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Navigating the Grain Markets 101

StoneX Financial (Canada) Inc.

Jason Labossiere and Natalie Benjamin
Senior Risk Management Consultants

We Connect Clients to Markets

StoneX provides producers with access to global insights, local expertise, marketing strategies, price risk management tools and powerful margin tracking tools tailored to their operations.

**Fortune
100**

NASDAQ (SNEX)

StoneX Group Inc. is a Fortune 100 company with 3,200 employees.

**100
Years**

Experience in Ag

Our roots started in agriculture over 100 years ago.

**Six
Continents**

Boots on the Ground

We connect with clients in nearly 80 offices across 6 continents.

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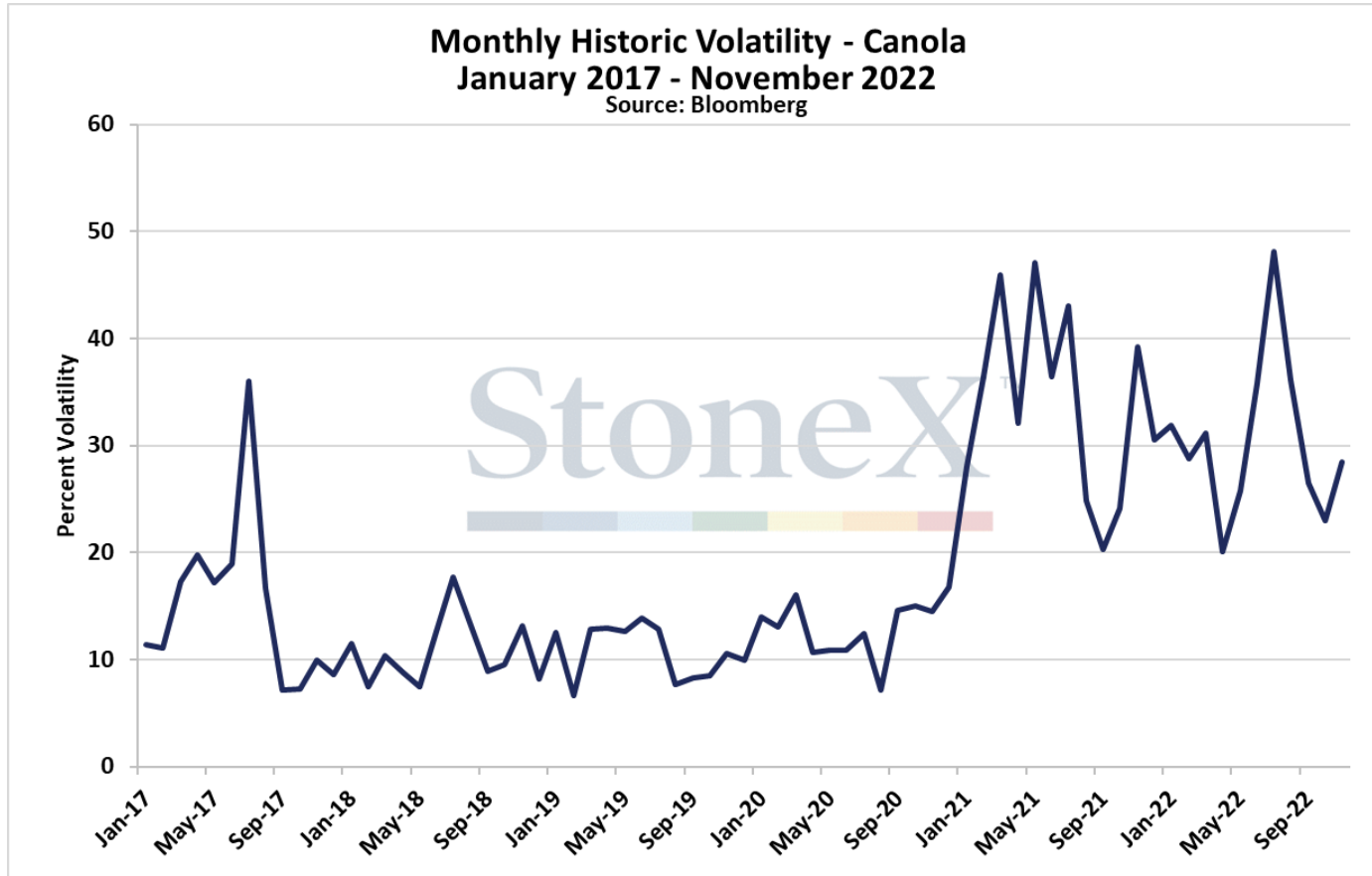
Market Volatility & Price Risk Management

How Do You Measure Risk?

