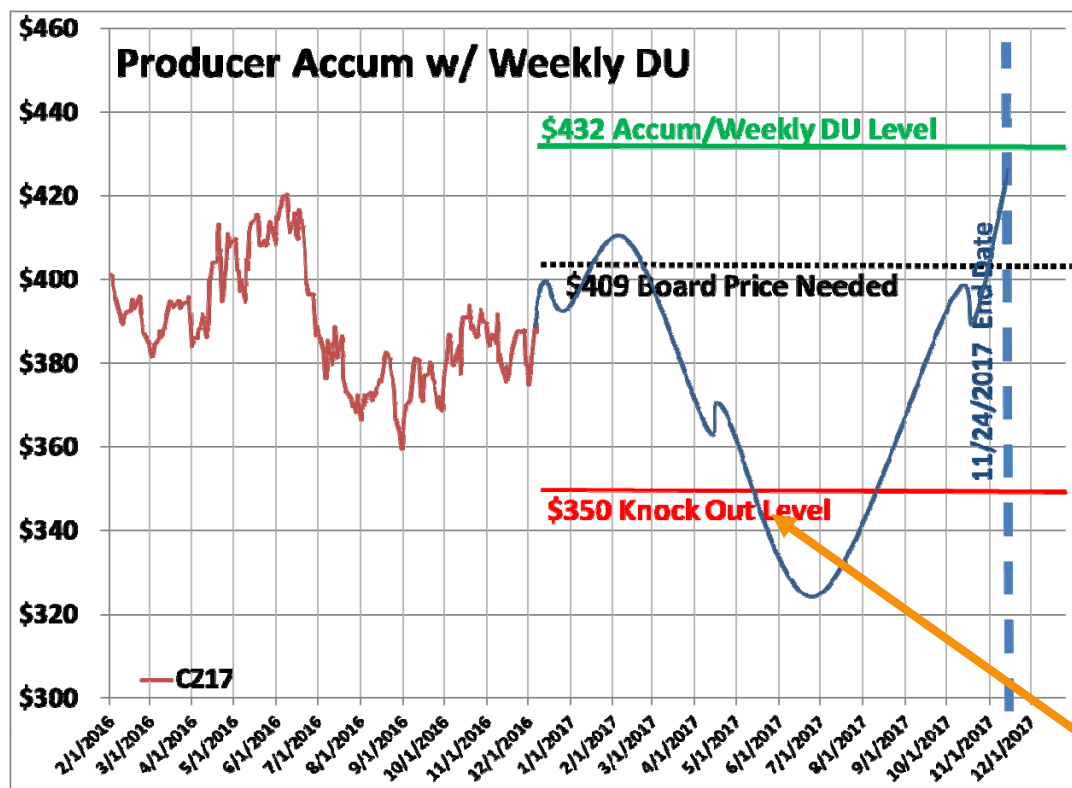
Double up occurs in weeks 21-30 when market settles above the accum level (\$432). In those weeks 1,000 bushels are sold vs. 500 in other weeks. <sup>48</sup>



## Example #1

### Producer Accumulator with Weekly Double Up

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### Scenario: Market Goes Down Then Up

Result: **11,500** bu of corn sold by producer at accumulation level (\$432).

Futures Sale: \$432

Basis: -40

Cash Price = \$392

Knock out occurs in week 24 when CZ17 touches \$350. Despite CZ17 coming back above \$350, no future accumulations occur.

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## Example #2

### Producer Accumulator with Euro Double Up

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Commodity	Corn
Contract month(s)	CZ17
Execution Level:	\$409
Accumulation Level:	\$440
Knock-Out (KO) Level:	\$350
Accumulation Period	50 weeks
Potential Double-Up Date:	11/24/2017
Initial Cost to Client:	Zero
Example Quantity	25,000 bu
Example Quantity Per Week	500
Max Quantity if Double Up	50,000 bu
Delivery Period	Fall 2017
Example Basis	40 Under
Forward Cash Price	\$369
Cash Price with Accumulator	\$400

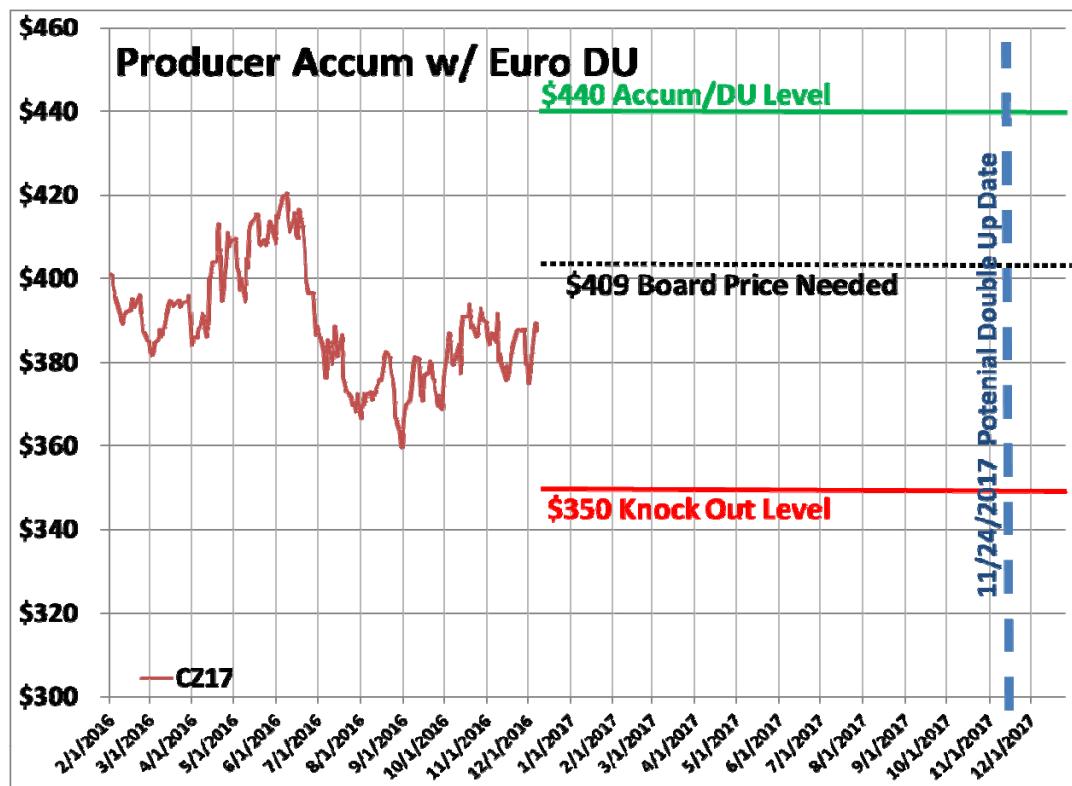
- As long as the underlying price of the futures contract does not touch the Knock-Out Level (\$350), the structure is accumulating sales at the Accumulation Level (\$440), which is a significant price premium to the board level (\$409).
- At the end of the Accumulation period, if the underlying price of the futures contract is at any level above the Double-Up Level (\$440) and the Knock-Out (\$350) has not occurred, the Double-Up is triggered and the client is required to sell an additional quantity equal to the original traded quantity at the Double-Up Level (\$440).
- If at any time during the Accumulation period the underlying price of the futures contract touches the Knock-Out Level (\$350), the Accumulations cease for the remaining life of the structure. However, all Accumulations up to this point are locked in at the Accumulation Level (\$440).

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## Example #2

### Producer Accumulator with Euro Double Up

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When does this fit best?

