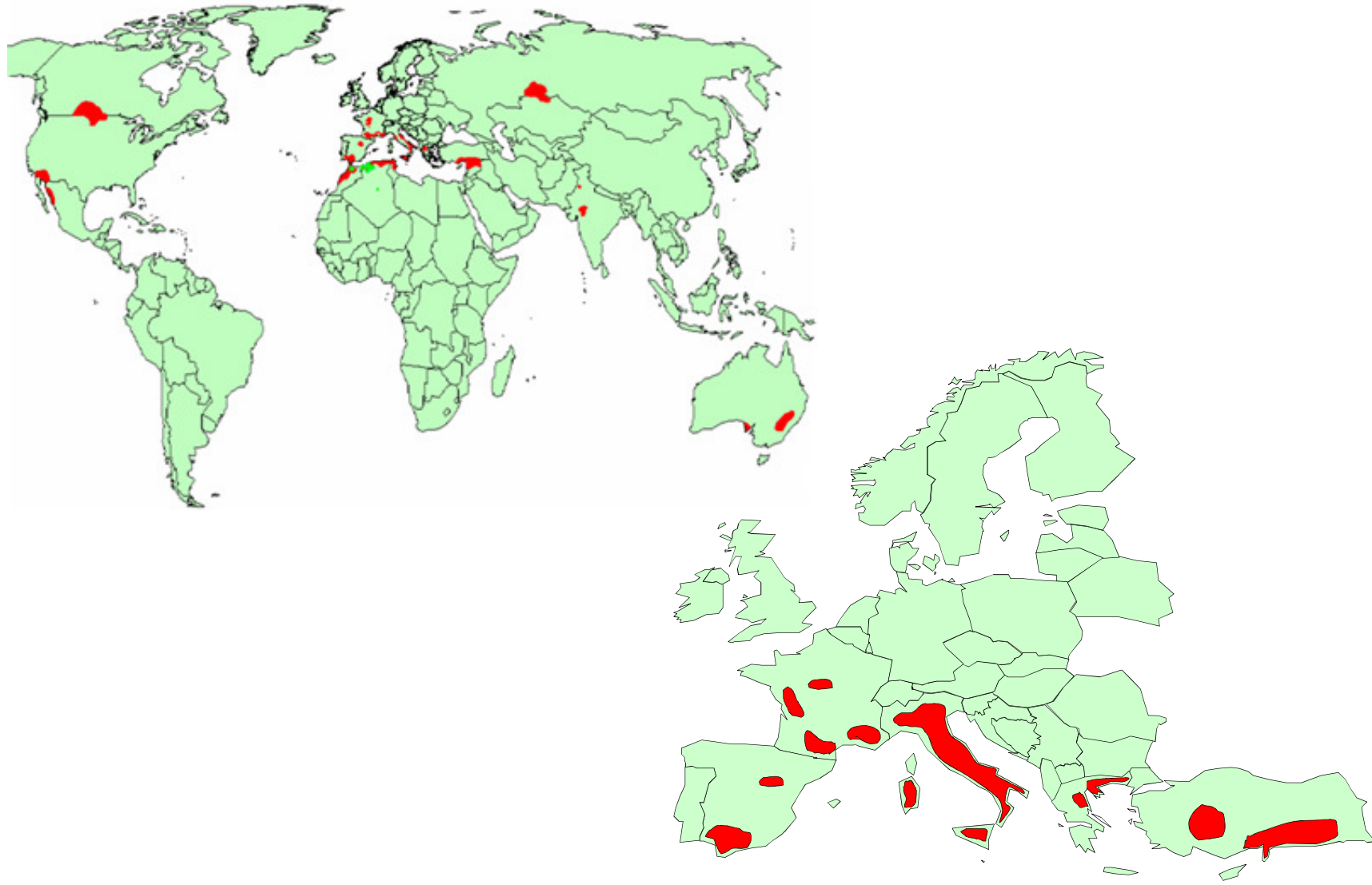


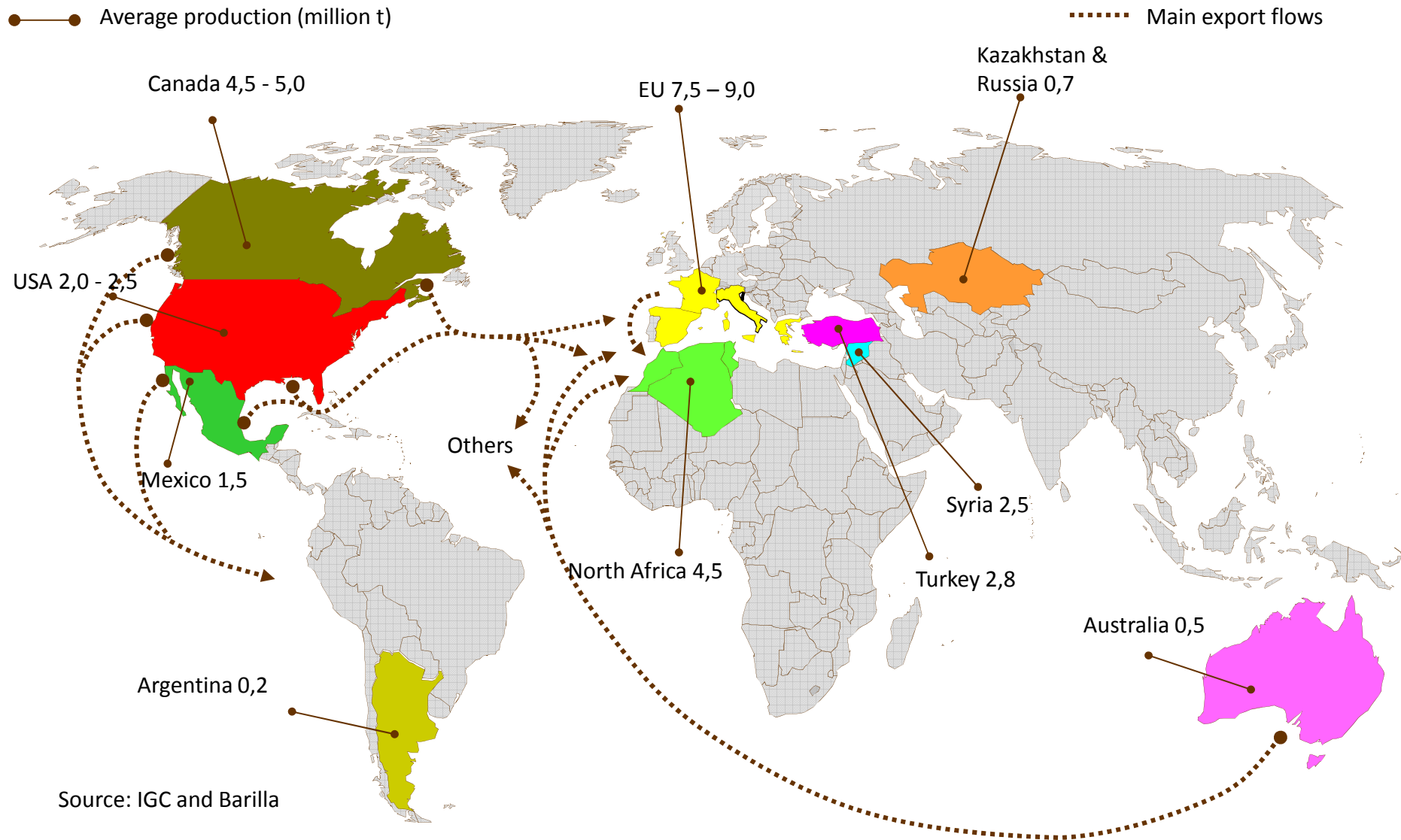
Durum Wheat and Hedging Implications

June 18, 2013

Durum Wheat main sources



Durum Wheat main export flows



North Africa and EU worth about 70% of the world import. Italy imports around 60-70% of total EU import.