Volatility

- Value representing the likelihood for change in:
 - Pace of price movement
 - Range of price movement
- Statistically generated value

What is Volatility?



How much is your farm's profitability changing day to day with increased volatility?

What is Volatility?

Example: March 2023 Canola at \$800/MT

Compare Market Volatility: 10%, 20%, 30%

Annualized Volatility	68% Probability Price Range
10%	\$720 - \$880
20%	\$640 - \$960
30%	\$560 - \$1040

At what volatility level is **YOUR RISK** the greatest?

At what volatility level is **YOUR OPPORTUNITY** greatest?

Price Risk

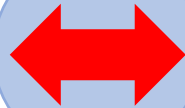
Global Futures



PRICE



Higher



No change



Lower

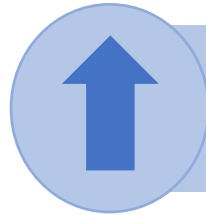
What are the odds of
guessing future price
direction correctly?
1 out of ____

Local Price Risk

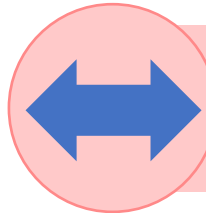
Local Cash Market



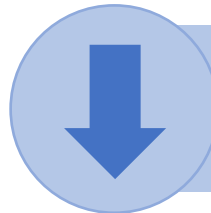
BASIS



Stronger



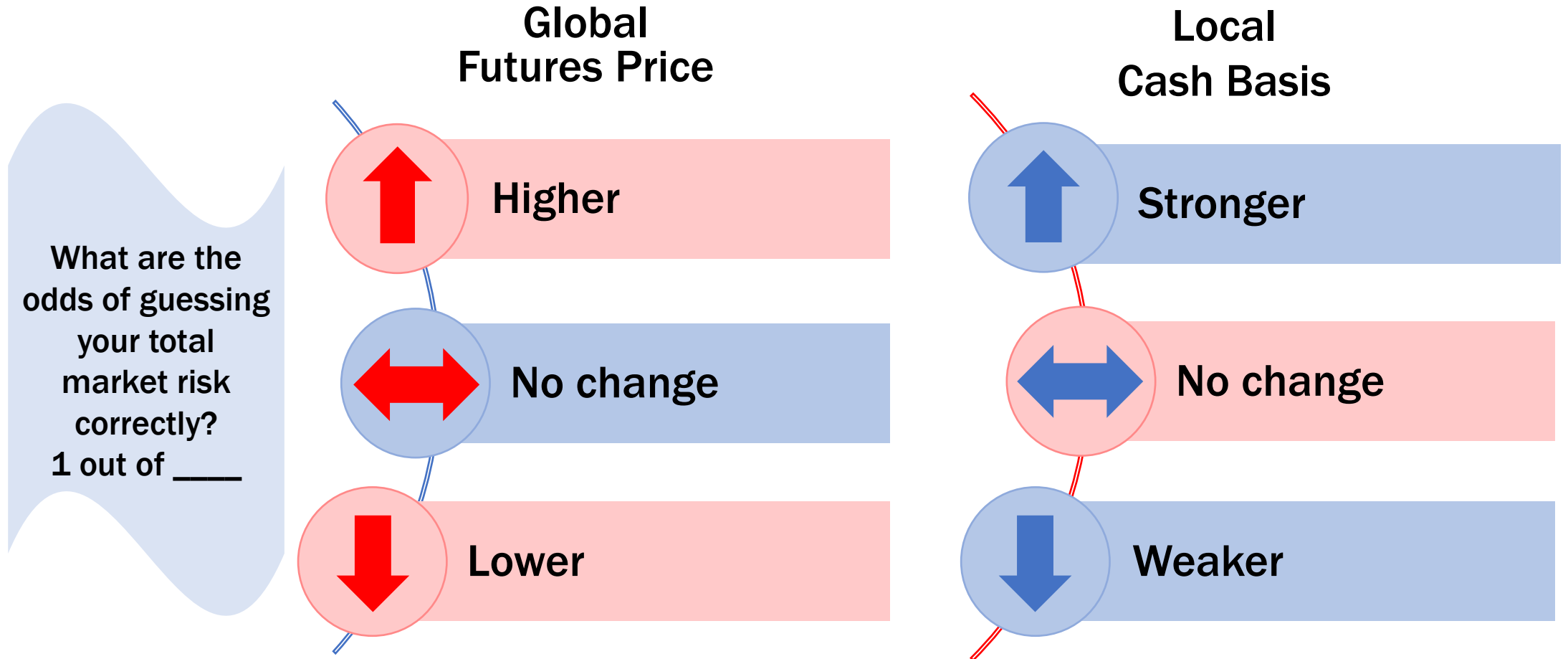
No change



Weaker

What are the odds of
guessing future basis
direction correctly?
1 out of ____

Total Price Risk Exposure



The Solution? Price Risk Management

Will Market Risks Occur?
Over Time—GUARANTEED!