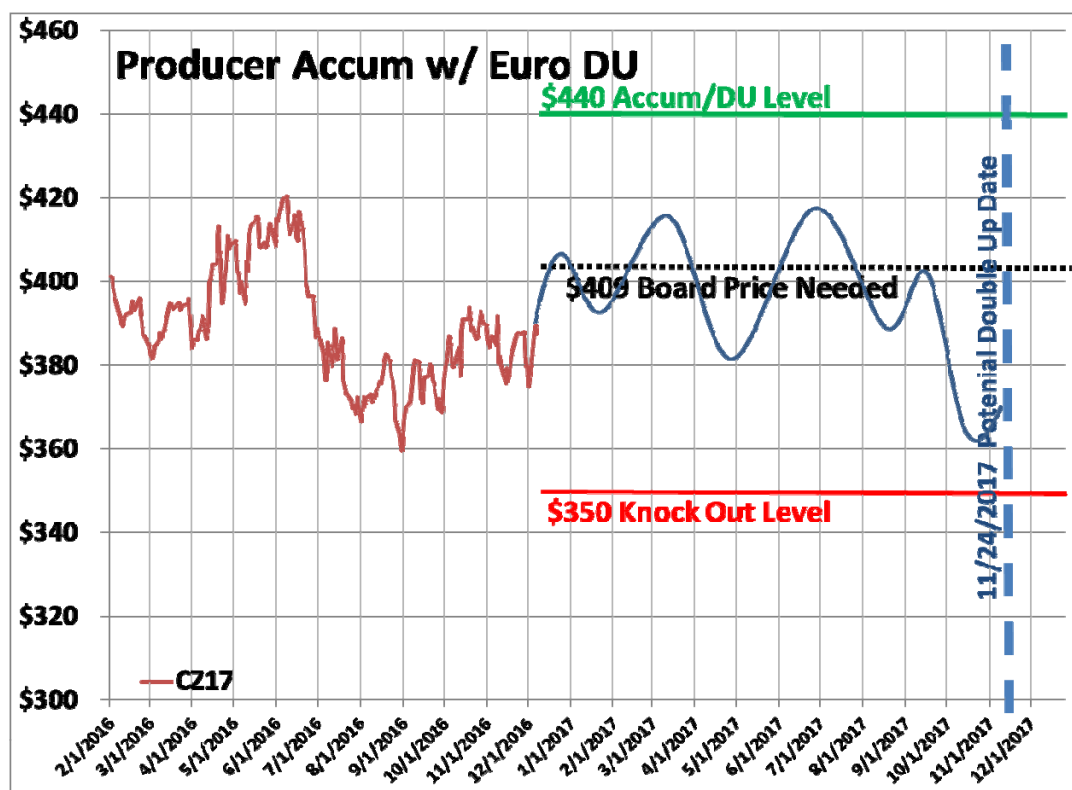
- In range bound markets.
- When producer needs biggest push to the upside possible.
- When producer is ok with adding both double up risk (all at the end) and knock out risk

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## Example #2

### Producer Accumulator with Euro Double Up

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### Scenario: Market Stays Flat

Result: **25,000** bu of corn sold by producer at accumulation level (\$440)

Futures Sale: \$440

Basis: -40

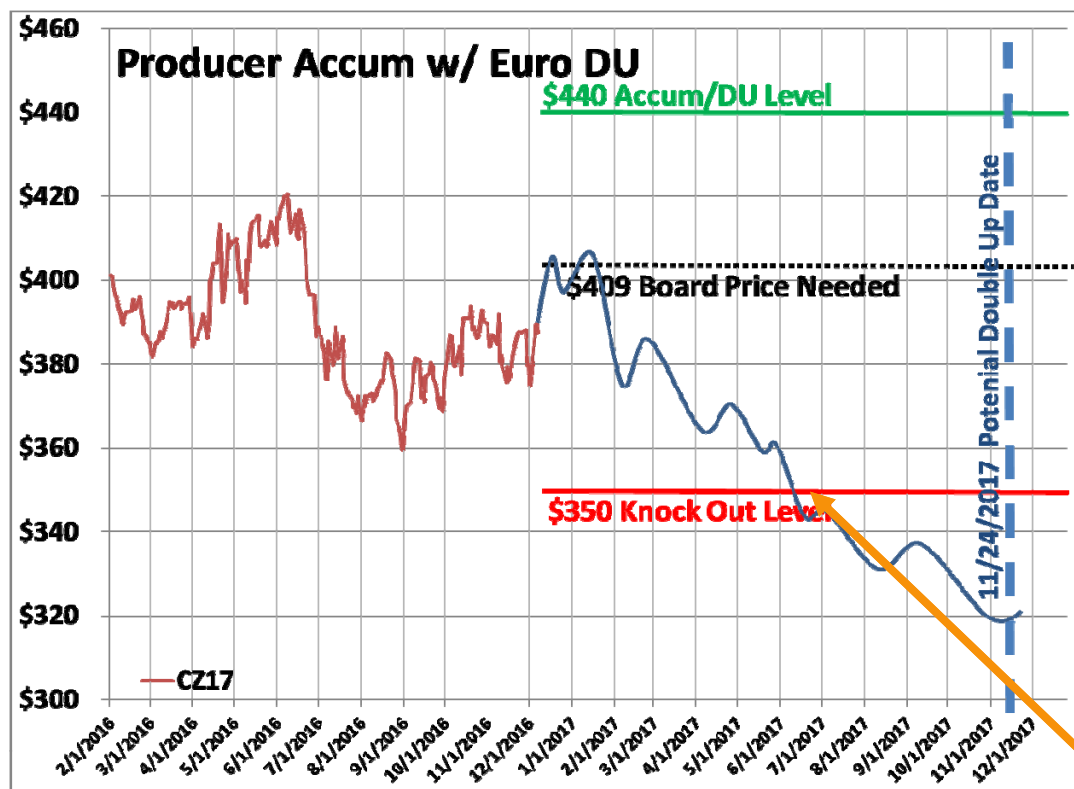
Cash Price = \$400

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## Example #2

### Producer Accumulator with Euro Double Up

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### Scenario: Market Goes Down

Result: **12,500** bu of corn sold by producer at accumulation level (\$440).