Durum Wheat future market: started but not yet working



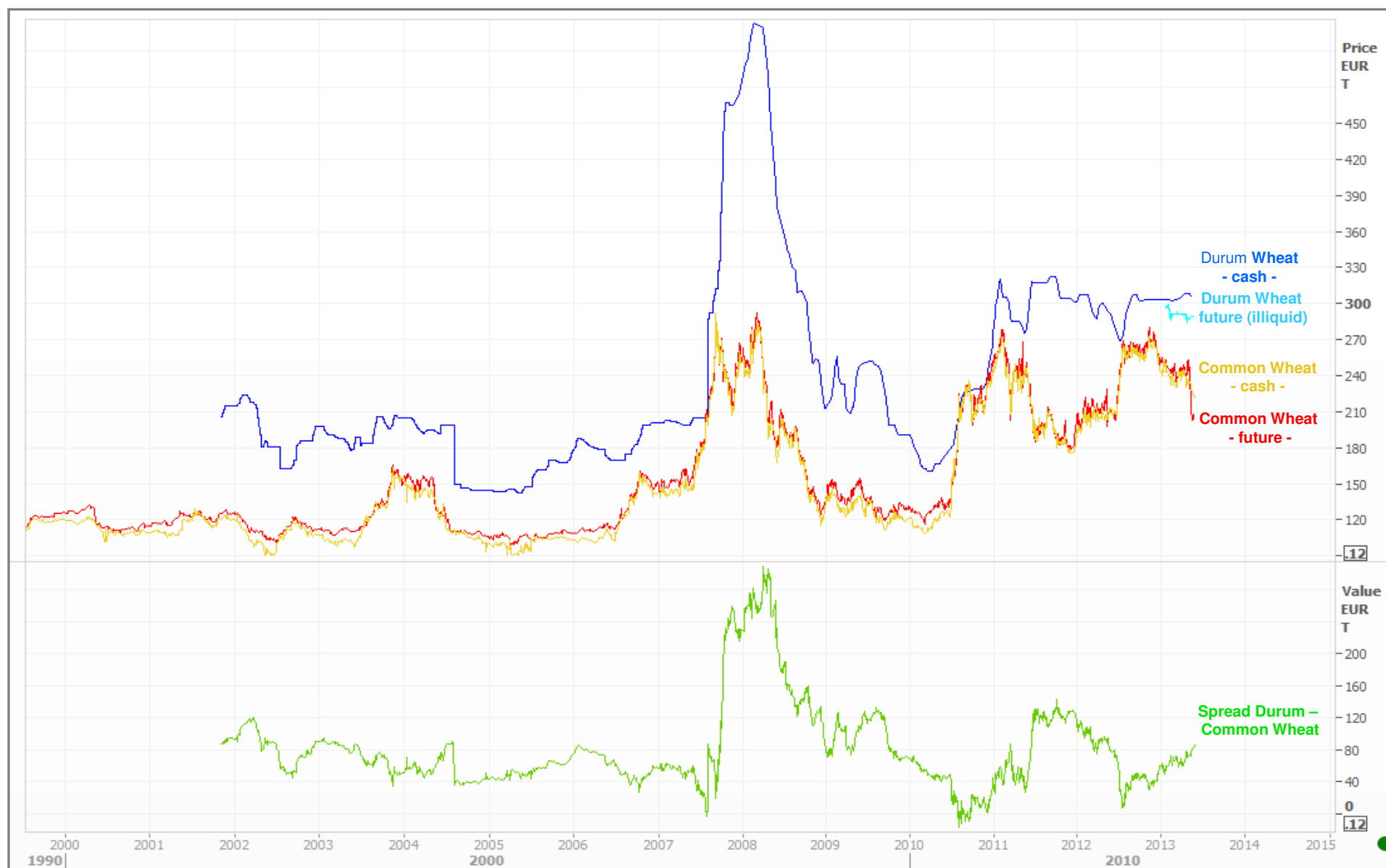
Remarks about poor liquidity in Agrex contracts

