



## TRADING IN A WORLD OF KNOWN UNKOWNS

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Commodity risk manager



## Disclaimer

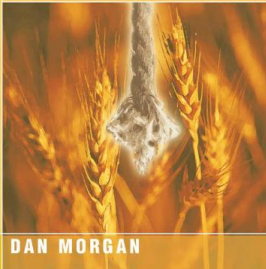
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*"Merchants of Grain is an enthralling story with wonderfully vivid characters... My congratulations to Mr. Morgan."*  
—Anthony Sampson

**Merchants of Grain**  
THE POWER AND PROFITS OF THE FIVE GIANT COMPANIES  
AT THE CENTER OF THE WORLD'S FOOD SUPPLY




**DAN MORGAN**

## 1972 – THE RUSSIAN GRAIN ROBBERY

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**THERE IS NO FUTURE IN PREDICTIONS**

**The BRC Energy and commodities bulletin**  
May 2008 Issue 5  
Monthly review of energy and commodity trends and research for users and producers of energy in Ireland.

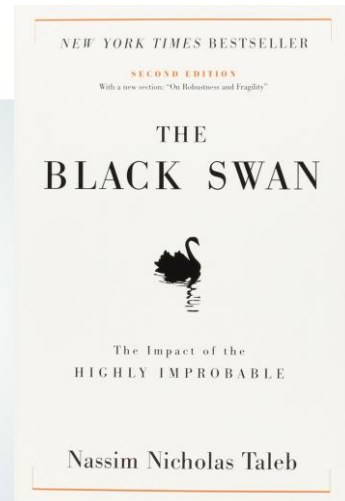


**Preparing for \$200 oil**

**UCD DUBLIN**  
Bio-resources Research Centre, UCD

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MARKET BLACK SWANS STILL  
OCCUR, JUST LESS LIKELY

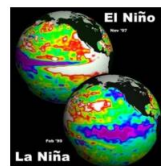


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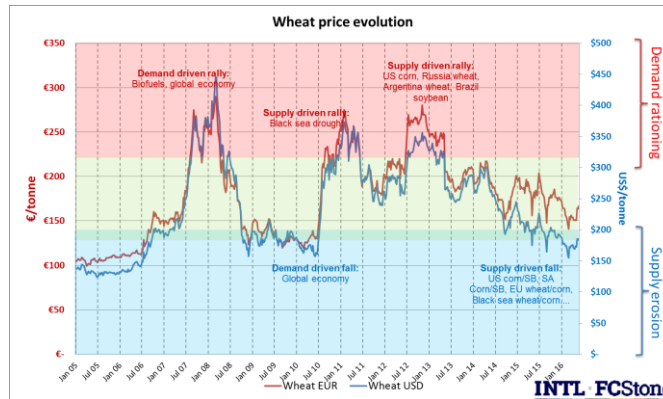
Known unknowns



International Grains Council

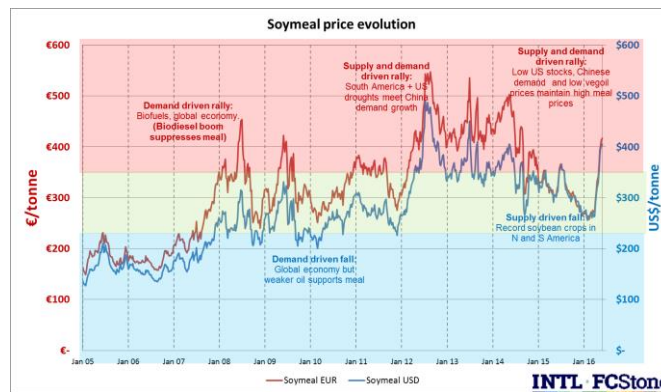


Despite all that we know, price uncertainty remains



INTL FCStone® Source: Reuters

Despite all that we know, price uncertainty remains



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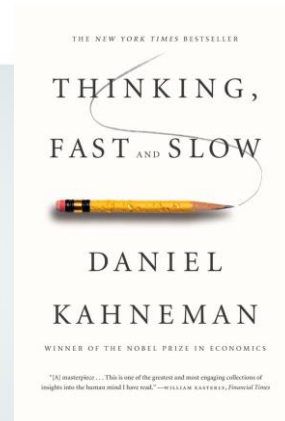
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### EMPLOY BOTH SYSTEMS OF THE BRAIN

A bat and a ball cost, £1.10.