Futures Sale: \$440

Basis: -40

Cash Price = \$400

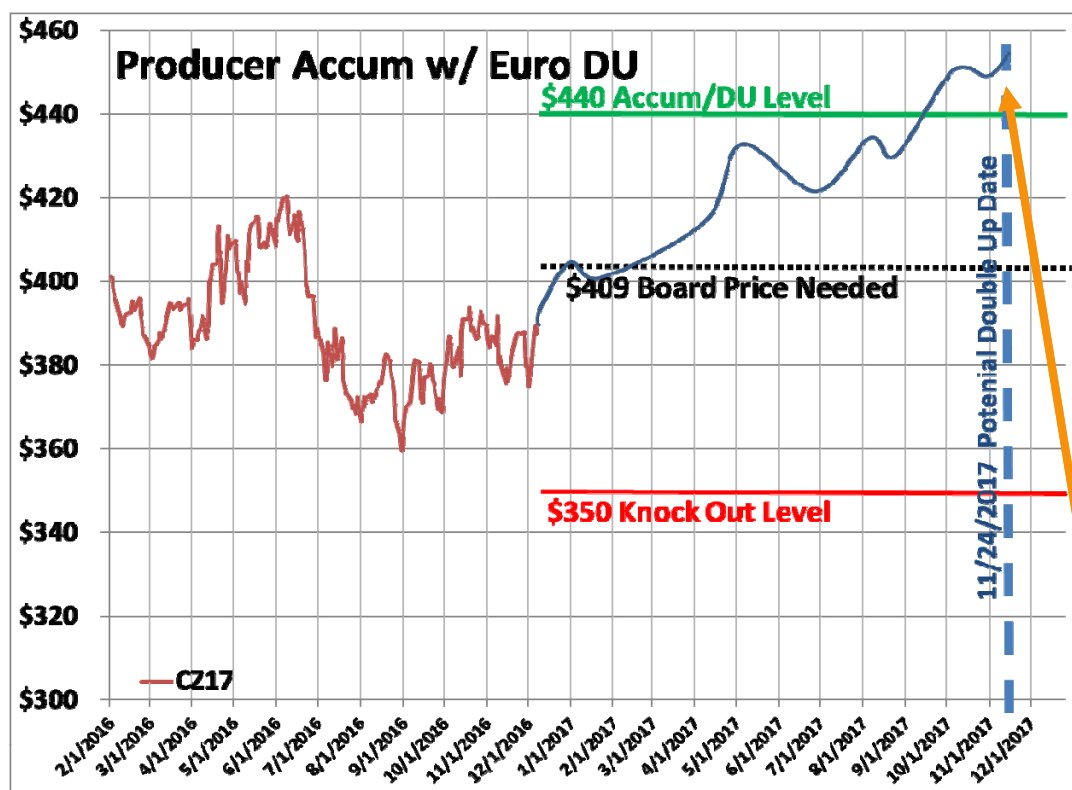
Knock Out Occurs on week 26 (half way through) when market touches \$350

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## Example #2

### Producer Accumulator with Euro Double Up

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### Scenario: Market Goes Up

Result: **50,000** bu of corn sold by producer at accumulation level (\$440).

Futures Sale: \$440

Basis: -40

Cash Price = \$400

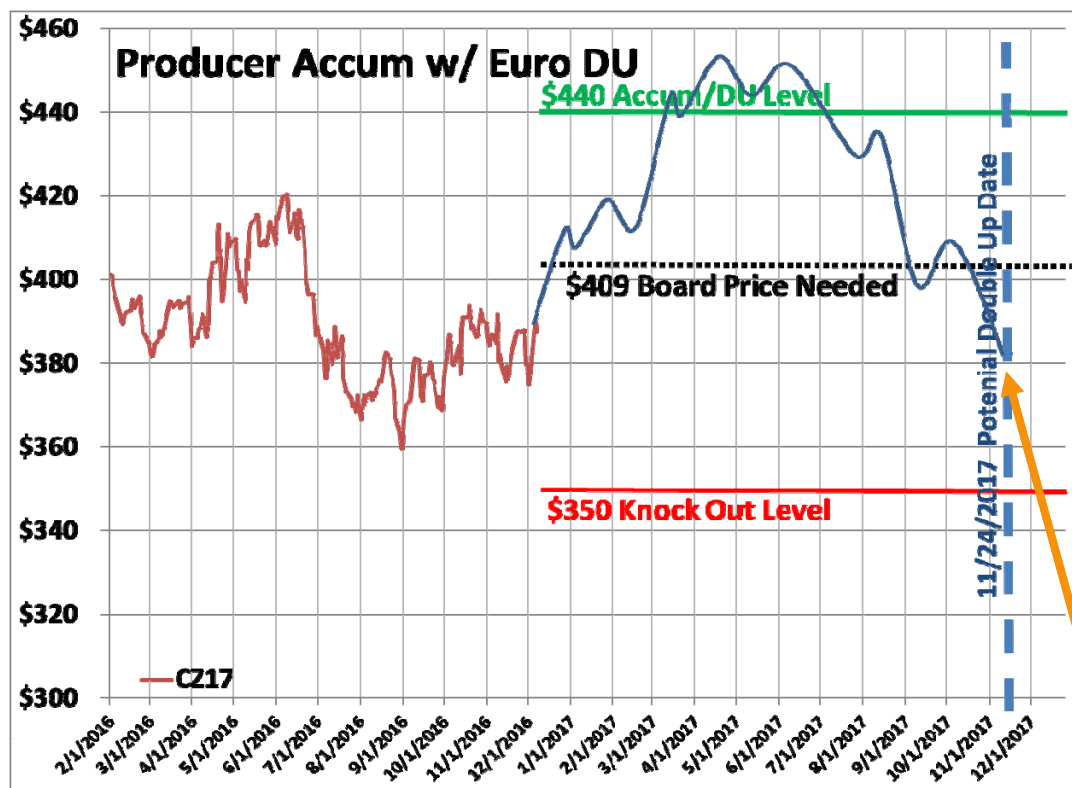
Double Up occurs because CZ17 futures settle at \$450 on 11/24/2017 (above the accum level of \$440)

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## Example #2

### Producer Accumulator with Euro Double Up

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### Scenario: Market Goes Up Then Down

Result: **25,000** bu of corn sold by producer at accumulation level (\$440).

Futures Sale: \$440

Basis: -40

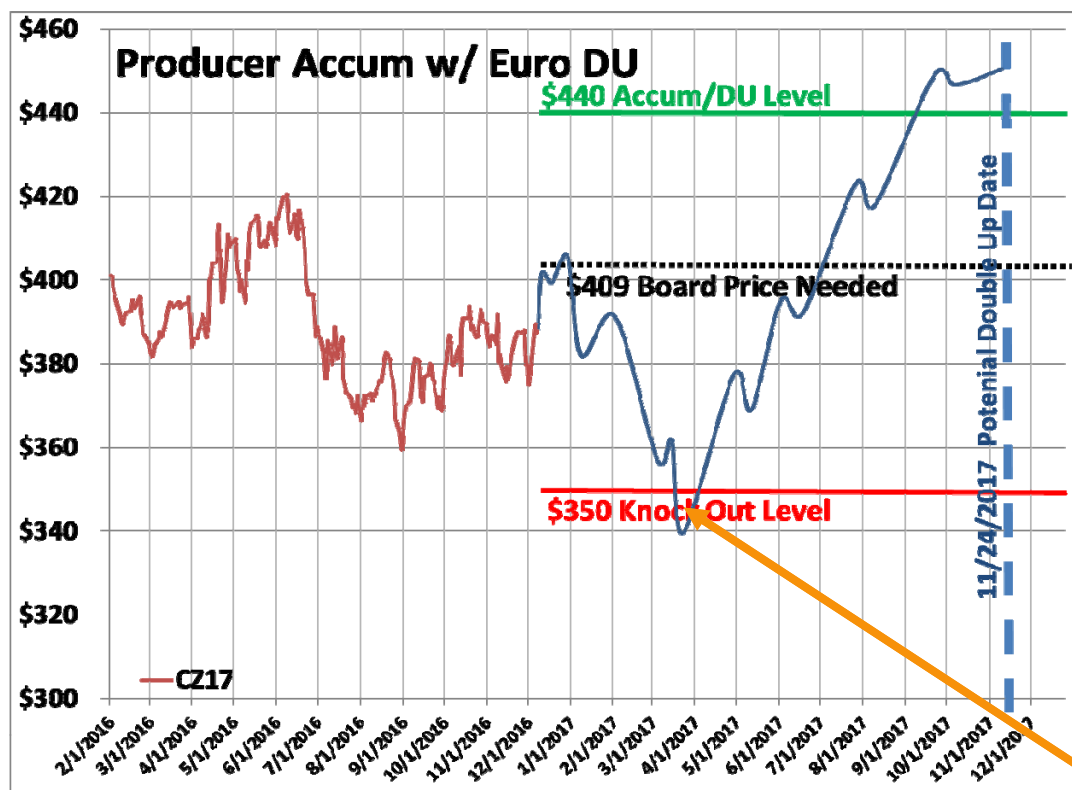
Cash Price = \$400

Double up event does not occur because CZ17 futures settle at \$380 on 11/24/2017 (below the accum level of \$440)

## Example #2

### Producer Accumulator with Euro Double Up

INTL FCStone®



### Scenario: Market Goes Down Then Up

Result: **7,000** bu of corn sold by producer at accumulation level (\$440).