- Industrial Users: most of them have a background that comes from periods with limited price fluctuations. The limited know-how about financial markets and risk management cause, quite often, that futures are conceived as an instruments for speculators only, while the Management refrain from changing consolidated practices.
- Italian Farmers and their organizations (Coops/Consortiums): same or worst issues as above, notwithstanding they would be those who mostly could take advantage from the instruments success. Conversely, they believe that financial instruments would be used by industrial users to impose them a below-market price (consistently with their attitude against fixing long-term selling prices, whether or not by means of financial instruments).
- French Farmers' organizations: thanks to consolidated practices in the usage of financial instruments, (as a consequence, among others, of the relatively bigger size relatively to Italian peers) would make them good candidates to use financial instruments, contributing to market liquidity. On the other hand, the single point of delivery (Foggia, South Italy) causes a large delivery risk for them. Maybe a 2nd delivery point in France could be helpful.

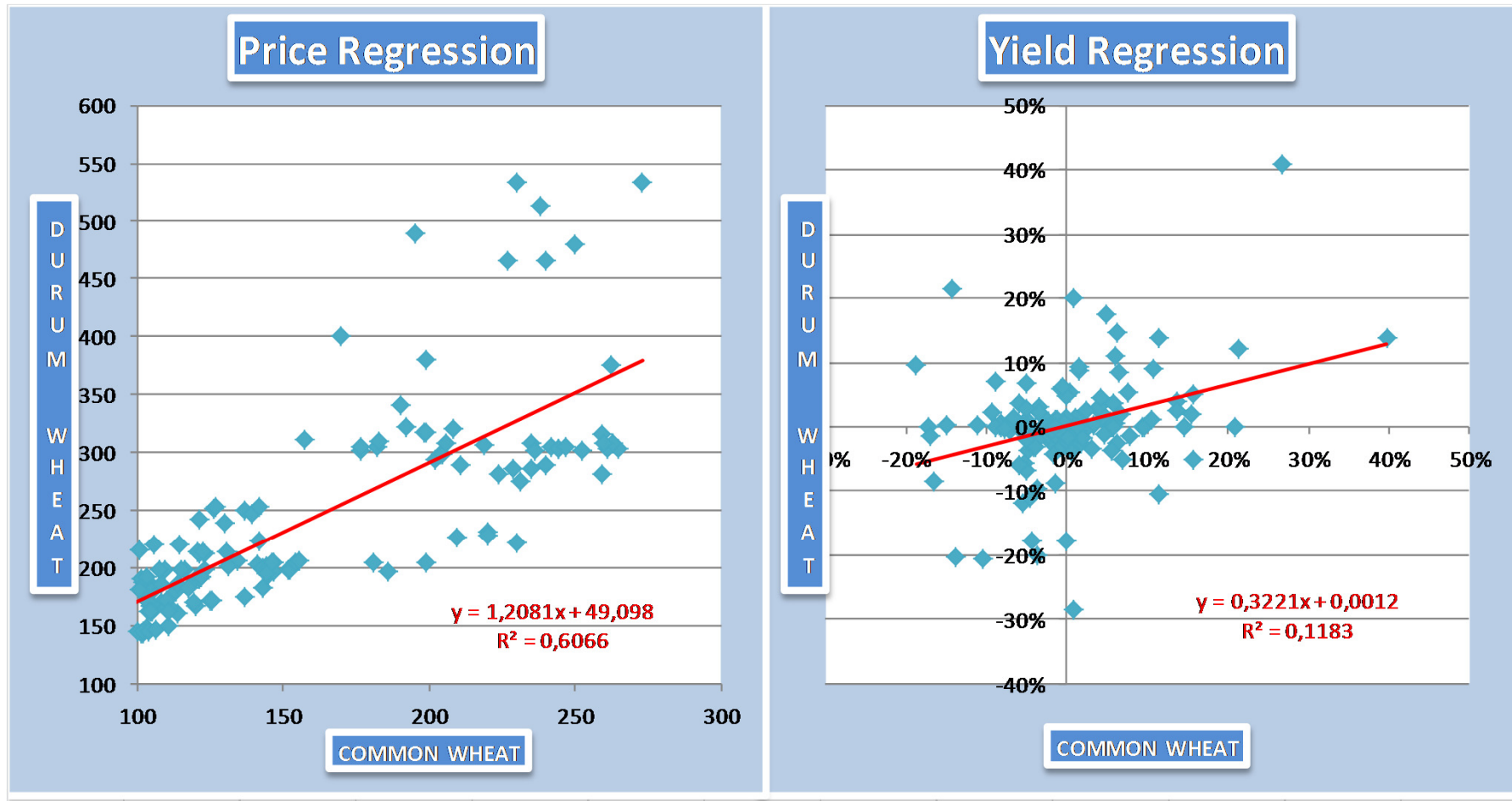
Remarks about poor liquidity in Agrex contracts