When Will Market Risks Occur?
NO One Ever Knows For Sure!



Solution?
Price Risk Management -
ALWAYS

What is Price Risk Management?

The Process of Identification, Analysis, and
Acceptance or Mitigation of Uncertainty

Importance of Price Risk Management?



- **Acceptance** of risk is a strategy
 - Understand what your risks are and accept what it means to manage them.
 - Accepting the realities of commodity markets
- **Uncertainty** is your risk
 - Commodity futures price and basis are uncertain
- **Mitigation** occurs when we manage the price risk
 - Financial hedges or physical sales

Price Risk Management



RISK MANAGEMENT is:

Identifying, controlling, and minimizing exposure to adverse commodity price movement.



HEDGING

Hedgers seek to avoid or minimize risk of adverse price movement



SPECULATION

Speculators with no physical product exposure add liquidity to the market and attempt to profit from forecasted price movements



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Understanding Basis

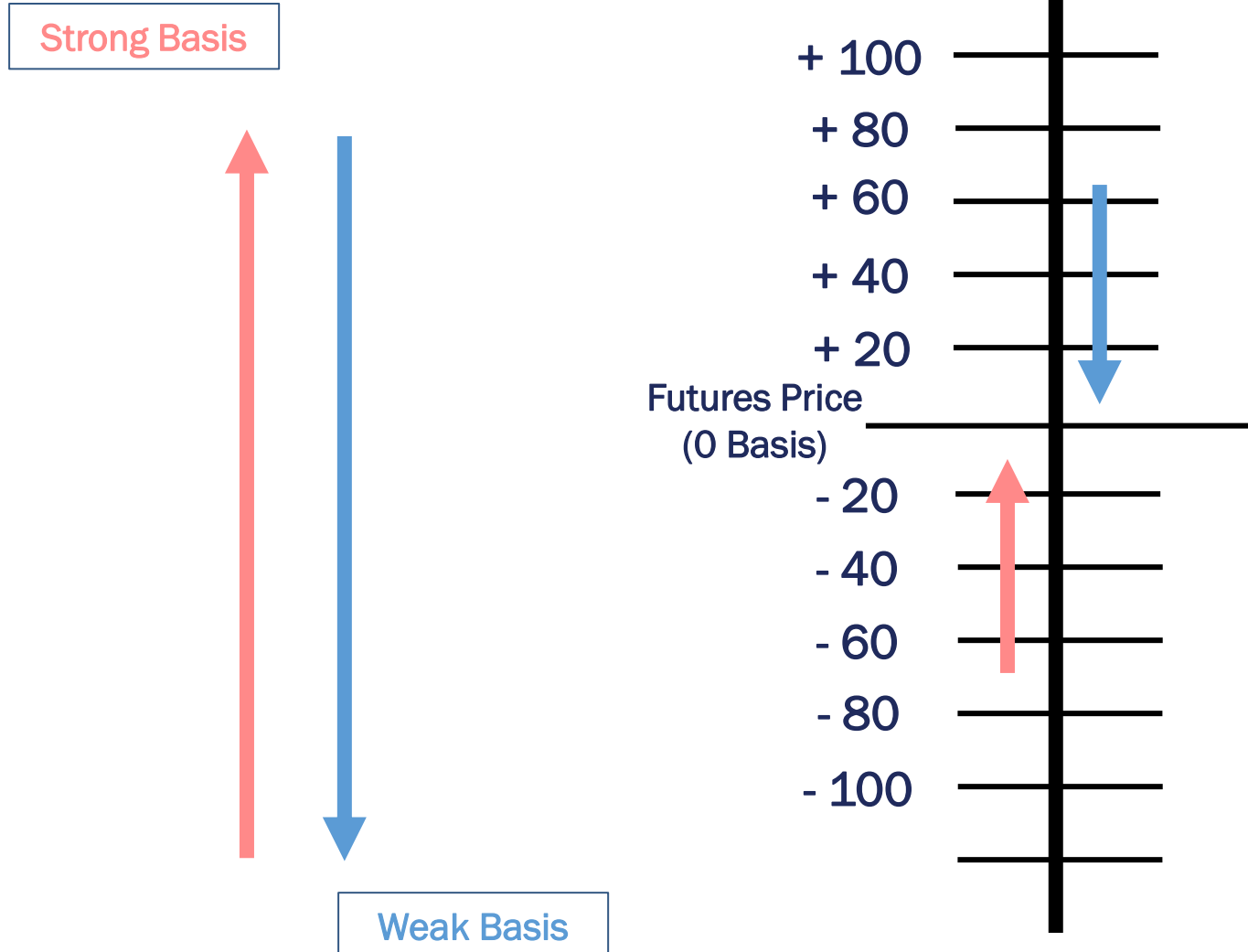
Basis- Key to Successful Hedging

BASIS

The difference
between the
commodity futures
price and the net
price.

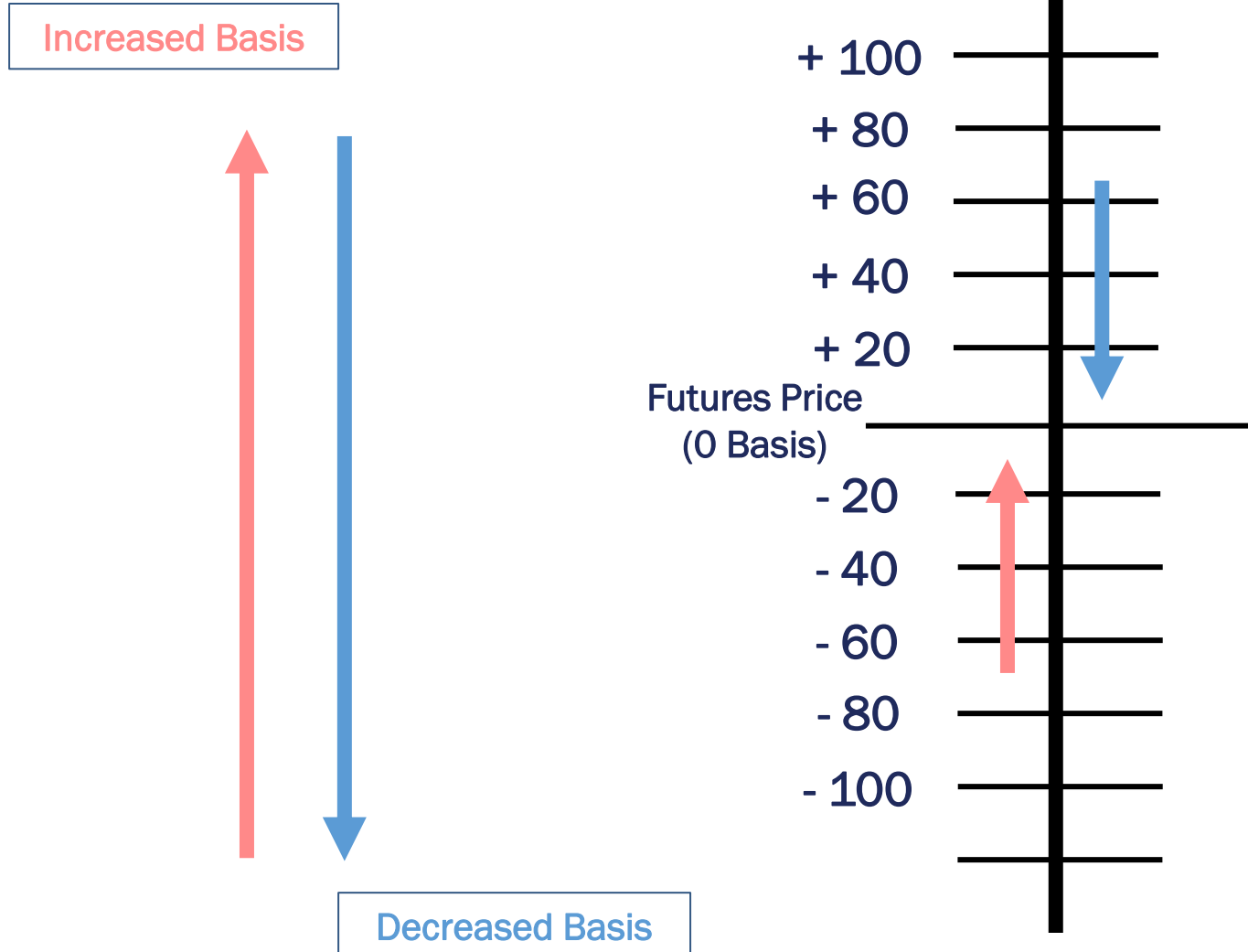
- “Voice of the Market”
 - Strengthening basis indicates that the demand for your product is increasing
 - Weakening basis indicates that the demand for your product is decreasing
- Can be positive or negative
- Allows you to lock in a favorable basis level and leave the futures component open
- Locks movement