Futures Sale: \$440

Basis: -40

Cash Price = \$400

Knock out event occurs in week 15 when market touches \$350. This eliminates possible future accumulations and double up potential. <sup>56</sup>



### Example #3

#### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®

<b>Commodity</b>	<b>Corn</b>
<b>Contract month(s)</b>	<b>CZ17</b>
<b>Execution/Guaranteed Level:</b>	<b>\$409</b>
<b>Accumulation Level:</b>	<b>\$430</b>
<b>Knock-Out (KO) Level:</b>	<b>\$350</b>
<b>Accumulation Period</b>	<b>50 weeks</b>
<b>Potential Double-Up Date:</b>	<b>11/24/2017</b>
<b>Initial Cost to Client:</b>	<b>Zero</b>
<b>Example Quantity</b>	<b>25,000 bu</b>
<b>Example Quantity Per Week</b>	<b>500</b>
<b>Max Quantity if Double Up</b>	<b>50,000 bu</b>
<b>Delivery Period</b>	<b>Fall 2017</b>
<b>Example Basis</b>	<b>40 Under</b>
<b>Forward Cash Price</b>	<b>\$369</b>
<b>Cash Price with Accumulator</b>	<b>\$390</b>

As long as the underlying price of the futures contract does not touch the Knock-Out Level (\$350), the structure is accumulating sales at the Accumulation Level (\$430), which is a significant price increase to the board level (\$409).

At the end of the Accumulation period, if the underlying price of the futures contract is at any level above the Double-Up Level (\$430) and the Knock-Out (\$350) has not occurred, the Double-Up is triggered and the client is required to sell an additional quantity equal to the original traded quantity at the Double-Up Level (\$430).

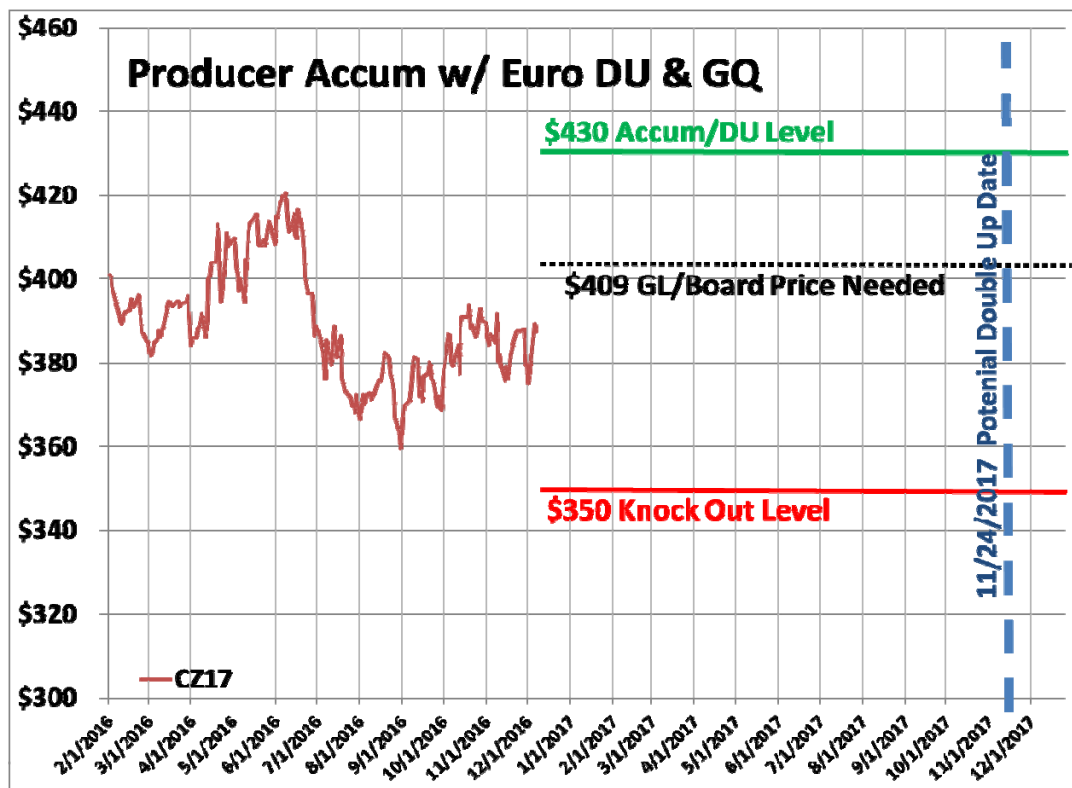
If at any time during the Accumulation period the underlying price of the futures contract touches the Knock-Out Level (\$350), the Accumulations cease and the remaining bushels are priced at the guaranteed level/original execution level (\$409). If Knock-Out event occurs, Double-Up potential is eliminated. All Accumulations up to this point are locked in at the Accumulation Level (\$430).

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### Example #3

#### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®



When does this fit best?

In range bound markets.

When knock out risk is of greatest concern and a specific quantity must be price protected

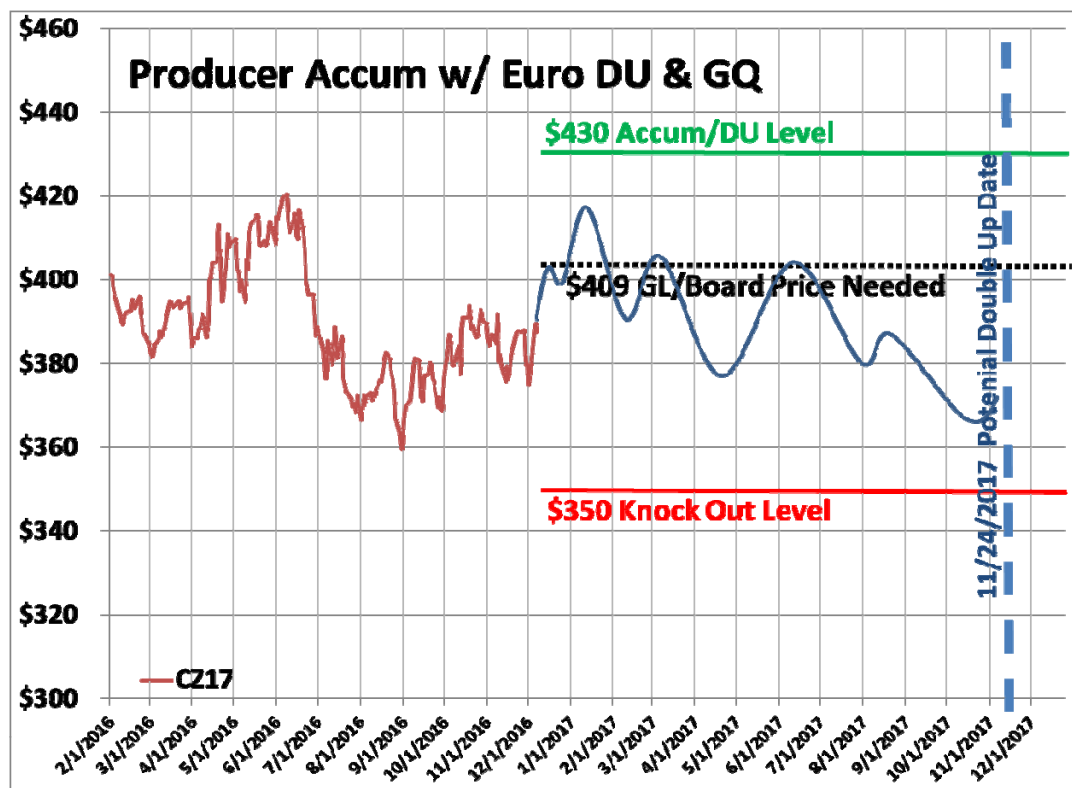
Customer will reduce "push" by lessening the risk in this structure vs. a regular Euro Double Up Accumulator

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### Example #3

#### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®



#### Scenario: Market Stays Flat

Result: **25,000** bu of corn sold by the producer at accumulation level (\$430).