- Traders: they are not supporters of an instrument which increases market transparency, therefore they will not be the pioneers and could even discourage the potential users.
- Financial operators: only few banks offer the instrument, so far. With few volumes (at least in the near future) and lack of know-how out of the headquarter, it seems difficult to conceive an educational/promotional role coming from this side.
- Public Institutions may play a role in this process if they will be capable to promote the cultural change and knowledge spread, especially among farmers and their organizations. If these latter were capable to make hedging on a regular basis, trading contracts indexed to a future might become the standard - at that point in time, Users and Traders would have to follow.
- Borsa Italiana/London Stock Exchange is working for the promotion of the instrument.
- Another possibility to be evaluated is the creation of a linkage, even partial, between public grants/subsidies (if any) and the usage of hedging instrument.
- As a final remark, note that even Common Wheat futures started to be traded in Paris in the '90s, but volumes had remained poor until 2006.

Durum and Common Wheat prices

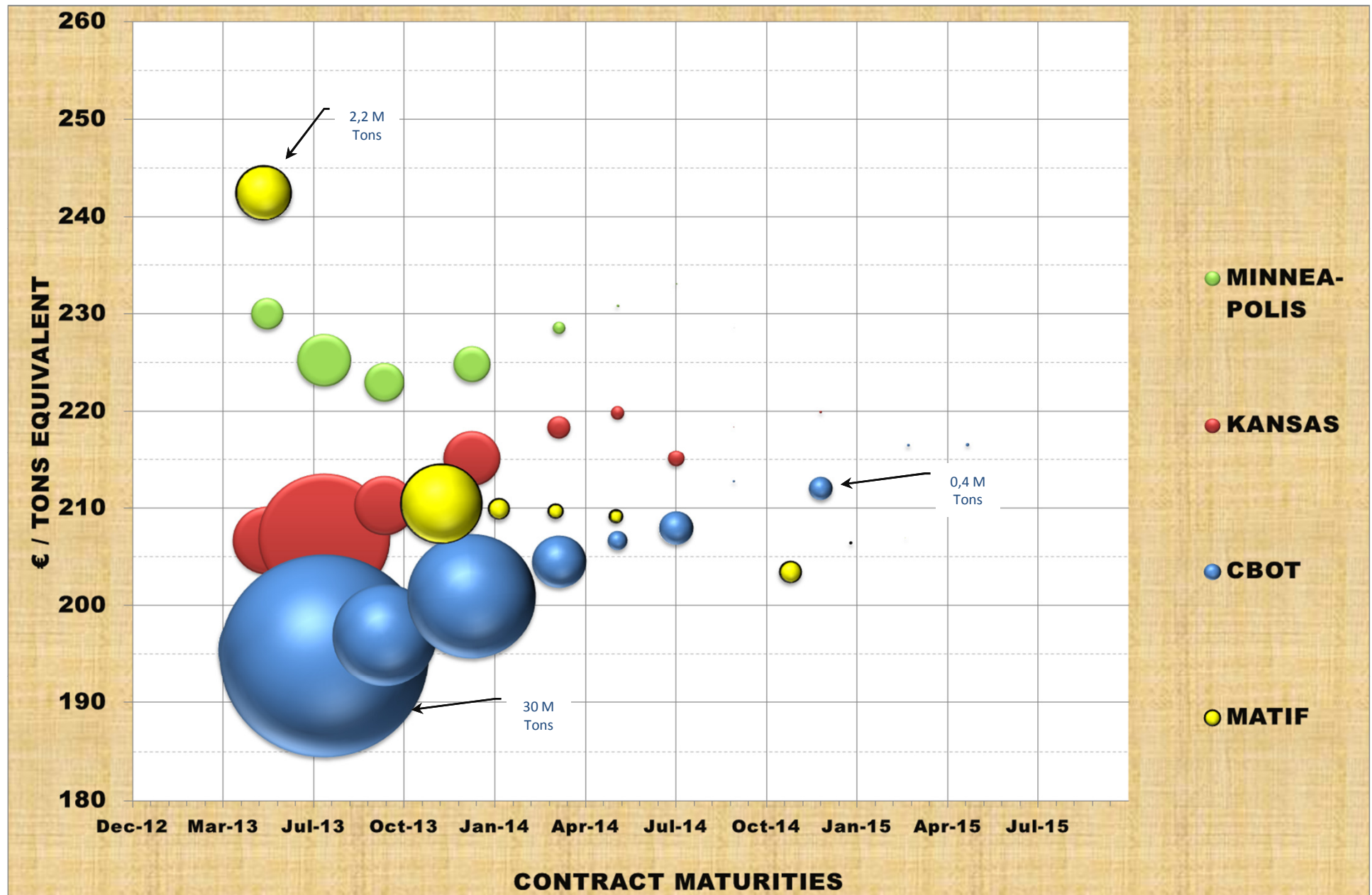


Durum and Common Wheat prices – poor correlation



Common Wheat: markets and open interest

April 2013



Common Wheat Listed options: poor liquidity

May 31, 2013

Quote: 0#/BL2c1+++																	
Menu Q 0#/BL2c1+++ Search Related Trade																	
