



INTL FCStone Ltd.

ROLE OF CLEARING HOUSES AND FINANCIAL SERVICE PROVIDERS

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Presentation Agenda

- *Brief Introduction to INTL FCStone*
- *Why our services are needed in Europe*
- *Role we have played in risk management*
- *What services we provide in this space*
- *Profile of customers using these tools*
- *Challenges with Regulation*

INTL FCStone: Some noteworthy points

- ***FCStone originally established by 550 US grain co-ops***
- Merged with INTL in October 2009 to become INTL FCStone
- Now: over 20,000 commercial accounts, 32 offices worldwide, 1100+ employees
- Top 100 of Fortune 500 list of companies 2016
- No. 1 in OI for CBOT Corn futures and Kansas city wheat futures
- Top 5 in OI for CBOT soybeans and soyoil
- Top 5 in OI for NYMEX crude oil

INTL FCStone Dairy

- Purchased the No1 Risk manager in US – Downes O'Neill in 2007
- Involved in US Dairy markets since their inception
- Leading International Dairy Economists on staff
- Participant in much of the CME dairy product development
- Leading futures/option brokerage firm in Milk / Butter / Powders
- Establishment of the Cash Settled butter market
- First clearing member of the NZX
- Majority of trading volume on Eurex Dairy contracts

Customers/Markets We Serve

Agriculture



Precious Metals



Energy



Base Metals



Softs



Food Service



Cotton/Textiles



Forest Products



Renewable Fuels



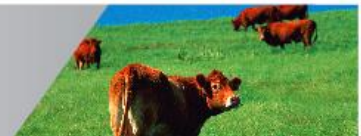
Merchant Services



Dairy



Livestock



Foreign Exchange



International Securities



32 offices | **1300** employees | **20,000** customers in more than **100** countries