Futures Sale: \$430

Basis: -40

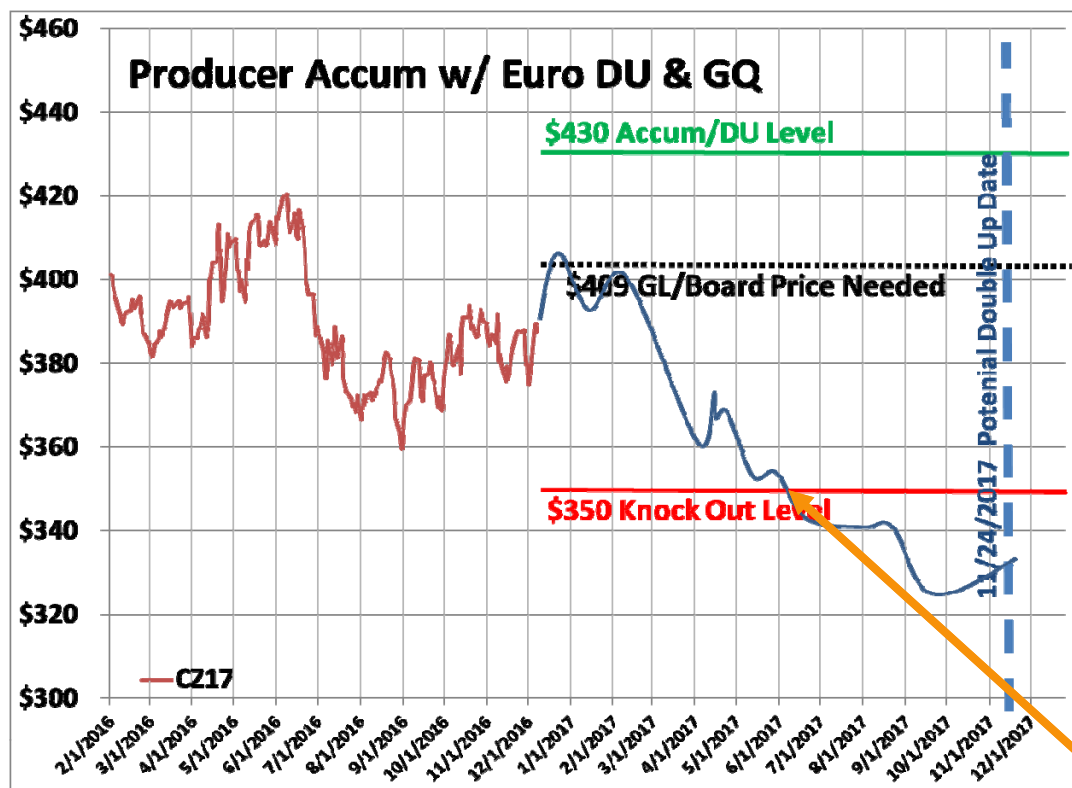
Cash Price = \$390

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### Example #3

#### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®



#### Scenario: Market Goes Down

Result: **25,000** bu of corn sold by producer. 12,500 at accumulation level (\$430) & 12,500 at guaranteed level (\$409).

Futures Sale: \$419.50

Basis: -40

Cash Price = \$379.50

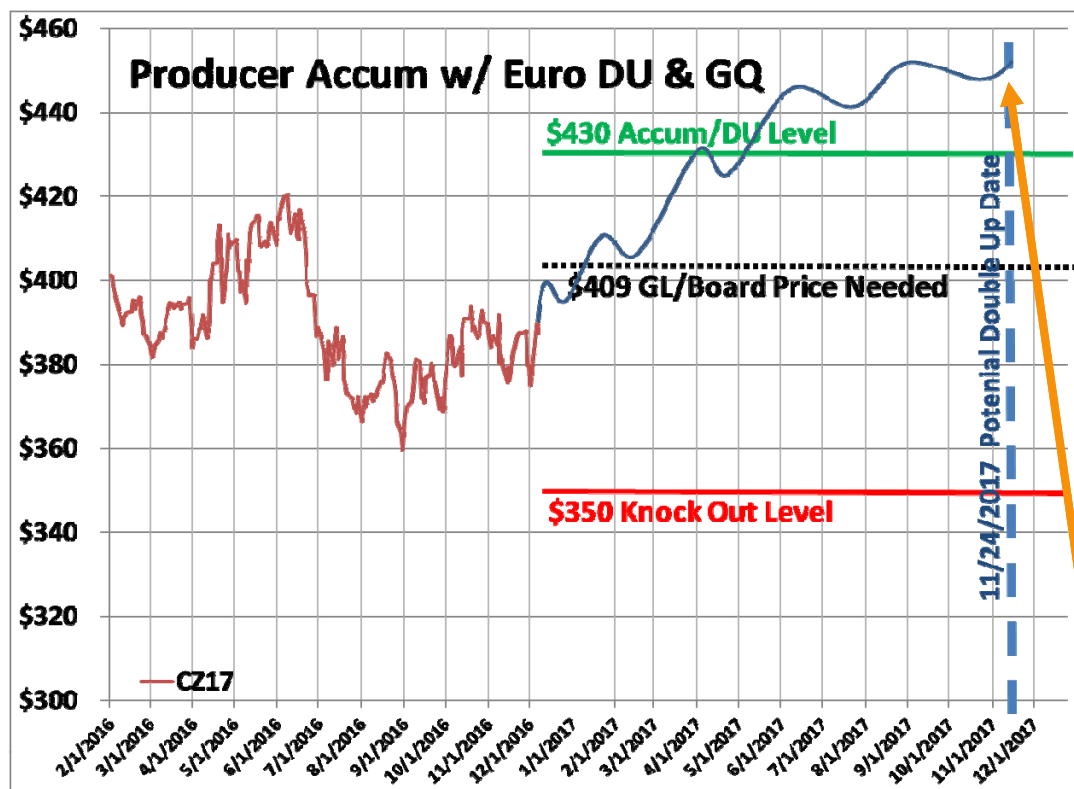
Knock out event occurs a one half of the way through the accum period (week 26) when market touches \$350.

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## Example #3

### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®



### Scenario: Market Goes Up

Result: **50,000** bu of corn sold by producer at accum level (\$430).