Underly Futs M.WHEAT EUR NO/d MAT / MAT EUR /BL2X3 * MAT / MAT LT 204.75 16:34 H 206.00 L 204.25																	
Calls									Puts								
Last	Net.Ch	B.Size	Bid	Ask	A.Size	Volume	Time	Strike	Mth	Last	Net.Ch	B.Size	Bid	Ask	A.Size	Volume	Time
0	0						17:16	190	NOV3	0	0	4	1.70	9.00	1		16:32
							02:00	191	NOV3								13:04
							17:15	192	NOV3								14:10
							02:00	193	NOV3								14:22
							02:00	194	NOV3								17:01
							02:00	195	NOV3	6.80	-0.10	20	6.50			1	14:25
							02:00	196	NOV3								14:35
							16:24	197	NOV3								13:14
							15:51	198	NOV3								15:19
							10:58	199	NOV3								17:54
14.00	+0.12					1	10:45	200	NOV3			32	6.00	12.50	1		18:10
							02:00	201	NOV3								14:30
							16:11	202	NOV3								18:29
							14:14	203	NOV3								11:57
0	0						11:56	204	NOV3	11.00	-0.10					3	15:02
S 10.40	-0.57					5	14:44	205	NOV3	11.00	-0.47					1111	13:34
0	0						12:34	206	NOV3								14:52
							16:12	207	NOV3								14:15
							12:37	208	NOV3								10:56
							17:35	209	NOV3								15:19
S 8.70	-0.35					1000	14:54	210	NOV3			2	11.00				15:36
							16:51	211	NOV3								14:19
							16:35	212	NOV3								16:38
							18:21	213	NOV3								15:08
				13.00	2		14:12	214	NOV3								18:28
0	0			20.00	1		18:16	215	NOV3								13:49
				18.00	1		17:35	216	NOV3								18:27
							18:06	217	NOV3								15:40
							11:40	218	NOV3								16:02
6.10	+0.18					2	14:46	219	NOV3								16:54
S 5.50	-0.08	2	5.60			1005	14:54	220	NOV3	S 20.30	-0.77					500	16:29