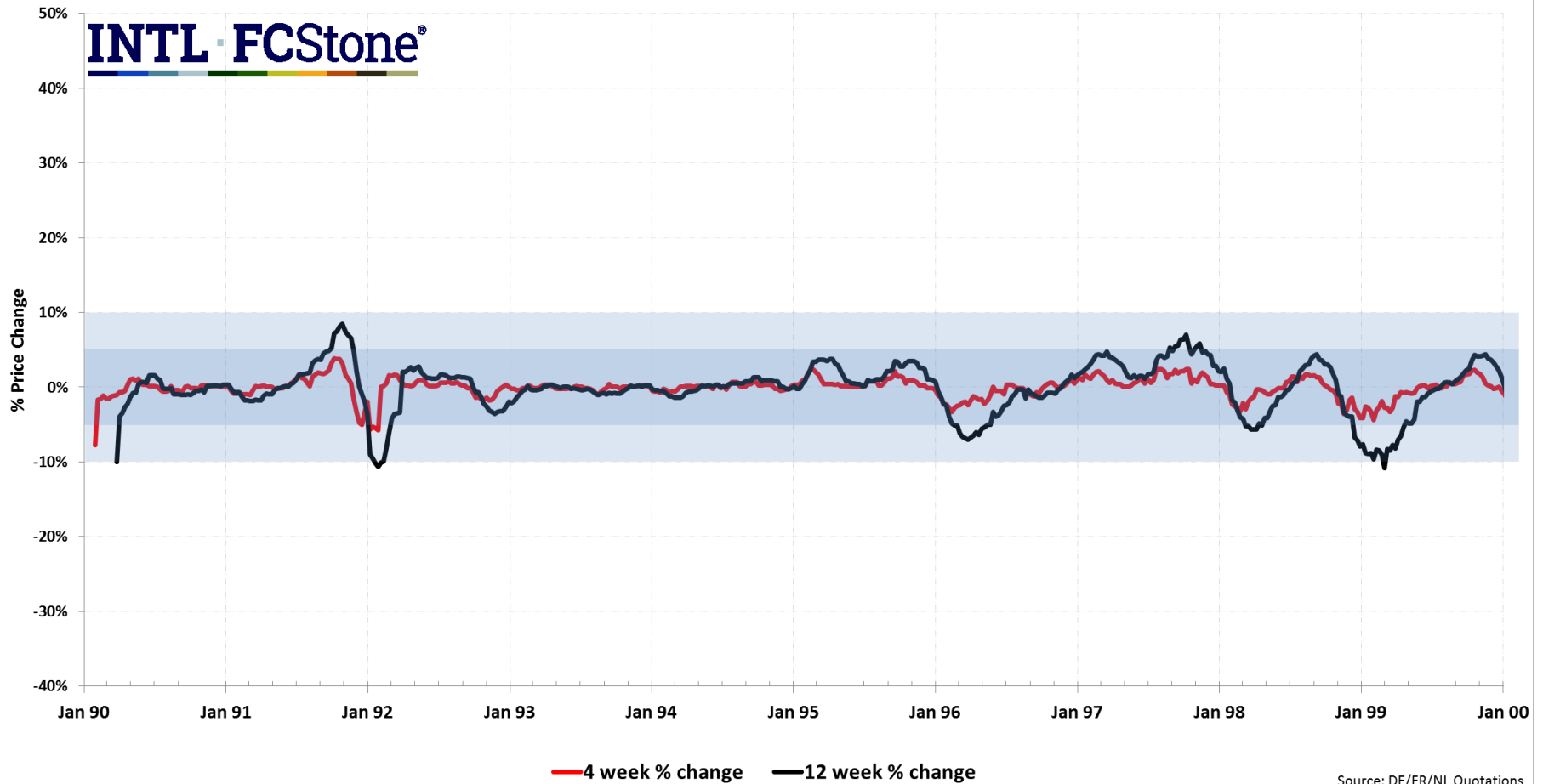


Why Dairy Risk management in Europe

EU Dairy Market Price Volatility

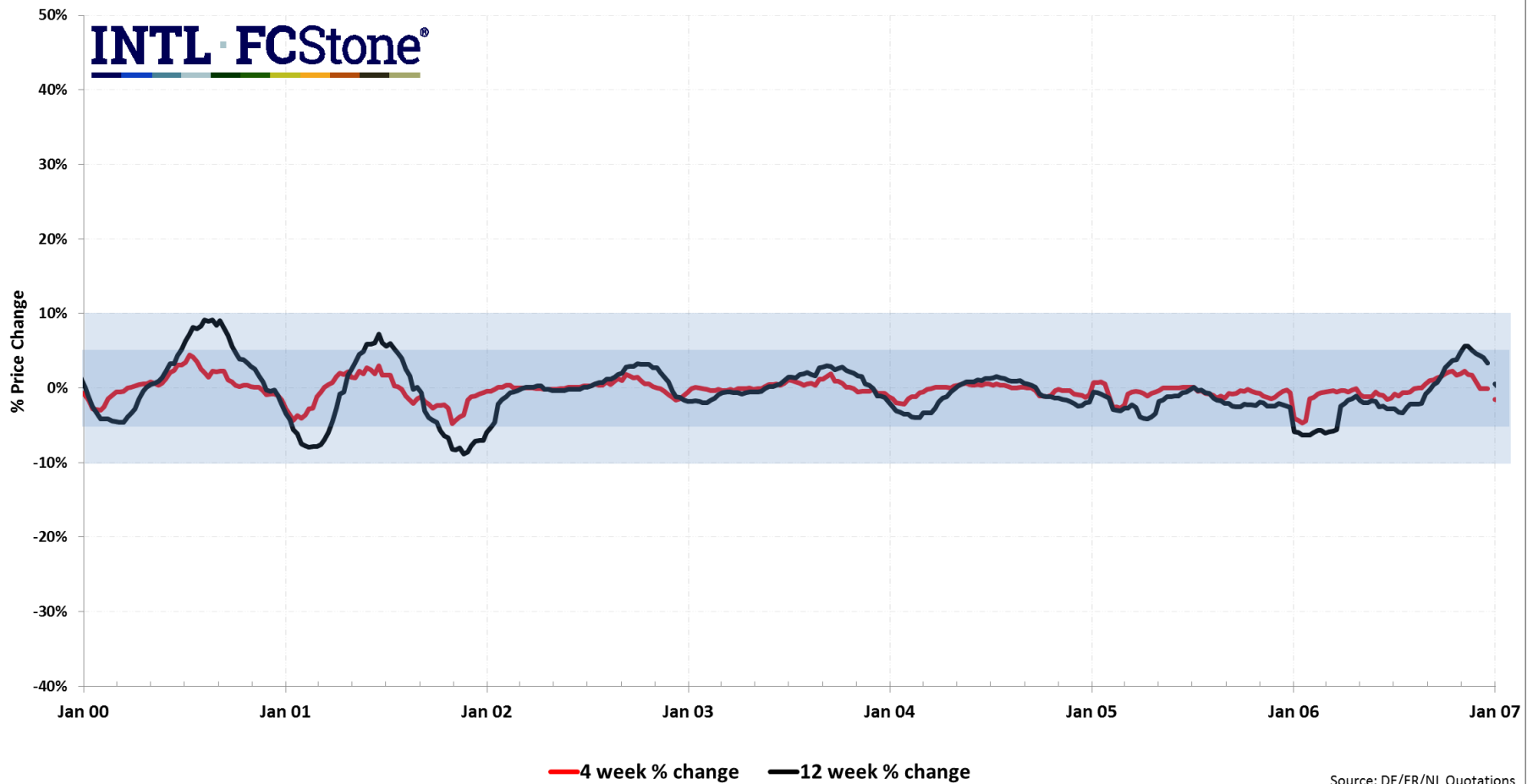
- European Dairy Markets have become increasingly volatile due primarily to the reduction in price support mechanisms through the Common Agricultural Policy, namely:
 - Reduction in intervention levels
 - Phasing out of quotas
 - Reduction in trade tariffs
- Result is European market is increasingly influenced by world market prices
- Increased volatility has resulted in a requirement for many companies to more effectively manage their price exposures