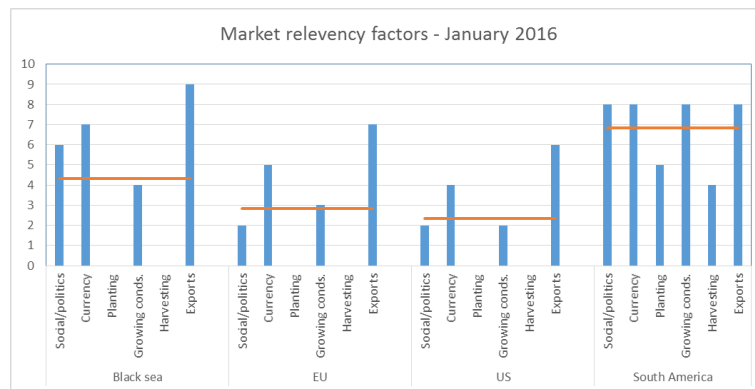
The bat costs £1.00 more than the ball.

How much is the ball?



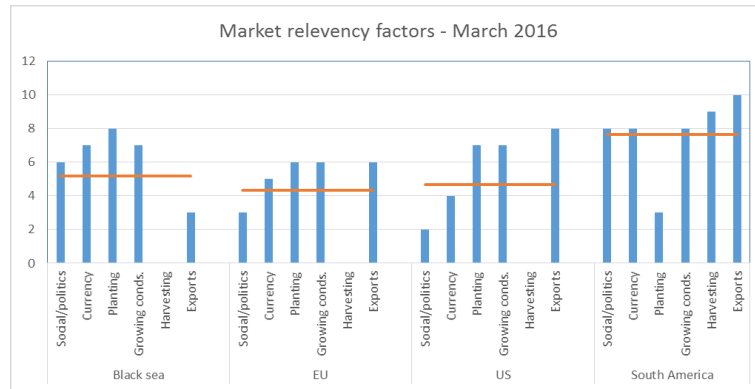
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### Prioritising analysis focus