May 31, 2013

[illegible]

Regulated Markets vs. Over-the-Counter

	Regulated Markets	Over the Counter
Flexibility	Poor (4-5 maturities/year) 😞	😊 Unrivalled flexibility in terms & conditions; e.g. maturities, average price swap/options, long term hedging, etc.
Options	Very poor liquidity (little volumes, maturities and strikes available) 😞	😊 Traders can replicate what you need, it's a matter of cost. Possibility of complex strategies via combination of options
Credit Risk	Quasi-zero 😊	😞 It may become an issue in a twofold sense
Cost	Cheaper 😊	😞 Bank fees and compensation for capital absorption
Cash absorption	Margins absorb significant cash (especially from the sellers standpoint) 😞	😊 None
Hedge accounting	Achievable for basic structures 😐	😐 Tailored structures are sometime useful to fulfill stringent requirements

Call Option

Objective

- User wants to secure against rising wheat prices above € A for a certain period, but without giving-up the downward opportunities

Solution

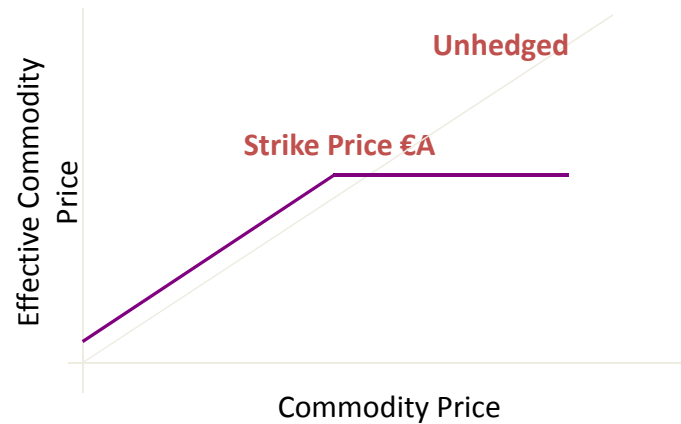
- User buys a wheat cap option at a strike level of €A
- User pays a “insurance” premium of € x

Advantages

- ▲ Protects User against rises in prices
- ▲ Reduces revenue volatility
- ▲ User participates in lower price movement (minus the premium already paid)

Disadvantages

- ▼ Premium cash outlay



Ratio

Hedging needs :
Derivative Notional

=

1 : 1

Zero Cost Collar

Objective

- User wants to set a maximum price for its wheat purchases at €A (above the current market @ €B)
- User wants to participate in some price falls, but not to pay any premium
- Client is willing to pay a minimum price at €C staying floating within a specified range

Solution

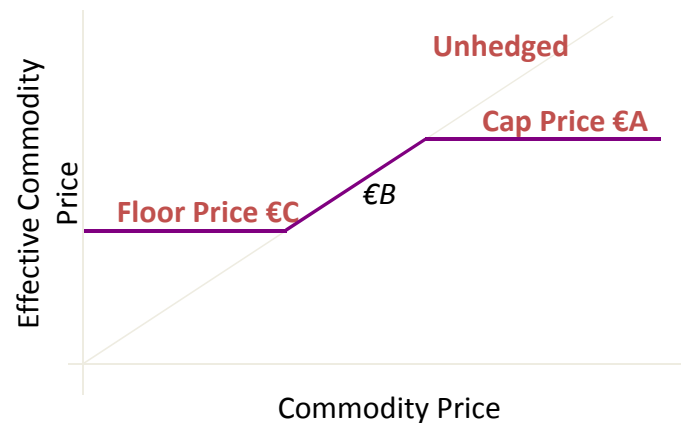
- User buys a call option from Bank with a strike of €A, and sells a put option with a strike of €C – this combination comes at zero cost