EU Butter Price Percentage Change

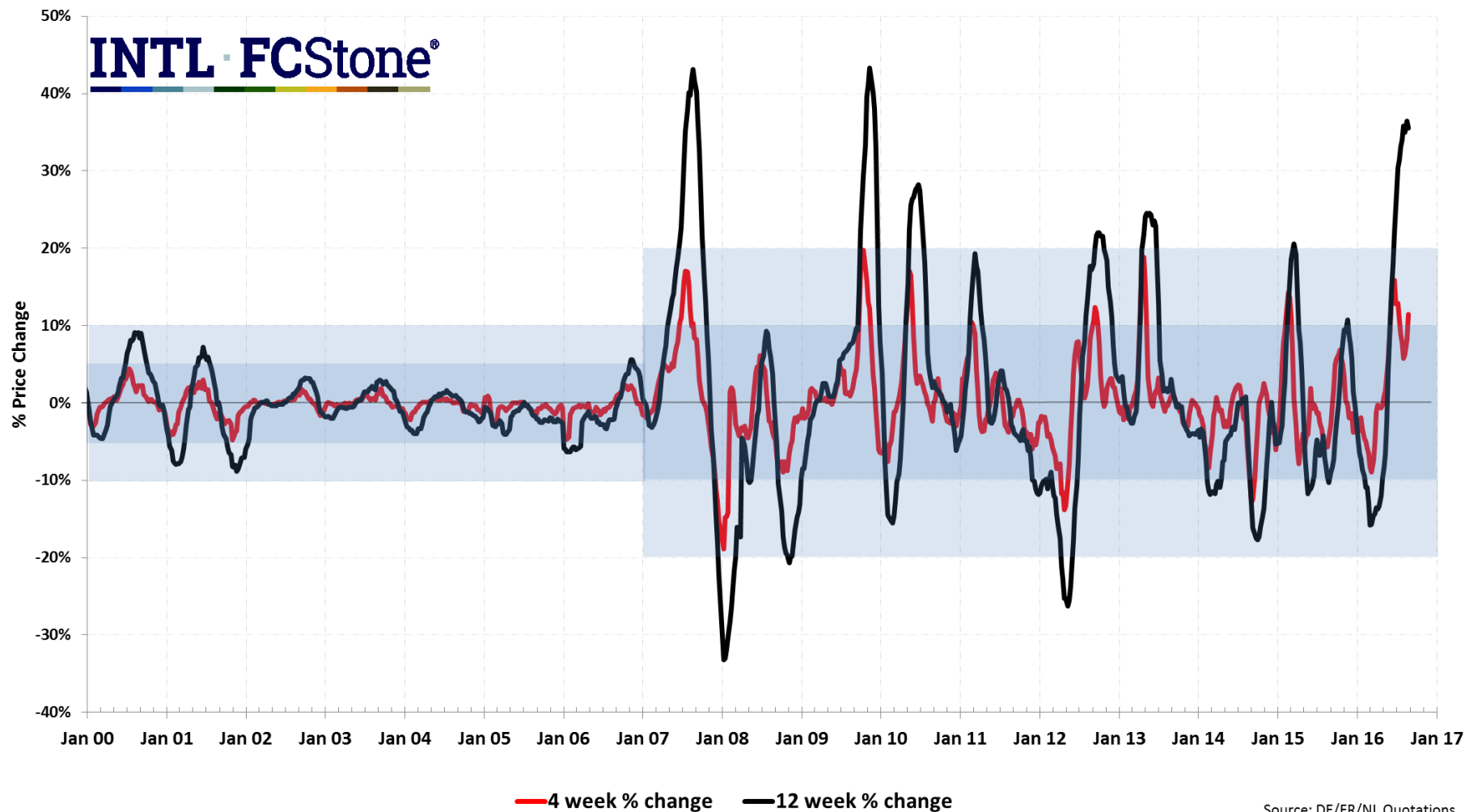


Source: DE/FR/NL Quotations

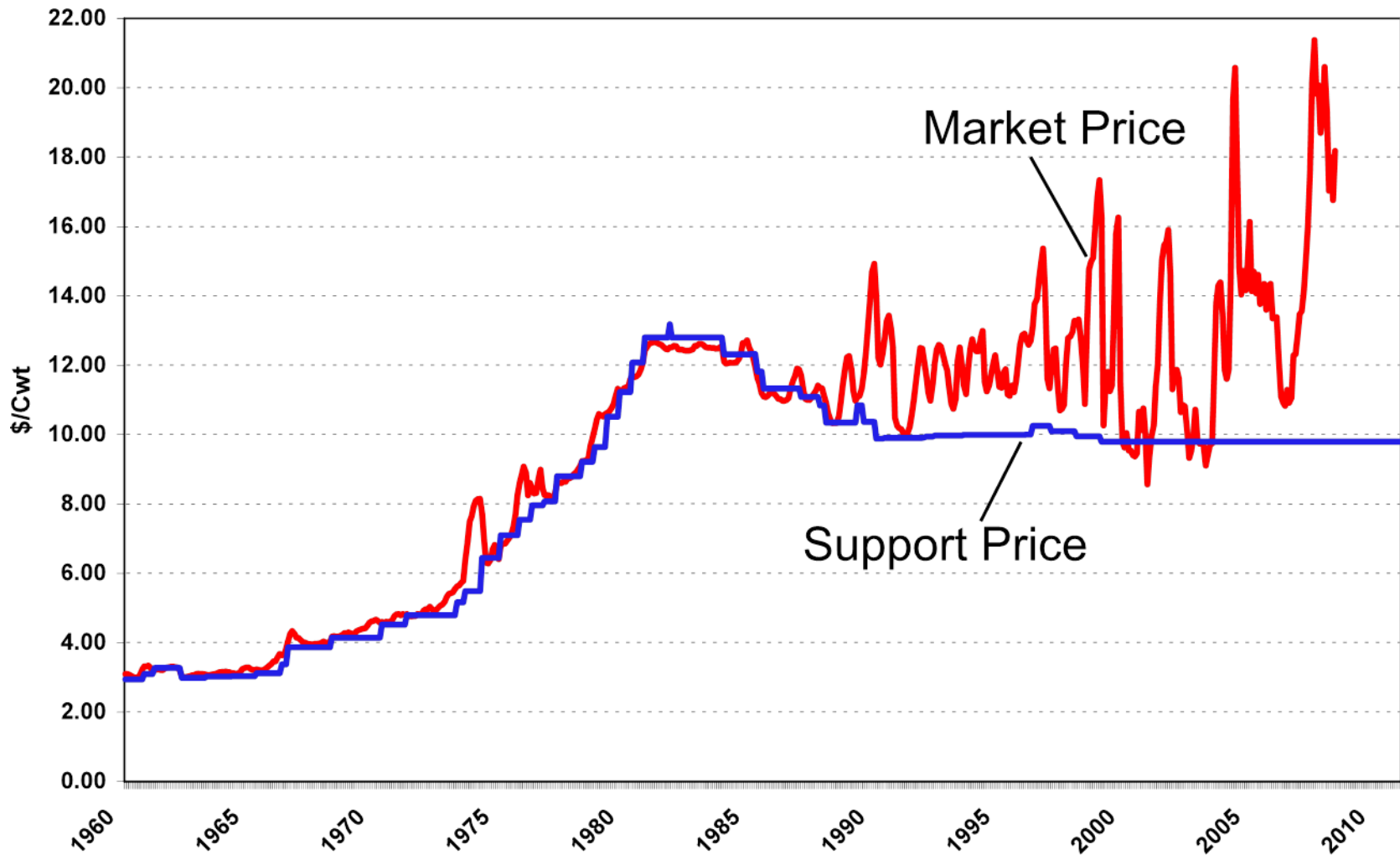
EU Butter Price Percentage Change



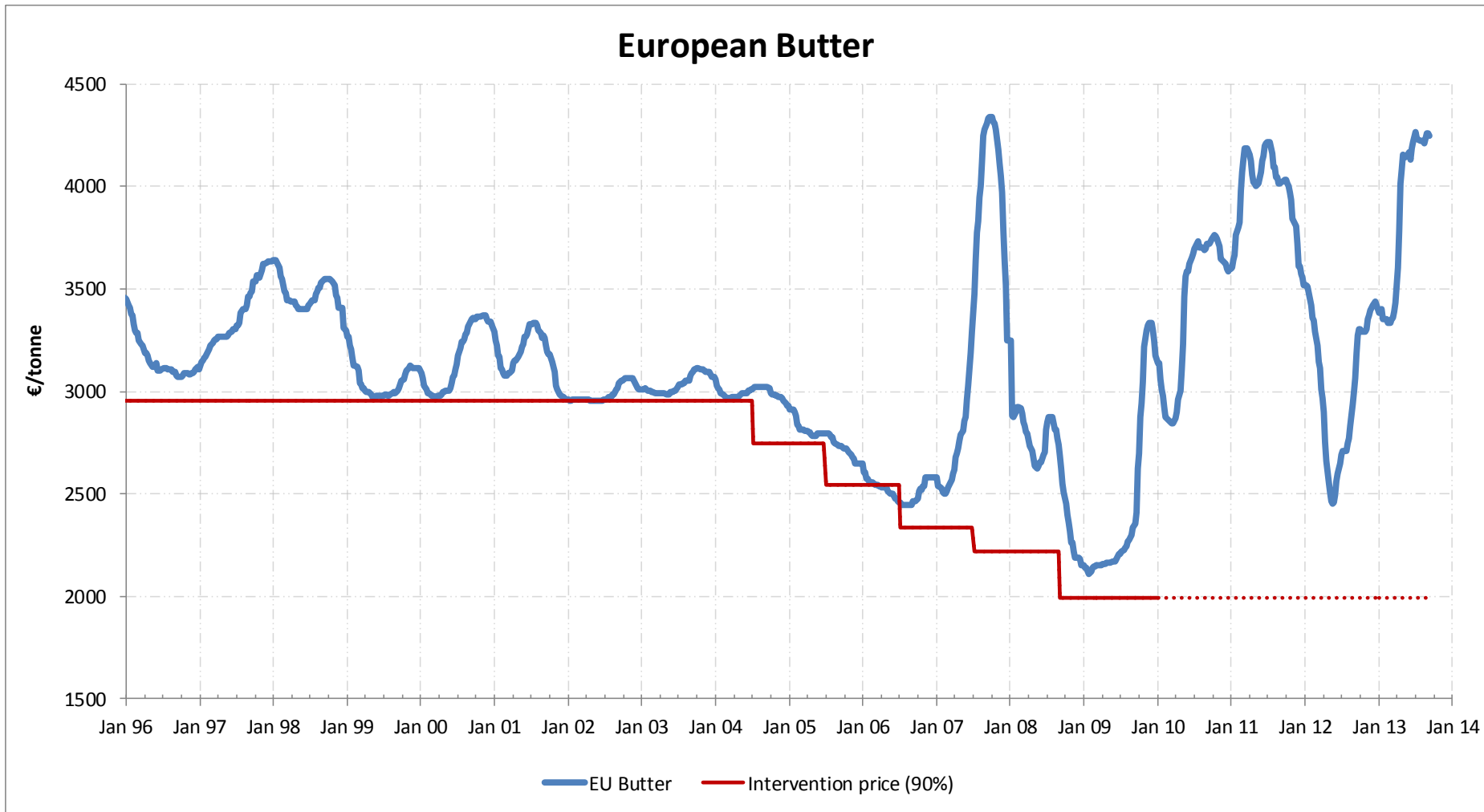
EU Butter Price Percentage Change



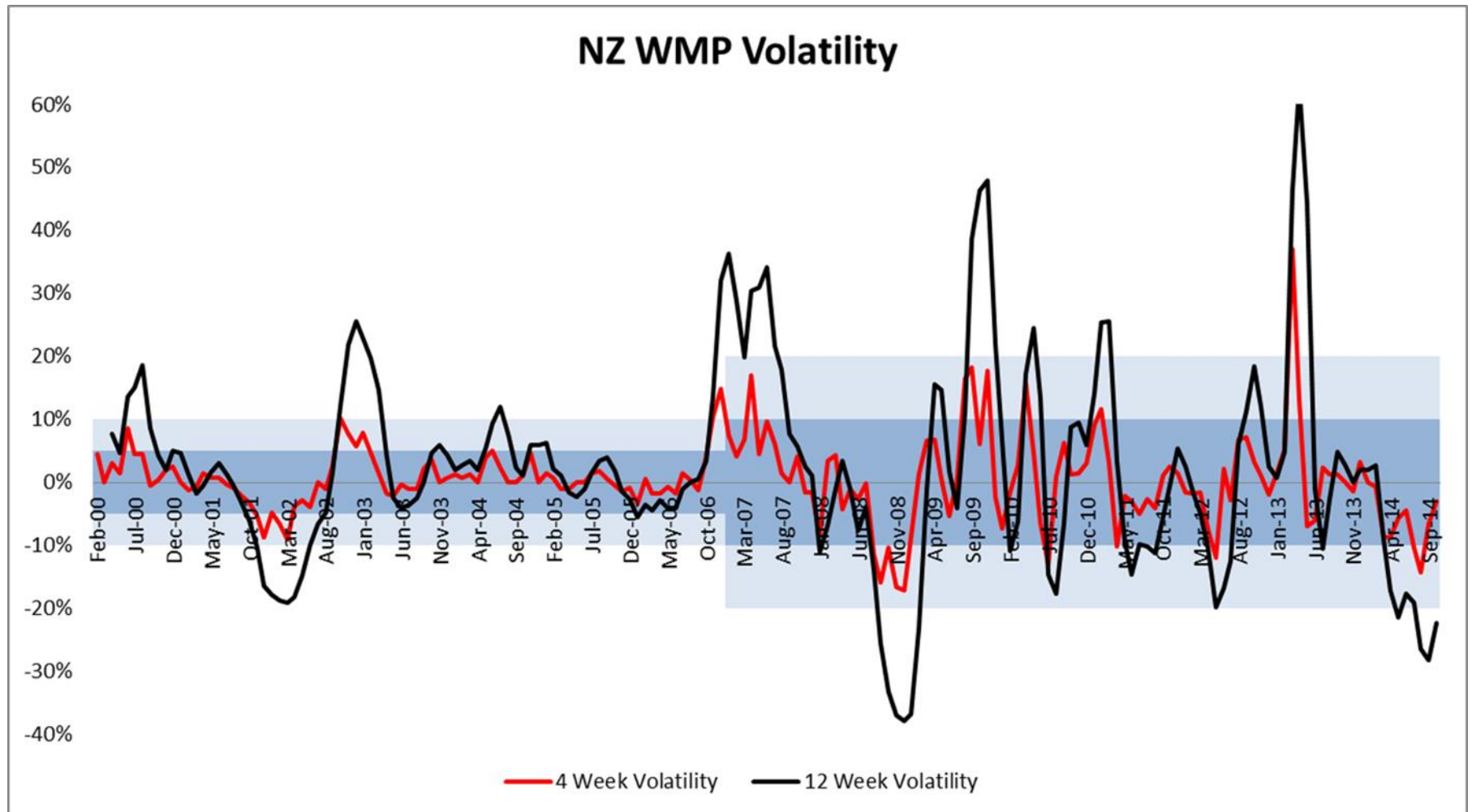
Reduction of price supports in the US market resulted in increased volatility



Similar pattern in Europe?



GDT

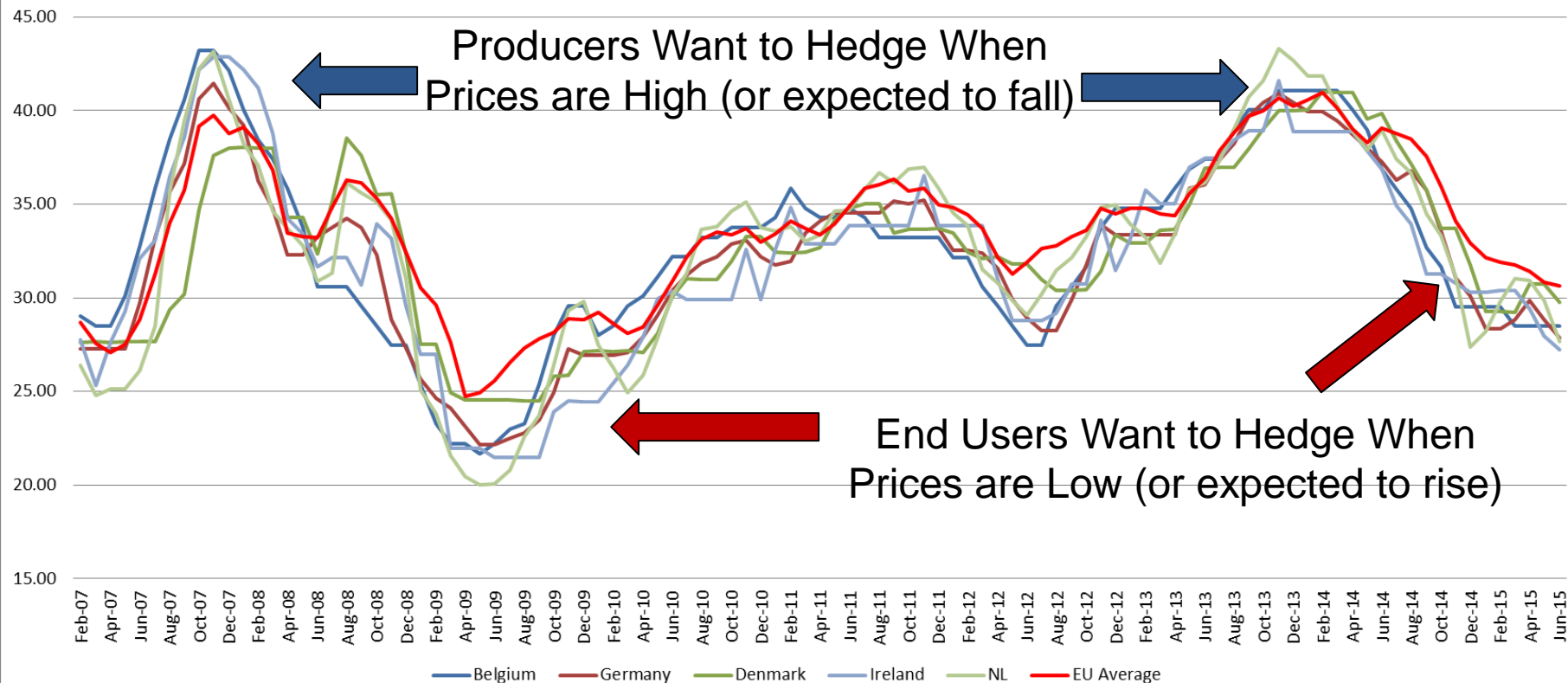


How to manage commodity volatility?

- Physical management
 - Procurement activities
 - Advance purchase
 - Storing or selling of inventories
 - Securing long term contracts with suppliers / customers
- Financial Management
 - Using futures markets to lock in a price
 - Using options to limit or cap exposure
 - Using options to create a floor or bottom on exposure
 - Using OTC markets to custom make financial products that meet your needs exactly.
- Using a combination of the strategies listed above!