Basis Terminology



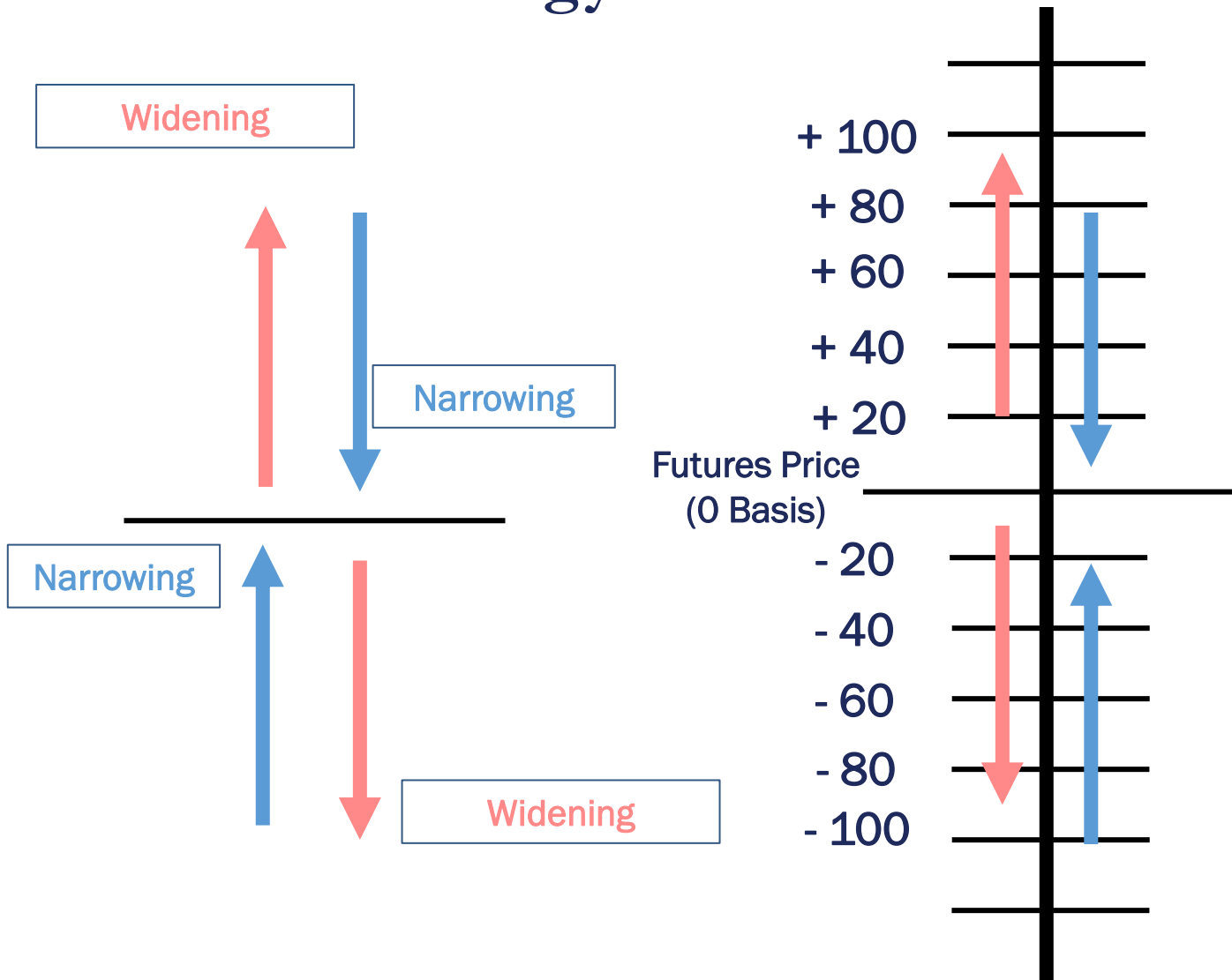
- **Strengthening Basis**
 - A basis increase
 - Favourable for sellers
 - Suggests an increase in demand
- **Weakening Basis**
 - A basis decrease
 - Favourable for buyers
 - Suggests a decrease in demand