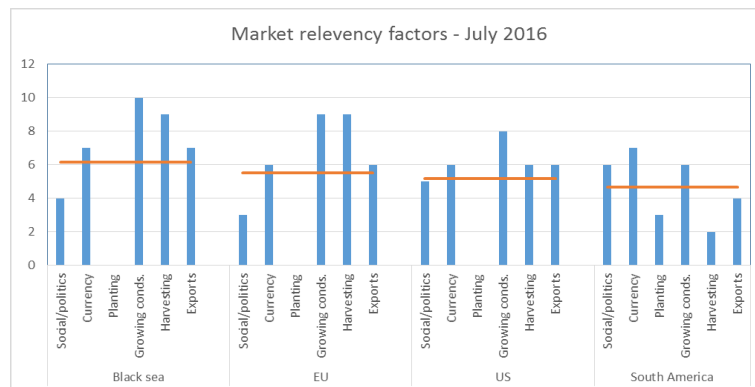
Source: FCStone

## Prioritising analysis focus

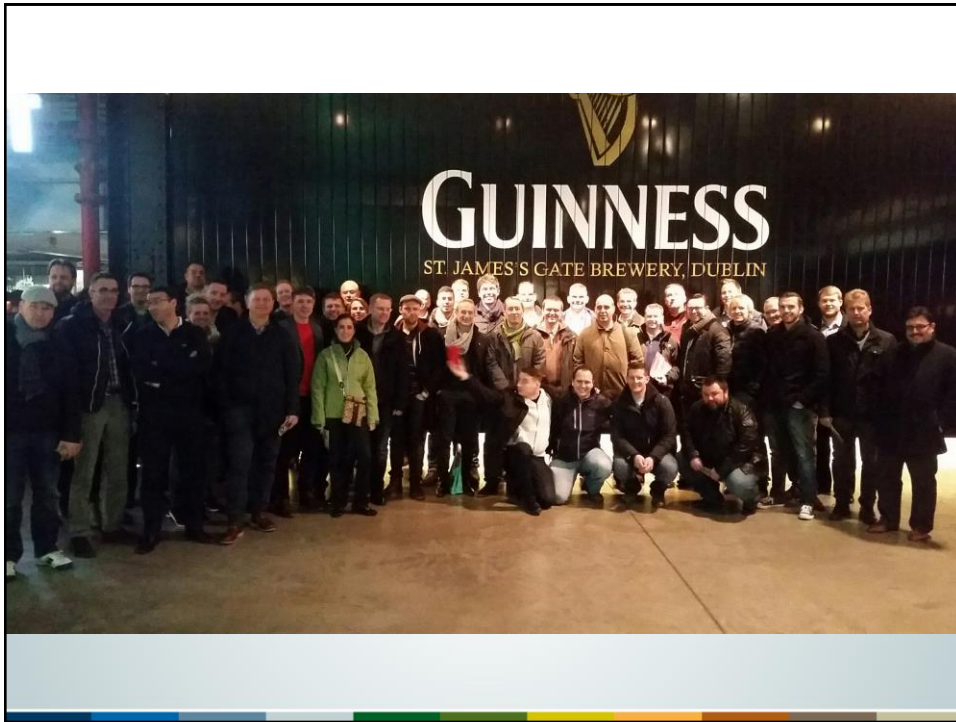


Source: FCStone

## Prioritising analysis focus



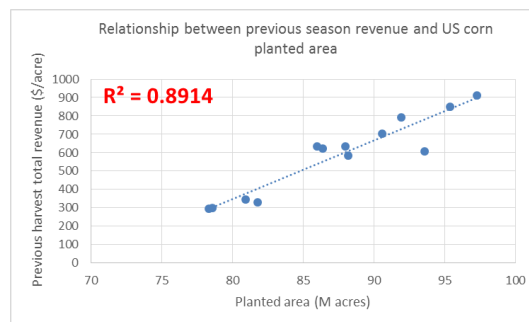
Source: FCStone



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## Henry Deverell, Farmer

- Highly irrational approach to market price
- I will willingly sell my wheat €20/tonne above wherever the market is
- “Farmers decide their planting program in the combine”
- In EU and US significant external support



Source: USDA

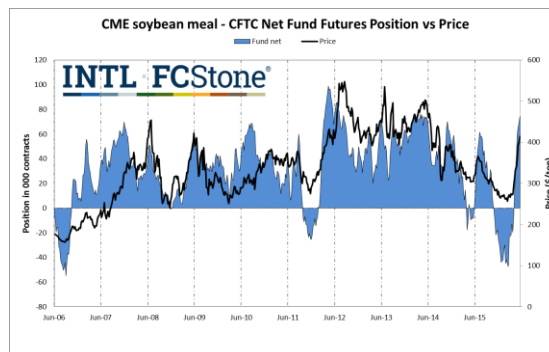
## Traders

- Tightest margins in the supply chain
- Often sell below replacement to secure business
- The squeezed middle
- Most willing to take on risk



## Fund managers

- Returns motivated
- Technical and fundamental reasoning
- Volume chasers
- Gravitate to volatility
- Typically regarded as the bad guys!



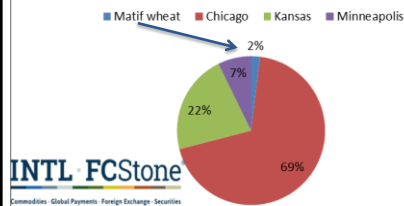
Source: CFTC



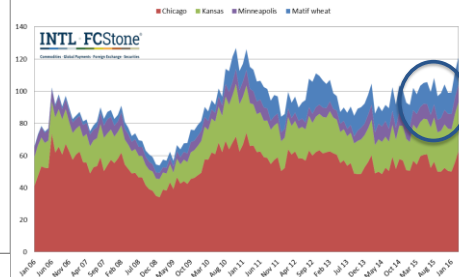
## European Open Interest – Pre & Post CAP European markets continue to develop

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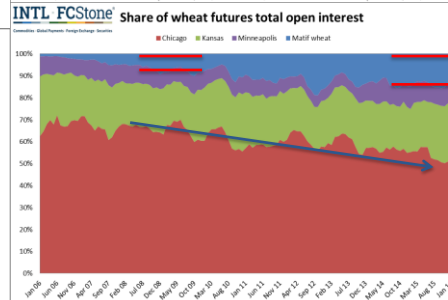
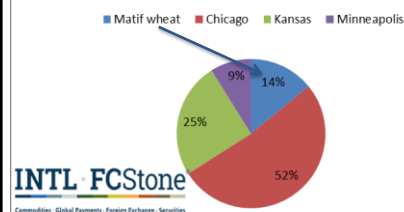
### Share of wheat futures OI 2006