Non Independent Risk Management is Difficult

Milk Price History by Country
LTO EUR / 100 Kg: 4.2% Fat / 3.4% (crude) Protein



Hedging Theory

- Hedging is used to manage the effects of price volatility on businesses
- Hedging typically utilises financial markets to offset risks faced in your physical purchases and/or sales

Cash Market Losses (Gains)





=

Futures Contract Gains (Losses)





Manufacturer/Trader fixing the cost of Raw Materials when making sales contracts

	Cash/Physical	Futures
SELL	1	2
BUY	2	1
Gain/Loss	Net Gain / Loss	

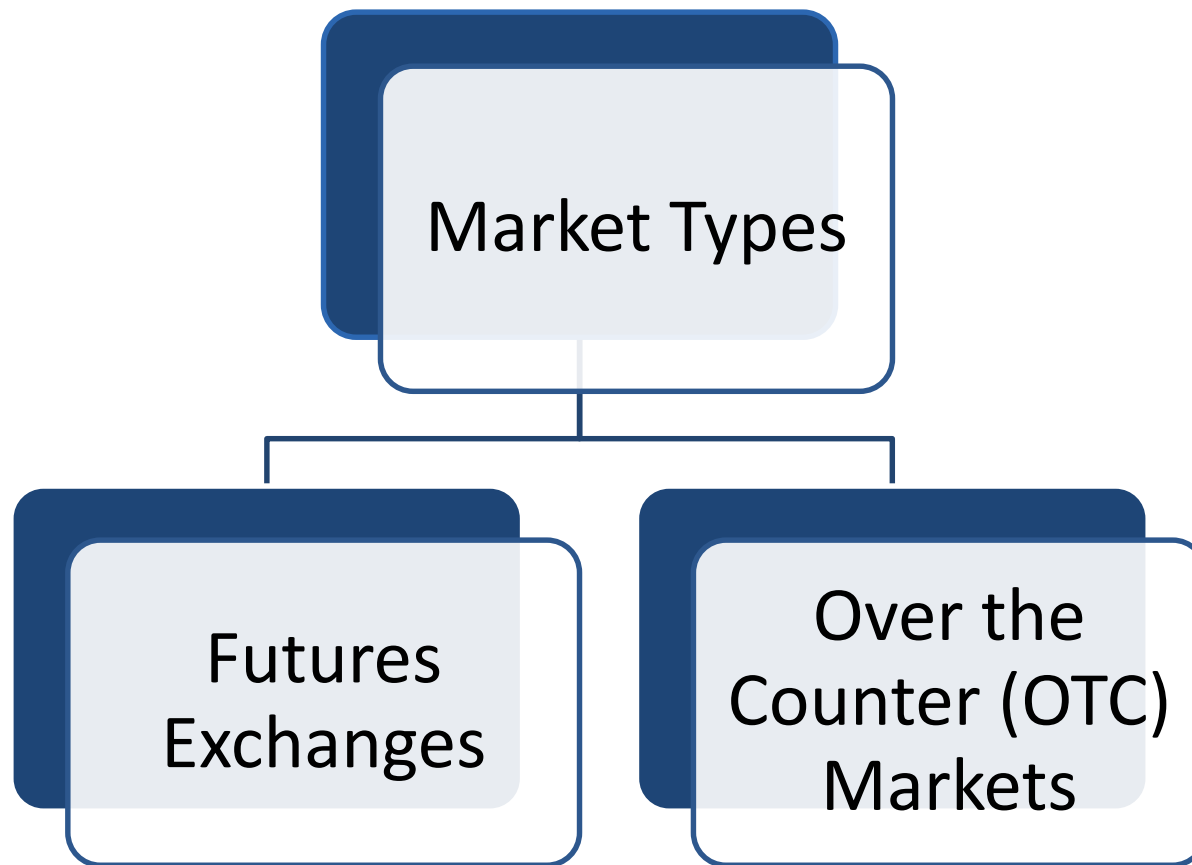
Hedge Example - Increasing Markets

	Cash/Physical	Futures
SELL	€3800 + €50 margin 	€4000 
BUY	€4000 	€3800 
Gain/Loss	- €150	+ €200

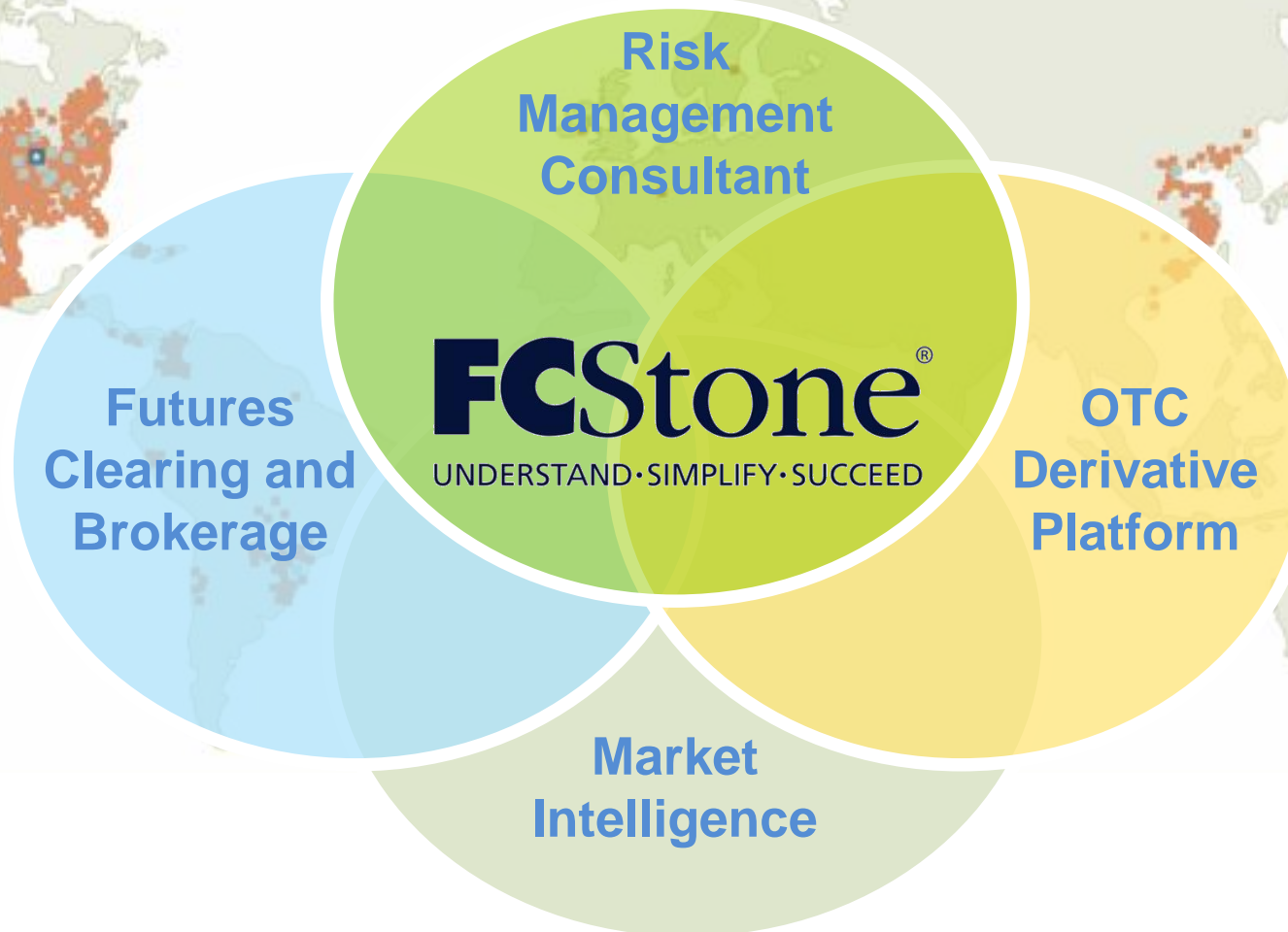
Hedge Example - Decreasing Markets

	Cash/Physical	Futures
SELL	€3800 + €50 Margin 	€3600 
BUY	€3600 	€3800 
Gain/Loss	+ €250	- €200

