

Charles Piszczor



CME
Dairy Markets

I mercati lattiero-caseari CME

CME Dairy Markets

CLAL Dairy Forum Workshop
Bardolino, Italy
May 28, 2015

Outline

- Spot, Futures And Options
- CME Dairy Markets
- Comparison Of Markets
- Hedging

Spot, Futures and Options

Spot Contract

Immediate Payment And Transfer

Designed For:

- Small Quantities
- Short -Term Needs
- Adjust Inventories

Spot, Futures and Options

Futures Contract

- Standardized Contract Specs
 - Allows For Contract Offset
- Market Derived Price
- Delivery Obligation
 - Physical Delivery or Cash Settlement
- Contract Functions
 - Risk Management
 - Price Discovery
- Financial Integrity

Spot, Futures and Options

Options (on Futures)

- Rights, But Not Obligations
 - Call Option > Rights To Buy
 - Put Option > Rights To Sell
- Option Positions
 - Option Buyer > Receives Rights
 - Option Seller > Obligation To Provide Rights
- Flexible Risk Management

Spot, Futures and Options

Volume

- Number Of Contracts Traded
 - 2014 CME Dairy Contracts: 1,778,029

Open Interest

- Number Of Contracts Outstanding
 - Futures – 100,304
 - Options – 128,244
- Measure Of Liquidity
- Does Not Apply To Spot Contracts

Significant Events in CME Dairy Markets

Chicago Butter & Egg Board

1898: “Spot” Or “Cash” Butter

Chicago Mercantile Exchange

1919: Butter Futures

1929 – 1941: “Spot” Or “Cash” Cheese

1996: Re-introduced Butter Futures

1996: Milk Futures

- 1997 – BFP
- 2000 - Class III

1997: Re-introduced “Spot” or “Cash” Cheese

1998: Nonfat Dry Milk

Continued Expansion Into All Major Dairy Products

Present CME Dairy Markets

Futures & Options

Class III Milk

Class IV Milk

Butter

Nonfat Dry Milk

Dry Whey

Cheese

Spot (physical)

Cheese

Butter

Nonfat Dry Milk

Other Offerings

EURONEXT

Skimmed Milk Powder
Sweet Whey Food Grade Powder
Unsalted Lactic Butter

EEX

Butter
Whey
SMP

(NZX) New Zealand

WMP
SMP
AMF
Butter

GDT - Auction

AMF	Butter
Cheese	Lactose
SMP	WMP
Whey	Rennet

Over-The-Counter
Specialized Products

Product Comparison

	<u>Settlement</u>	<u>Months</u>	<u>Size MT</u>	<u>Contract Type</u>	
<u>CME</u>					
Butter	USDA-AMS	24	9	Futures & Options	
Cheese	USDA-AMS	24	9	Futures & Options	
Nonfat Dry Milk	USDA-AMS	24	20	Futures & Options	(Volume = 1,778,029)
Dry Whey	USDA-AMS	24	20	Futures & Options	
Class III	USDA-AMS	24	90	Futures & Options	
Class IV	USDA-AMS	24	90	Futures & Options	
<u>NZX</u>					
WMP	GDT	18	1	Futures & Options	
SMP	GDT	18	1	Futures	
AMF	GDT	18	1	Futures	(Volume = 102,040)
Butter	GDT	18	1	Futures	
<u>EURONEXT</u>					
SMP	Deliverable	18	6	Futures	
Sweet Whey	Deliverable	18	6	Futures	(Volume = N/A)
Unsalted Butter	Deliverable	18	6	Futures	
<u>EEX</u>					
Butter	Eurex Index	18	5	Futures	
Whey Powder	European Whey Index	18	5	Futures	(Volume = 2,400)
SMP	Eurex Index	18	5	Futures	

Hedging

Price Risk Exposure

- Buyers > Higher Prices
- Sellers > Lower Prices

Price Risk Can Be Managed By Hedging

- Offsetting Positions In Cash Versus Futures/Options

Hedging

Futures = Obligations

- Locked In Buying Price
- Locked in Selling Price

Options = Rights

- Locked In Maximum Buying Price
 - With Opportunity to Lower Price
- Locked In Minimum Selling Price
 - With Opportunity to Increase Price

Conclusion

- Spot, Futures and Options
- CME Dairy Markets
- Comparison Of Markets
- Hedging

Thank you!

For more information:

Charles Piszczor

Charles.Piszczor@cmegroup.com

+1 312-930-4536

Chicago Based

Disclaimer

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade. All references to options refer to options on futures.

Swaps trading is not suitable for all investors, involves the risk of loss and should only be undertaken by investors who are ECPs within the meaning of section 1(a)12 of the Commodity Exchange Act. Swaps are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a swaps position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

Any research views expressed are those of the individual author and do not necessarily represent the views of the CME Group or its affiliates.

CME Group is a trademark of CME Group Inc. The Globe Logo, CME, Globex and Chicago Mercantile Exchange are trademarks of Chicago Mercantile Exchange Inc. CBOT and the Chicago Board of Trade are trademarks of the Board of Trade of the City of Chicago, Inc. NYMEX, New York Mercantile Exchange and ClearPort are registered trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. KCBOT, KCBT and Kansas City Board of Trade are trademarks of The Board of Trade of Kansas City, Missouri, Inc. All other trademarks are the property of their respective owners.

The information within this presentation has been compiled by CME Group for general purposes only. CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this presentation are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official Exchange rules. Current rules should be consulted in all cases concerning contract specifications.

Copyright © 2015 CME Group. All rights reserved.