### Evolution of wheat futures total open interest (MMT)



### Share of wheat futures OI 2016



## Processors/end-user

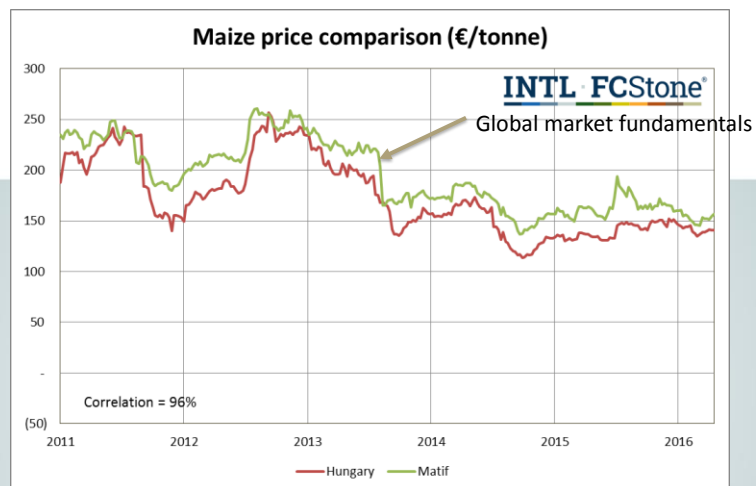
- Budget oriented
- Most interested in long term positions
- Willing to take some risk to enhance margins once budget targets are met



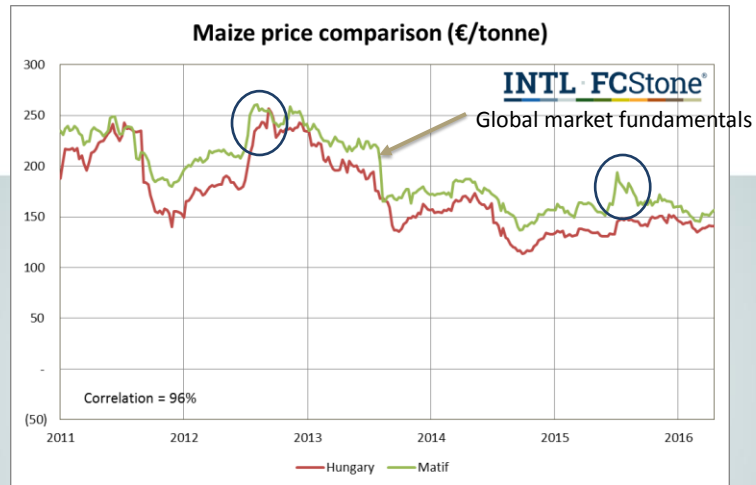
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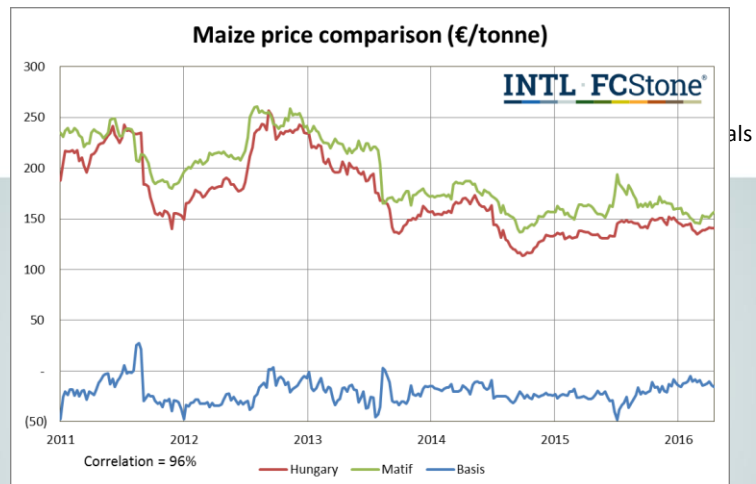
WHEN CASH MARKETS TALK,  
LISTEN