Futures Sale: \$430

Basis: -40

Cash Price = \$390

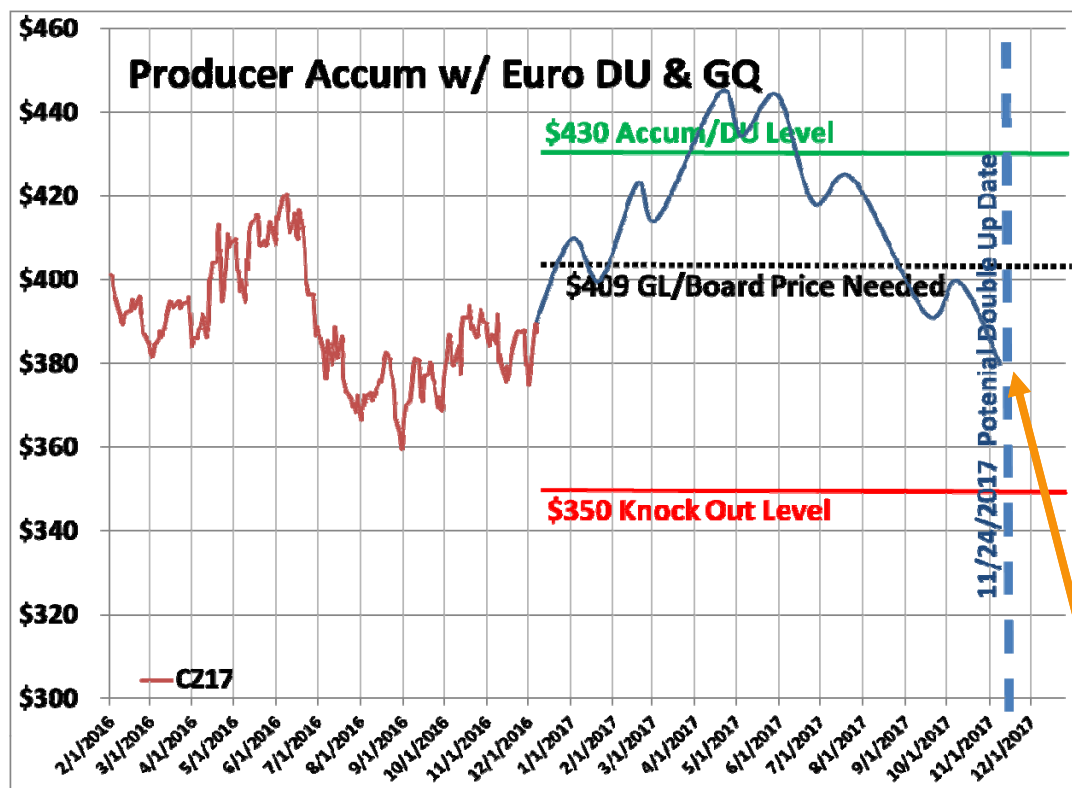
Double up occurs because CZ17 settles at \$455 on 11/24/2017 (above the accum level of \$430).

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### Example #3

#### Producer Accumulator with Euro Double-Up & Guaranteed Quantity

INTL FCStone®



#### Scenario: Market Goes Up Then Down

Result: **25,000** bu of corn sold by producer at accum level (\$430).

Futures Sale: \$430

Basis: -40

Cash Price = \$390

Double up event does not occur because CZ17 futures settle at \$380 on 11/24/2017 (below the accum level of \$430)

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®

Commodity	Corn
Contract month(s)	CN17/CZ17
Execution Level (Old Crop):	\$375
Execution Level (New Crop):	\$390
Accumulation Level (Old Crop):	\$411
Knock-Out Level (Old Crop):	\$355
Double Up Level (New Crop):	\$440
Double Up Knock-Out (New Crop):	\$340
Example Quantity	25,000 bu
Accumulation Period (Old Crop):	28 Weeks
Accumulation Period (New Crop):	50 Weeks
Potential Double-Up Date (New Crop):	11/24/2017
Weekly Quantity (Old Crop):	892
Initial Cost to Client:	Zero
Old Crop Example Basis:	25 Under
New Crop Example Basis:	40 under
Old Crop Cash Price:	\$350
Old Crop Cash Price with Accumulator:	\$386
New Crop Cash Price:	\$350
New Crop Cash Price if Doubled Up:	\$400

As long as the underlying price of the Old Crop futures contract does not touch the Knock-Out Level (\$355), the structure is accumulating sales at the Accumulation Level (\$411), which is a significant price premium to the Execution Level (\$375).

At the end of the New Crop Accumulation period, if the underlying price of New Crop futures contract is at any level above the Double-Up Level (\$440) and the Double-Up Knock-Out (\$340) has not occurred, the Double-Up is triggered and the client is required to sell an additional quantity equal to the original traded quantity at the New Crop Double-Up Level (\$440).

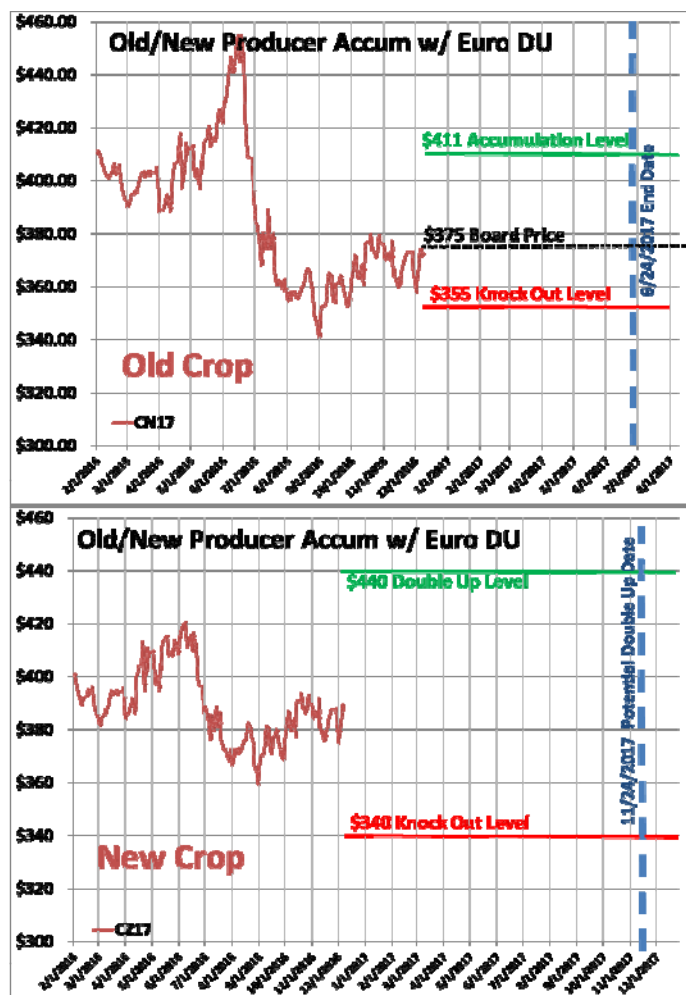
If at any time during the Old Crop Accumulation period the underlying price of the Old Crop futures contract touches the Knock-Out Level (\$355), the Accumulations cease for the remaining life of the structure and remaining bushels are left open to the market. However, all Accumulations up to this point are locked in at the Accumulation Level (\$411). During the Accumulation Period, if the underlying price of the New Crop futures contract touches the Double-Up Knock-Out Level (\$340), the New Crop Double-Up obligation ceases to exist.

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



When does this fit best?