Basis Terminology



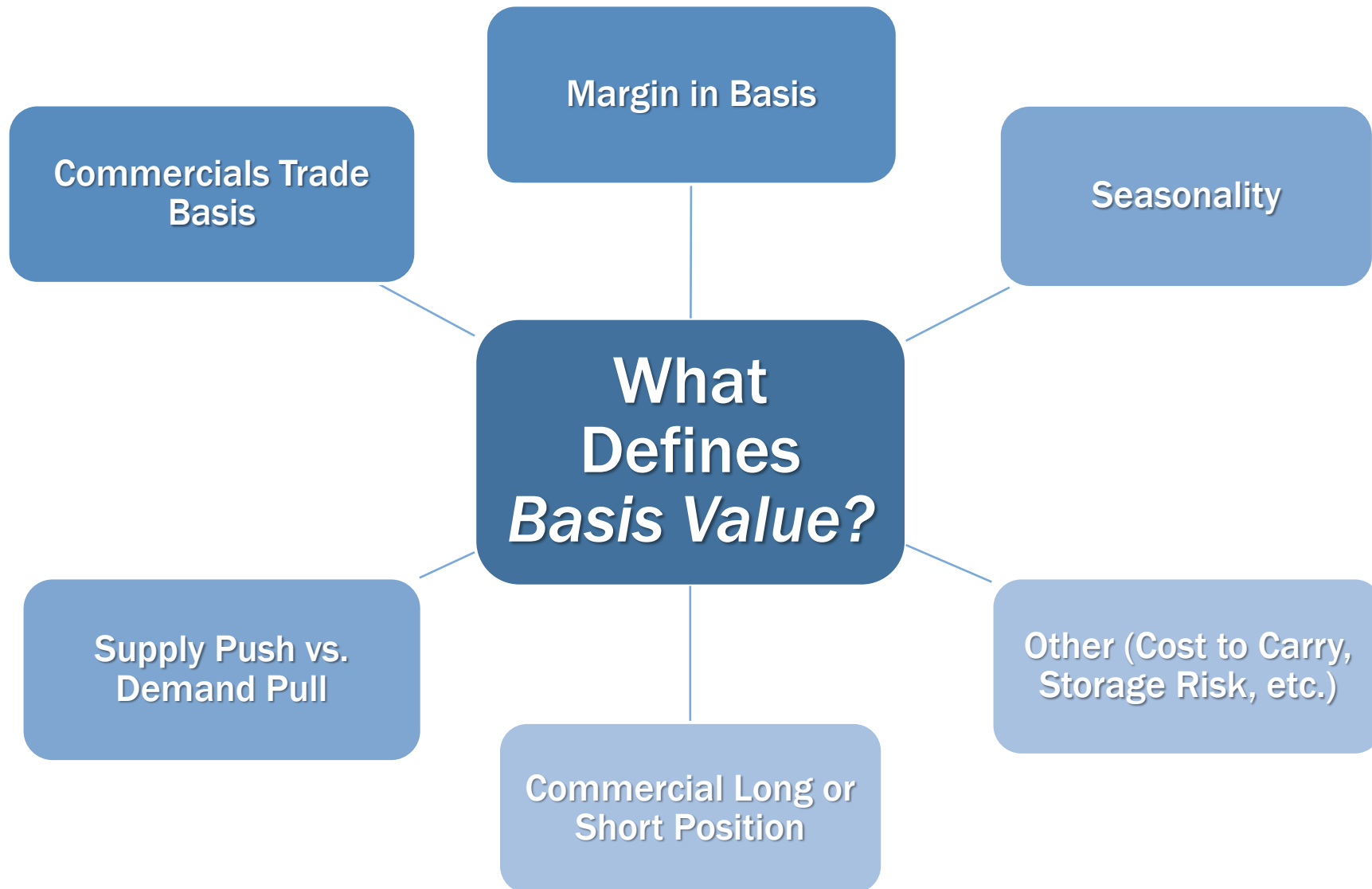
- **Increased Basis**
 - A move higher in basis
 - Favourable for sellers
 - Suggests an increase in demand
- **Decreased Basis**
 - A move lower in basis
 - Favourable for buyers
 - Suggests a decrease in demand

Basis Terminology



- **Wide Basis**
 - A move further from the futures price
 - Can be above or below futures
- **Narrow Basis**
 - A move closer to futures
 - Can be above or below futures

Basis-Key to Successful Hedging



Locking Basis

Why lock basis separate from futures?