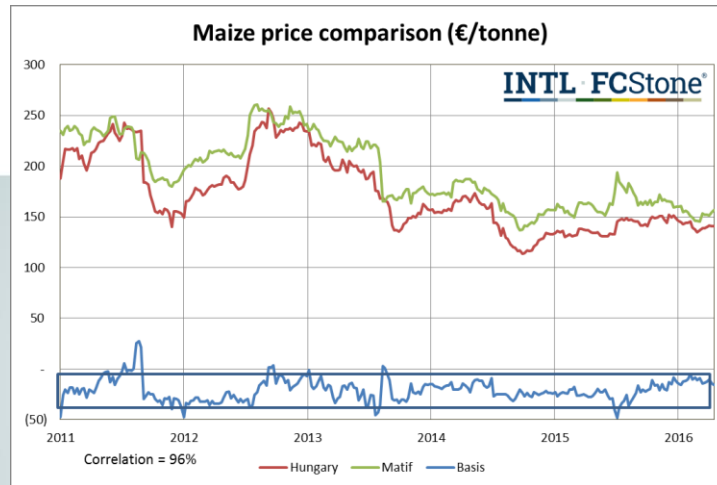
Source: FCStone



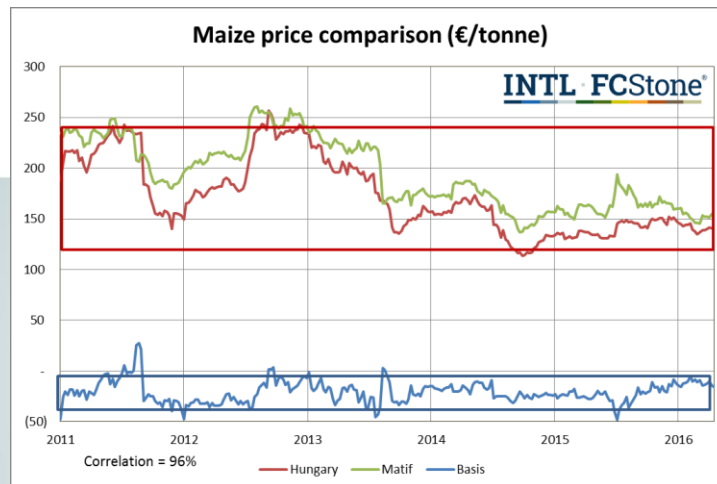
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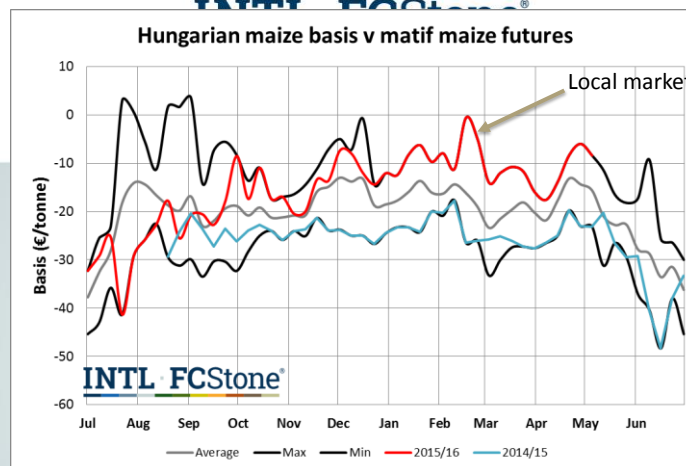
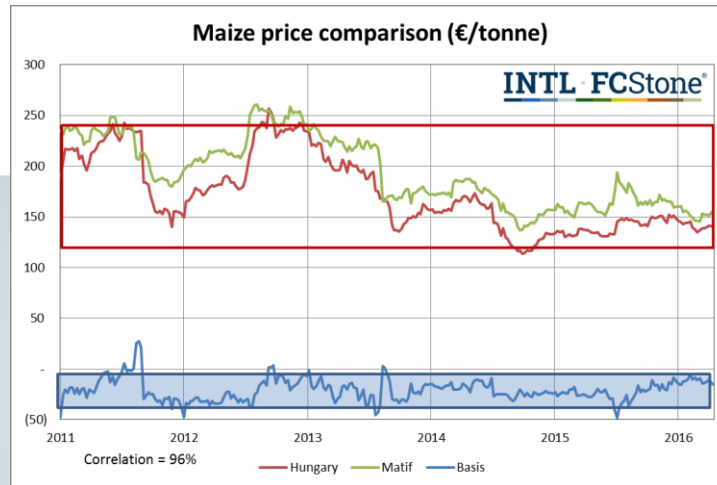


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YOUR BUSINESS IS  
YOUR CASTLE.  
DEFEND IT.



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**THANK YOU**