Advantages

- ▲ Protects User against rises in prices
- ▲ Zero cost structure, no premium
- ▲ User enjoys price falls down to the strike of the put

Disadvantages

- ▼ Prices lower than the Put price cannot be enjoyed



Ratio

Hedging needs :
Derivative Notional
=
1 : 2

3 Way or Seagull

Objective

- User wants to set a maximum price for its wheat purchases at current market
- User wants to participate in some price falls, but not to pay any premium
- Client is willing to pay a minimum price at €C staying floating within a specified range
- User also reputate unlikely that the price will go beyond € D

Solution

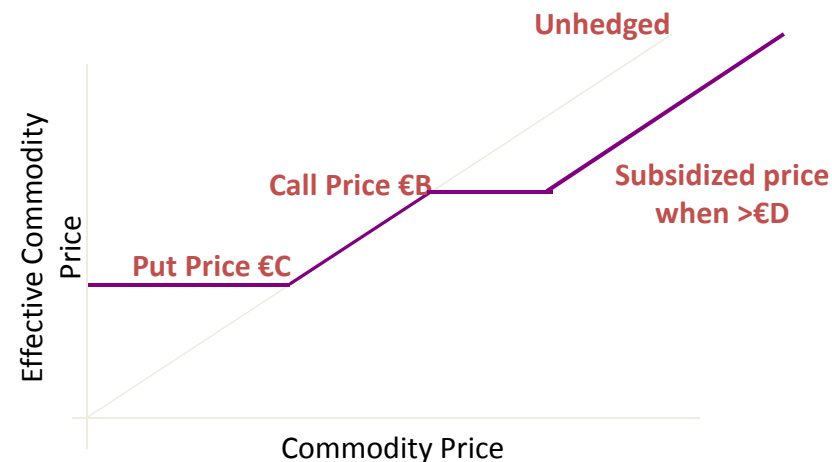
- The User purchases a call and sells a put + a call at a higher strike

Advantages

- ▲ No net premium is exchanged between Bank and the User
- ▲ The value of the sold call allows the User to buy protection at a lower level (compared to the plain vanilla zero cost collar)

Disadvantages

- ▼ User is subject to market prices within the range of the collar
- ▼ Upside protection is limited by the call option sold



Ratio

Hedging needs :
Derivative Notional

=

1 : 3

NON-FINANCIAL COUNTERPARTIES

Criteria for establishing which OTC derivative contracts are **objectively** reducing risks

1. An OTC derivative contract shall be objectively measurable as reducing risks directly relating to the commercial activity or treasury financing activity of the non-financial counterparty or of that group, when, by itself or in combination with other derivative contracts, directly or through closely correlated instruments, it meets one of the following criteria:
 - (a) it **covers the risks** arising from the potential change in the value of assets, services, inputs, products, commodities or liabilities that the non-financial counterparty or its group owns, produces, manufactures, processes, provides, purchases, merchandises, leases, sells or incurs or reasonably anticipates owning, producing, manufacturing, processing, providing, purchasing, merchandising, leasing, selling or incurring in the normal course of its business;
 - (b) it covers the risks arising from the potential indirect impact on the value of assets, services, inputs, products, commodities or liabilities referred to in point (a), resulting from fluctuation of interest rates, inflation rates, foreign exchange rates or credit risk;
 - (c) **it qualifies as a hedging contract** pursuant to International Financial Reporting Standards (IFRS) adopted in accordance with Article 3 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council (1).

Clearing thresholds

The clearing thresholds values for the purpose of the clearing obligation shall be:

- (a) EUR 1 billion in gross notional value for OTC credit derivative contracts;
- (b) EUR 1 billion in gross notional value for OTC equity derivative contracts;
- (c) EUR 3 billion in gross notional value for OTC interest rate derivative contracts;
- (d) EUR 3 billion in gross notional value for OTC foreign exchange derivative contracts;
- (e) **EUR 3 billion in gross notional value for OTC commodity derivative contracts** and other OTC derivative contracts not provided for under points (a) to (d).

Thank you

fabio.barigazzi@barilla.com