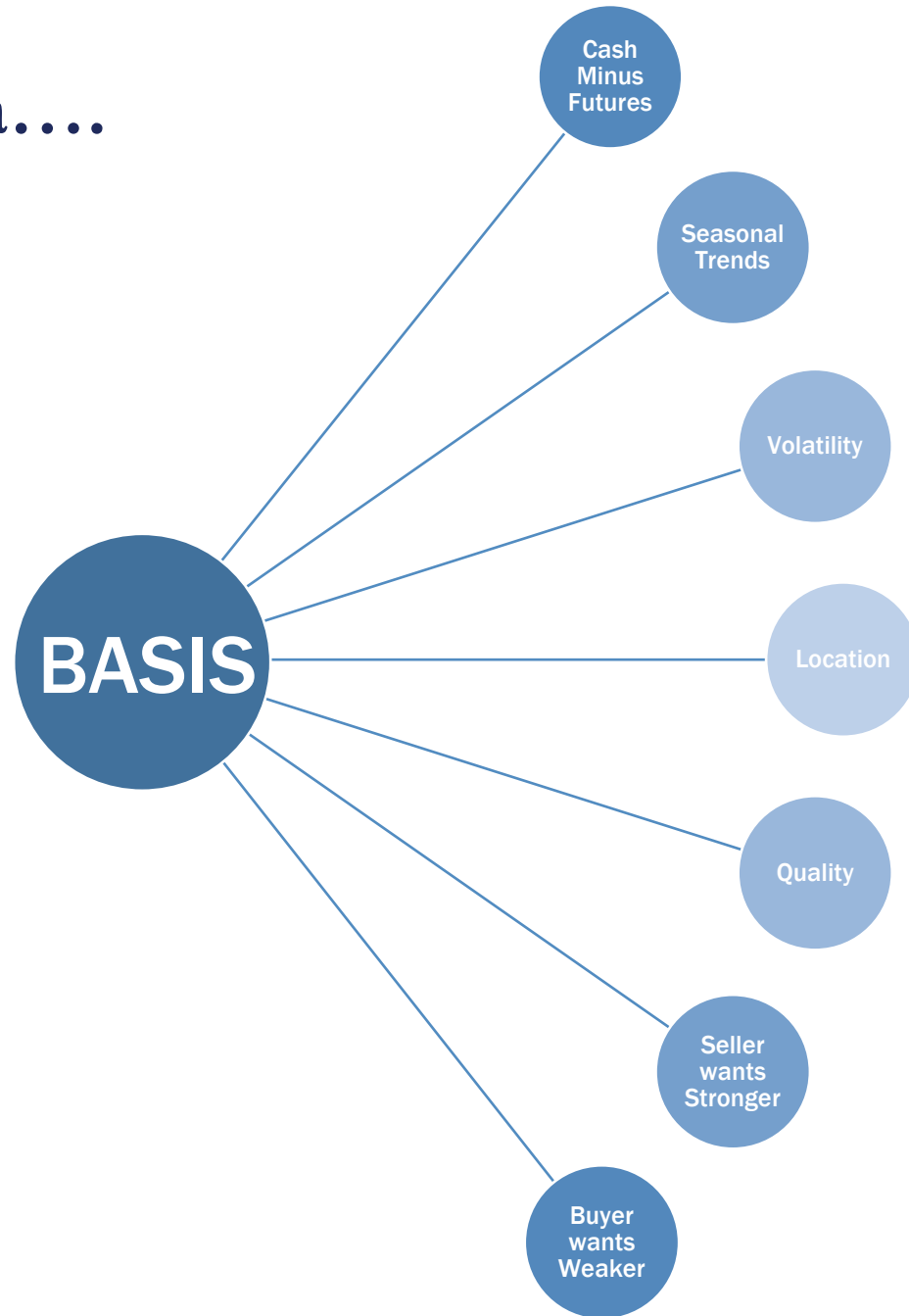
- Basis may be favourable relative to historic levels
- Locking basis will lock a physical delivery window
- You like the basis or need to lock movement but have a market bias that futures will appreciate

Successful Hedgers are all a....