- In range bound markets.
- When producer has finite quantity of old crop to be marketed and prefers to have double up potential pushed to a different time period
- Works best when old crop is either stored on the farm or free from storage charges
- In this example, the New Crop Double Up is scheduled for fall delivery because this producer must deliver some bushels into town each fall due to a lack of on farm storage and would like to avoid storage costs

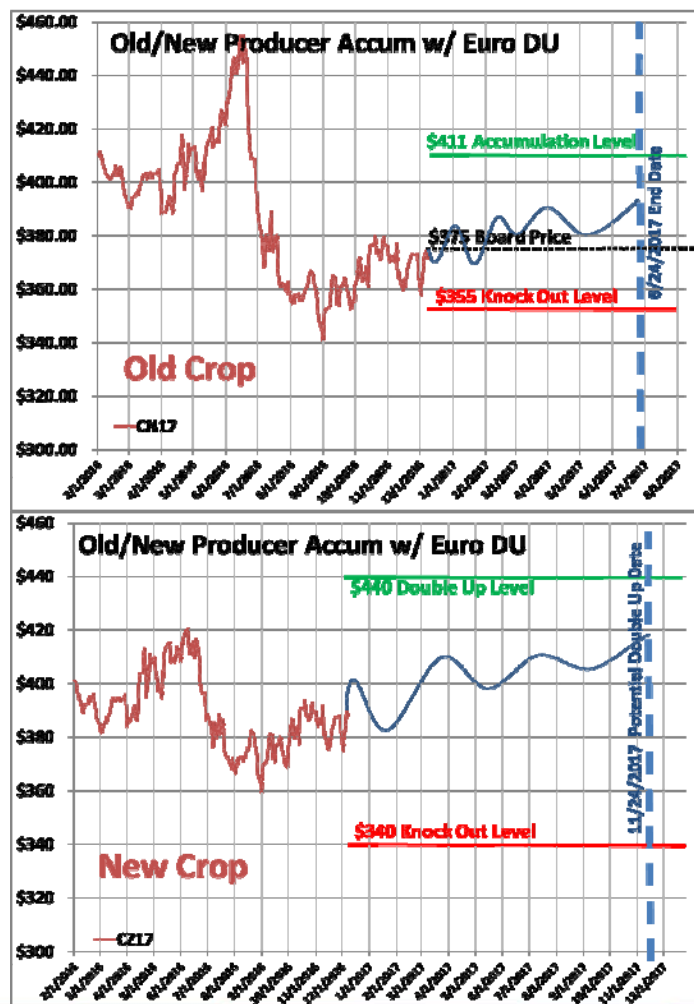
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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



### Scenario: Market Stays Flat

Old Crop Result: **25,000** bu of corn sold by producer at accumulation level (\$411).

Futures Sale: \$411

Basis: -25

Cash Price = \$386

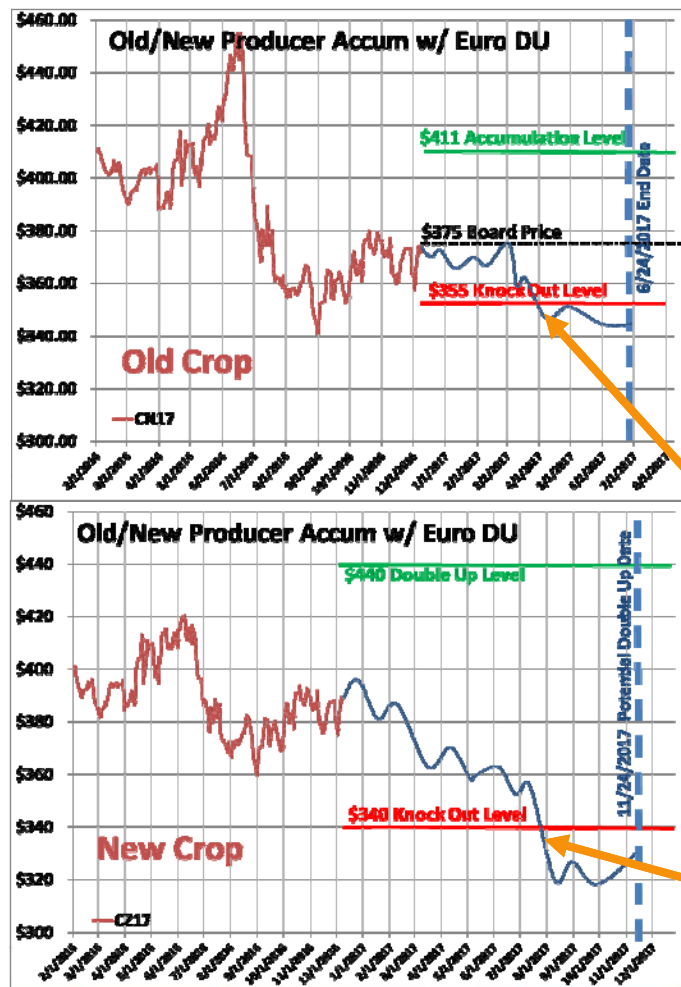
New Crop Result: No sale is made because CZ17 futures settle below the Double Up level (\$440) on 11/24/2017.

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



### Scenario: Market Goes Down

Result: **12,500** bu of corn sold by producer at accumulation level (\$411). Remaining bushels are knocked out in week 15 when CN17 futures touch \$355. In weeks 1-14, 892 bushels are accumulated each week.

Futures Sale: \$411

Basis: -25

Cash Price = \$386

Old Crop Knock Out Occurs on week 15

New Crop Result: No sale is made because New Crop portion of the accumulator gets knocked out on week 30 when CZ17 futures touch \$340.

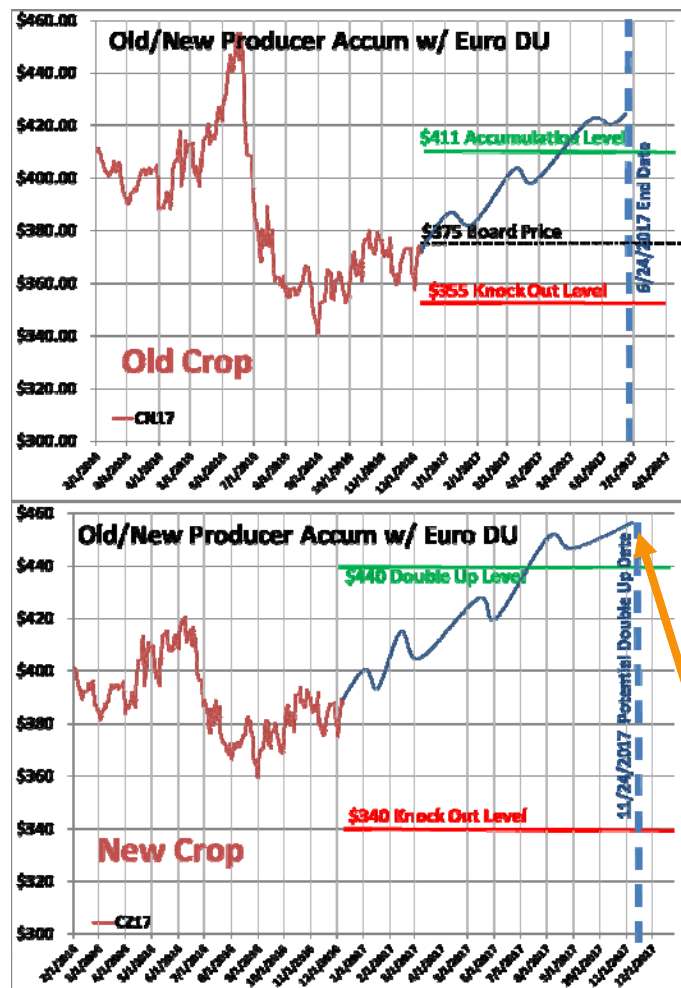
New Crop Knock Out Occurs on week 30

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



### Scenario: Market Goes Up

25,000 bu of corn sold by producer at accumulation level (\$411). No double up possibility exists for Old Crop.