Risk Management Markets in Europe



INTL FCStone Services



INTL FCStone Dairy Services

1. Futures Clearing and Brokerage

2. OTC Derivative Platform

3. Market Intelligence

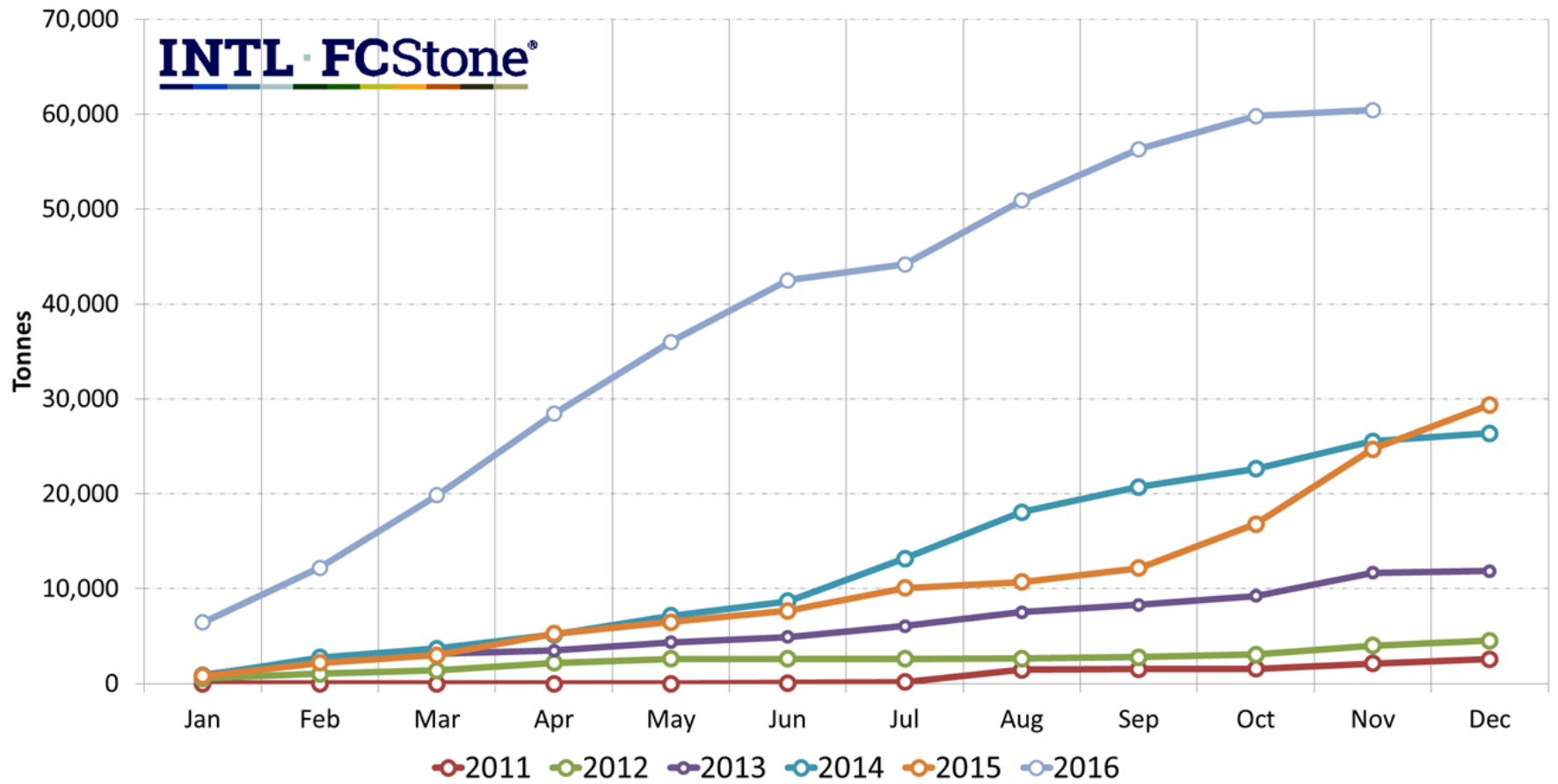
4. Consulting Services

1. Futures Clearing and Brokerage

- **Acting as Clearers on exchanges**
 - Providing access/accounts to commercial co's
 - Making margin calls
- **Executing trades for clients**
 - Illiquid markets – finding buyers and sellers

EEX Dairy Trading Activity

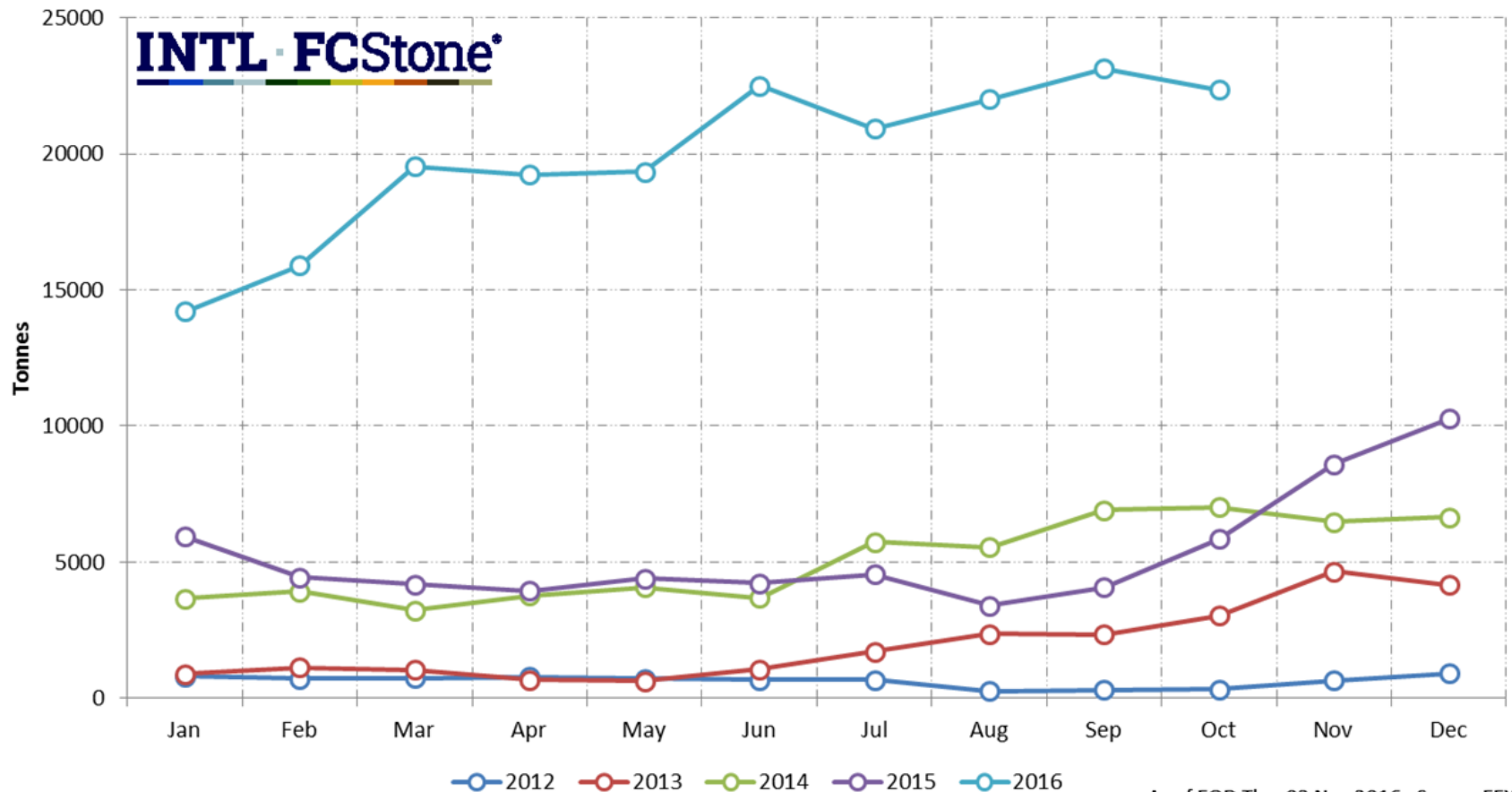
EEX Dairy Futures Annual Cumulative Volume



As of EOD Thu, 03 Nov 2016 - Source EEX

EEX Dairy Trading Activity

EEX Dairy Futures Open Interest



As of EOD Thu, 03 Nov 2016 - Source EEX

2. OTC Derivative Platform

Innovative Solutions to meet the requirements of the markets

- European Asian Swaps trade 100-200% of the exchange traded volume
- Contracts traded
 - Monthly Average Butter Swaps
 - Monthly Average SMP Swaps
 - Milk Index Swaps (Butter/SMP indices)
 - Cheese Index Swaps (Butter / SMP Indices)
- 100% Back to back - No trading risk

3. Market Intelligence

Daily Dairy Report

Irish milk collections to fall in October

A survey of Irish dairy Co-ops carried out by the Irish Farmers' Journal showed Irish milk collections fell sharply in October. The Co-ops are reporting milk intake decreased by between 3-12% on October 2015 collections despite milk prices improving over the last couple of months. The reduction in collections reported by the Co-ops coincides with the first month of the EU's Voluntary Milk Reduction Scheme. Q4 2015 also saw exceptionally high milk production numbers due to favourable grazing conditions which extended the Irish milking season somewhat and may be exaggerating the gap between October 2015 and 2016.

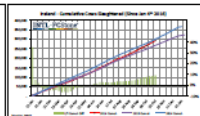
Irish and NZ weekly cow slaughters

Irish cow slaughter numbers remained strong last week albeit down on the previous week. Weekly slaughters totalled 8,259 head, down 2% from 8,430 head slaughtered a week earlier but 30.3% ahead of the 6,339 head slaughtered during same week last year. Cumulative slaughters for the year to date now total 720,716 head, up 9.2% on the same point last year and just 2.8% behind 2014 slaughters by October 2016. This is significant considering cumulative slaughters for 2014 were about 30% ahead of the current year by the start of April.

NZ cow slaughters for the 2015/16 season finished up at 1,092,026 head, 6.8% behind the previous season. Cow slaughters for the first week of their new 2016/17 season (W/E Oct 8th) totalled 9,453 head, up from 8,374 head a week earlier but down 26.4% on the 12,847 head slaughtered during the same week last year. NI slaughters totalled 6,427 head, down slightly on the 6,485 head slaughtered a week earlier. SI slaughters on the other hand increased on the week from 2,489 in week 52 of the 2015/16 season to 3,026 head in week one of the 2016/17 season.

EEX Futures

30 lots (150 tonnes) traded on EEX yesterday with all lots trading over Q3 2017 SMP. Jan17 traded the first 10



Thursday, 03 November 2016

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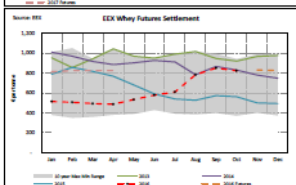
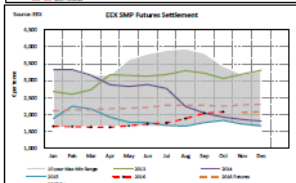
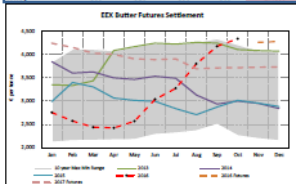
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EU EEX Prices

Cash Market Quotations	Last Date	03-Nov-16
Germany	4,000	4,000
Netherlands	4,000	4,000
France	4,000	4,000
Average	4,000	4,000
Why	4,000	4,000



Name	Bid	Ask	Settle	Net.Chng	Pct.Chng	Volume	Open.Int
FABT NOV16	4,100	4,400	4,257	40	0	0	387
FABT DEC16	4,100	4,400	4,276	40	0	0	91
FABT JAN17	4,175	4,500	4,298	40	0	0	306
FABT FEB17	3,875	4,175	4,148	40	0	0	98
FABT MAR17	-	4,150	4,025	40	0	0	94
FABT APR17	-	4,100	3,999	40	0	0	86
FABT MAY17	-	4,000	3,902	40	0	0	81
FABT JUN17	-	3,950	3,888	40	0	0	81
FABT JUL17	-	4,000	3,900	40	0	0	31
FABT AUG17	3,800	4,000	3,690	40	0	0	20
FABT SEP17	-	4,000	3,710	40	0	0	20
FABT OCT17	-	4,000	3,715	40	0	0	5
FABT NOV17	-	4,000	3,725	40	0	0	5
FABT DEC17	-	4,000	3,730	40	0	0	5
FABT JAN18	-	4,000	3,730	40	0	0	0
FABT FEB18	-	4,000	1	40	0	0	0
FABT MAR18	-	1	40	0	0	0	0
FABT APR18	-	1	40	0	0	0	0

Name	Bid	Ask	Settle	Net.Chng	Pct.Chng	Volume	Open.Int
FASM NOV16	1,050	1,100	1,063	0	0	0	578
FASM DEC16	1,075	1,100	1,088	40	0	0	506
FASM JAN17	1,125	1,200	1,111	40	3.55	30	462
FASM FEB17	1,140	1,200	1,130	470	3.38	5	403
FASM MAR17	1,130	1,240	1,147	473	3.4	15	438
FASM APR17	1,200	1,260	1,176	40	0	0	300
FASM MAY17	1,150	1,200	1,158	40	0	0	155
FASM JUN17	-	1,300	1,213	40	0	0	135
FASM JUL17	-	1,500	1,275	40	0	0	20
FASM AUG17	-	1,500	1,275	40	0	0	25
FASM SEP17	1,150	1,275	1,150	40	0	0	30
FASM OCT17	-	1,500	1,250	40	0	0	33
FASM NOV17	-	1,500	1,288	40	0	0	5
FASM DEC17	-	1,500	1,300	40	0	0	5
FASM JAN18	-	1,300	40	0	0	0	0