Futures Sale: \$411

Basis: -25

Cash Price = \$386

No Double Up exists for Old Crop

New Crop Result: 25,000 bushels are sold at \$440 futures

Futures Sale: \$440

Basis: -40

Cash Price = \$400

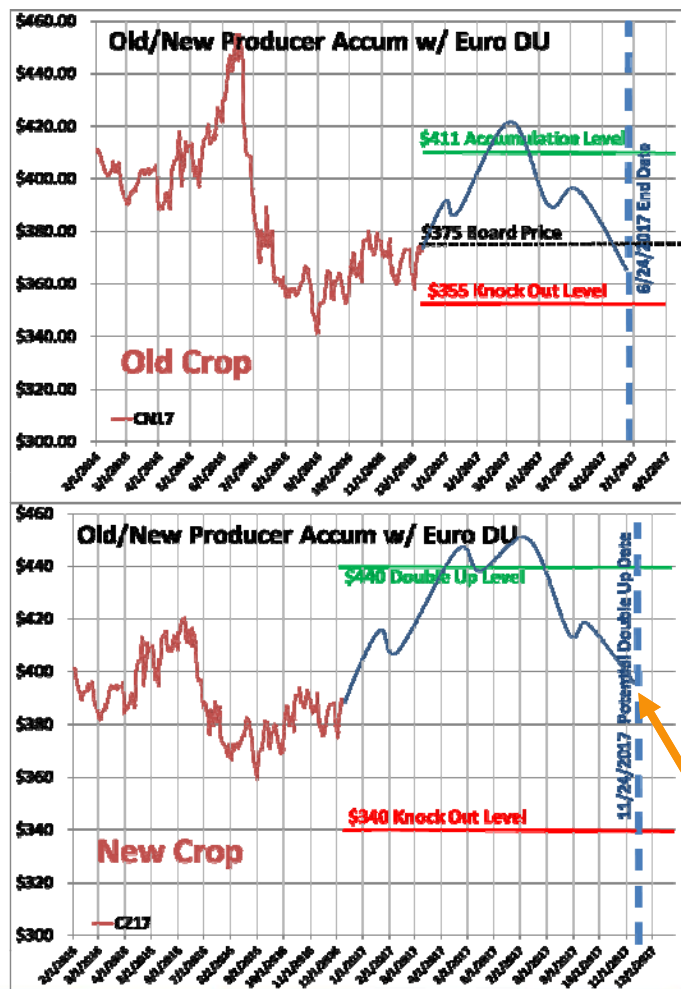
New Crop Double Up Occurs because CZ17 futures settle at \$455 (above double up level of \$440).

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



### Scenario: Market Goes Up Then Down

25,000 bu of corn sold by producer at accumulation level (\$411). No double up possibility exists for Old Crop.

Futures Sale: \$411

Basis: -25

Cash Price = \$386

No Double Up exists for Old Crop

New Crop Result: No bushels are sold

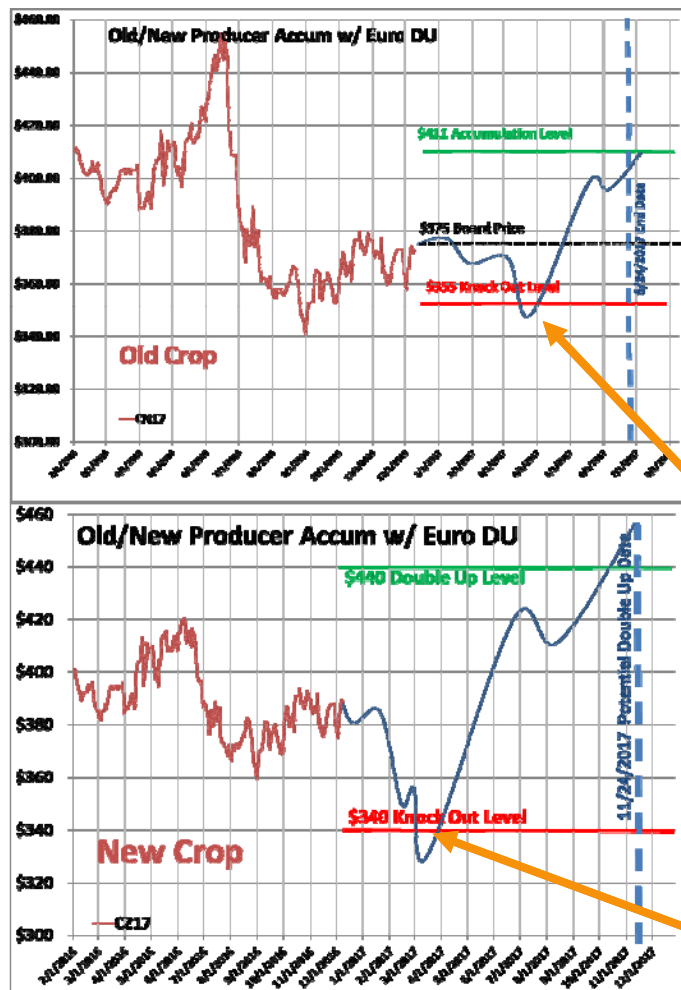
New Crop Double Up DOES NOT occur because CZ17 futures settle at \$395 (below double up level of \$440).

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## Example #4

### Old/New Producer Accumulator with Euro Double-Up

INTL FCStone®



### Scenario: Market Goes Down Then Up

8,920 bu of corn sold by producer at accumulation level (\$411). In weeks 1-10, 892 bu get sold at the accumulation level. In week 11, CN17 price touches knock out (\$350) and bushels are left open to the market.

Futures Sale: \$411

Basis: -25

Cash Price = \$386

Knock Out occurs in week 11 when CN17 futures touch \$350.

New Crop Result: No bushels are sold

New Crop Double Up potential gets knocked out because CZ17 futures touch \$340 in week 10. This eliminates the potential for a Double Up even if the market settles above the Double Up level on 11/24/2017.

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## Q&A with Matt Zeman

- Vice President of Grain at Cooperative Farmers Elevator
- Located in Northwest, IA
- Began offering structured products in 2014

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## Why did you decide to start offering structured cash contracts?

71

**What were some of the issues/hurdles  
to beginning a “specialty” grain  
contract program at your Cooperative?**

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**How do you/your cooperative handle  
basis and delivery terms with some of  
these products?**

**How has the implementation had a positive effect on your grain operation?**

## How do you go about educating/informing the producer about these contracts?

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**How would you quantify the effects these contracts have had on originating New Crop bushels as well as your cooperatives total annual bushel handle?**

**Has offering these types of contracts  
given you a competitive advantage over  
your competitors?**

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**Has offering these contracts had a positive effect on your customer, the grain producer?**

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**What three pieces of advice would you give to another grain buyer on rolling a program like this out?**

## Next Steps & Summary



## Entering the OTC Space

### Next Steps - Customers



#### Contact INTL FCStone Financial Broker or Introducing Broker

- Discuss Needs
  - Maximizing Sales
  - Minimizing Costs
  
- Documentation Needed
  - New Account Paperwork
    - New customers
  - Eligible Contract Participant (ECP)
    - New and Existing Customers

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# Entering the OTC Space

## Next Steps - Customers



### Personalized Training/Education/Consulting

- Excellent Collateral Material
  - Flipbooks – highlights various sample structures
  - Online courses
  - Cash Contract education
  - Market Snapshot Summary
- Seminars
  - Regional “Risk Academy” Training events
  - Webinars – live and archived
  - In-house training – at your facility
  - Pre-conference workshops
- Consulting & Advisory
  - Assistance with paper work - customer account documents
  - Risk Management Advice – Strategies to meet your “unique” needs

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## Questions from the audience

## For More Information Contact



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**Jake Moline**

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Thank you!