Name	Bid	Ask	Settle	Net.Chng	Pct.Chng	Volume	Open.Int
FAWH NOV16	760	820	830	40	0	0	0
FAWH DEC16	-	825	825	40	0	0	0
FAWH JAN17	-	825	825	40	0	0	5
FAWH FEB17	-	825	825	40	0	0	0
FAWH MAR17	-	825	825	40	0	0	0
FAWH APR17	-	825	825	40	0	0	0
FAWH MAY17	-	1	40	0	0	0	0
FAWH JUN17	-	1	40	0	0	0	0
FAWH JUL17	-	1	40	0	0	0	0
FAWH AUG17	-	1	40	0	0	0	0

Monthly Milk Collections

Thursday, 20 October 2016

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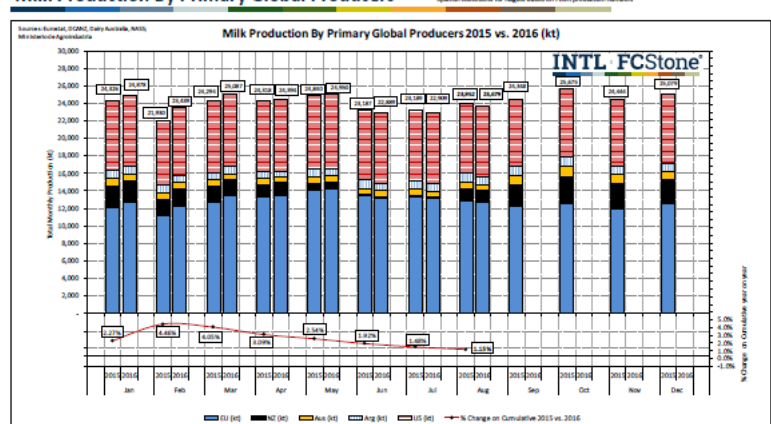
- Combined milk production for the five major dairy exporters fell further in August, estimated at 23.679 million tonnes, down 1.14% on the 23.952 million tonnes produced in August 2015. The US was the only one of the major producers to see an increase in production compared to last year, while EU, NZ, Australian and Argentinian production were all lower.
- Cumulative collections for the five major dairy exporters for January to August are estimated at 192.225 million tonnes, 1.15% ahead of the same point last year but down from the 1.48% increase observed for January to July as the gap between this year's production and last's continues to narrow.
- EU production in August was estimated down 1.47% year on year, posting the third consecutive month that EU production has fallen behind the 2015 levels, but remains 1.80% ahead of the three year average for August collections.
- Just three of the EU's top nine milk producing countries saw milk collections remain ahead of August 2015, one of which includes Spain for which there was no Eurostat August production data available, hence Spain's August numbers are based on FEQA production numbers, and may be subject to revision in the coming days when Eurostat data becomes available. Ireland and the Netherlands are the only other countries to see production up in August compared to last year.
- The UK again saw the biggest fall-off in production in August and is now joined by France, in terms of their cumulative collections for the year to August falling behind the same point last season with AHDB and FranceAgriMer data pointing towards a more severe drop in production in September and October.
- Average EU milk fat content is estimated ahead of last year at 3.86% versus 3.82% a year earlier. Average EU protein content is also estimate up year on year, at 3.31% versus 3.29% 12 months earlier.

Country	2015 (kt)	2016 (kt)	Y/Y % Diff	2015 Cumul. (kt)	2016 Cumul. (kt)	Cumul. Y/Y Diff.
EU Total	12,846	12,656	-1.47%	89,929	92,405	2.75%
Germany	2,719	2,670	-1.79%	18,771	19,347	3.07%
France	1,973	1,934	-1.98%	15,174	15,160	-0.09%
Netherlands	1,147	1,202	4.82%	7,643	8,516	11.43%
United Kingdom	1,247	1,159	-7.07%	9,060	8,834	-2.50%
Poland	962	950	-1.24%	6,367	6,614	3.88%
Italy	853	833	-2.28%	6,446	6,533	1.35%
Ireland	714	727	1.82%	4,151	4,508	8.60%
Spain*	556	570	2.58%	3,980	4,075	2.39%
Denmark	461	435	-5.71%	3,057	3,177	3.92%

*Total EU Production based on Internal INTL FCStone estimates for Q3 2016

* Spanish collections for August based on FEQA production numbers

Milk Production By Primary Global Producers



4. Consulting Services

Recognised as leaders in Risk Management and regular consulting



Examples Include

- Standardized Consulting
 - Risk Management Analysis and Policy
 - Educational Programmes

Sample Once Off Consulting Projects

- Group of Dairy Co-ops: Development Dairy Index and risk management tools
- Global multi commodity cost modelling analysis
- Exchange's- Advisory on the development of new Dairy contracts
- Co-op – Milk Price Modelling as part of internal 5 year strategic review

Dairy Risk Management Education and Analysis Sample Programme

Week		Presentation Series and Lessons	Parallel Activities
Wk 1		Introduction to Dairy Futures and Hedging, Market Development and Challenges	Complete Account Opening Paperwork
Wk 2		Introduction to Exchanges, Clearing House, Brokers, Dairy Futures Contracts and Specifications	
Wk 3		End User Hedge Examples and Strategies	
Wk 4		Monthly Global Dairy Market Outlook	
Wk 5		Margin and Cashflow Analysis	Market Information and Analysis
Wk 6		Basis Analysis and Strategies	
Wk 7		Trader Hedge Scenarios and Examples	
Wk 8		Monthly Global Dairy Market Outlook	
Wk 9		Processor/Co-Op Hedge Examples and Strategies	Basis and Product Analysis
Wk 10		Building Company Specific Risk Management Examples for the Company	
Wk 11		Statistical Analysis - Correlation and Regression Analysis	
Wk 12		In-House Working Session	
Wk 13		Hedge Scenario's based on Specific Products and Markets	Establish Internal Policies and Procedures
Wk 14		Guidelines on Establishing an Internal Risk Management Policy	
Wk 15		Understanding Regulations and Compliance	
Wk 16		Monthly Global Dairy Market Outlook	
Wk 17		Guidelines on Establishing Internal Controls	Establish a Test Trade
Wk 18		Live Trading Platforms and Executing Sample Trades	
Wk 19		Review Current Physical Position and Financial Market to Identify Hedging Opportunity	
Wk 20		Monthly Global Dairy Market Outlook	
Wk 21		Introduction to Options Contracts and Hedging Scenarios	
Wk 22		Risk Modelling - Net Position Reports and VaR	
Wk 23		Review Current Physical Position and Financial Market to Identify Hedging Opportunity	
Wk 24		In-House Working Session	
			
			Brokerage and Trading Relationship
			Market Intelligence
Integrated Risk Management Programme			

Our Customers

Diverse Portfolio of Leading Global Dairy and Food Companies

- Dairy Co-operatives-Farmers/Customers
- Dairy Processors
- End Users/Food Manufacturers
- Dairy Traders

Challenges with Regulation in developing markets in Europe

Regulatory concerns from our perspective

- Regulation being applied to commercial companies
- They are not banks!
- Just about aware of EMIR reporting
- Result in an uneven playfield favouring larger companies
- Excluding Farmers from accessing hedging market
- There is no systemic risk with these companies
- All firms are currently reporting through LEI numbers
- Why exclude these companies from hedging capability



INTL FCStone Ltd.

Thank you!