Students

Of

Basis

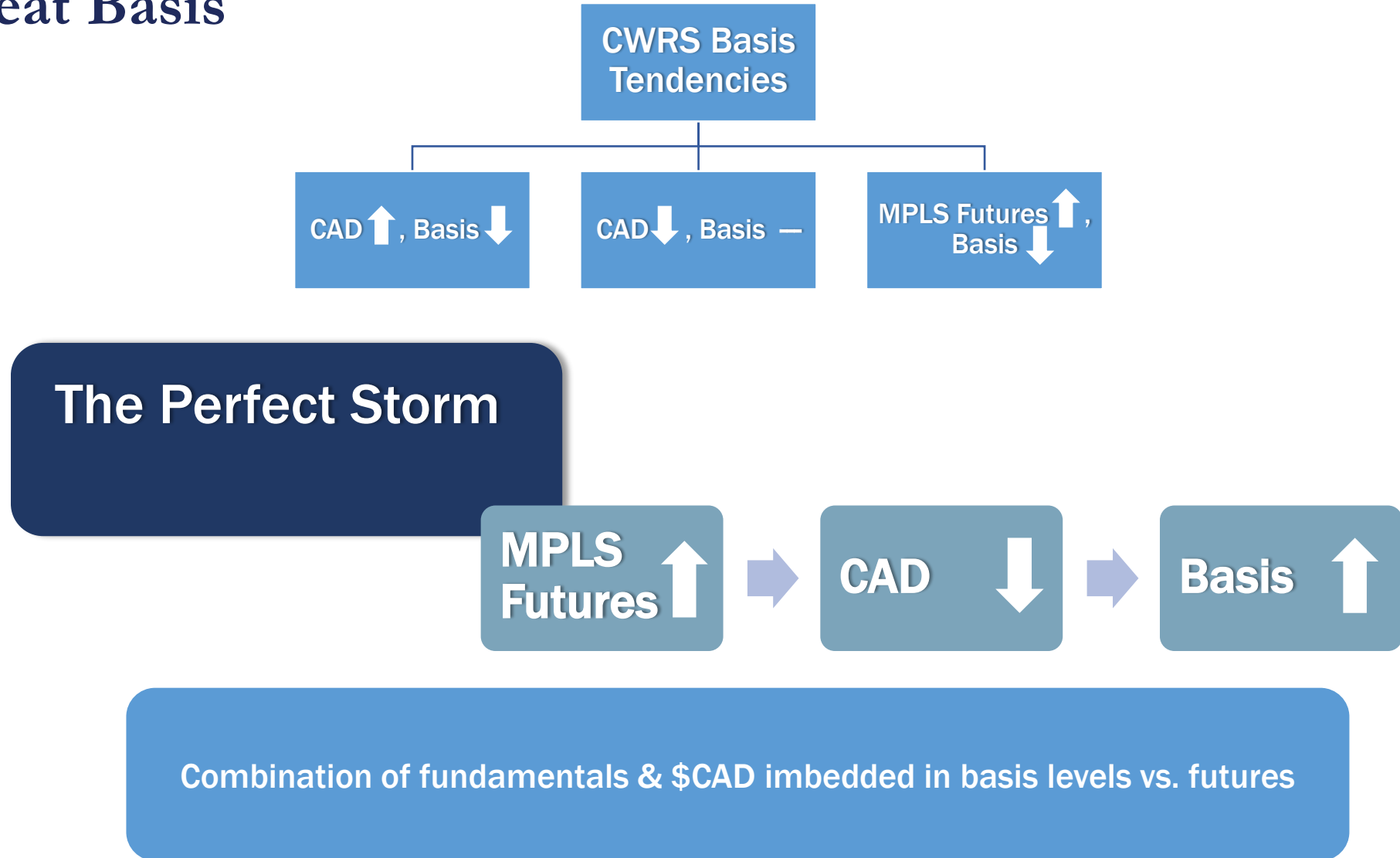


Canola Basis

Main Drivers of Canola Basis Levels

- **CDN \$\$ influence is low**
- **Visible Stocks – Good indicator on potential direction**
- **Crusher basis – Good benchmark on coverage**
- **Most consistent for seasonal basis levels**
- **Very reactive to Supply & Demand**

Spring Wheat Basis





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Understanding Carry

Two Types of Market Conditions

Market Carry

- Forward delivery price of a futures contract is higher than the spot price
- “Market has a carry”

Inverted

- The forward price of the futures contract is lower than the spot price
- Immediate demand for the commodity is great enough that sales into the spot market provide a premium over the deferred markets offering no incentive to store

Carrying Charges

Cash Flow

Storage Risk

Interest

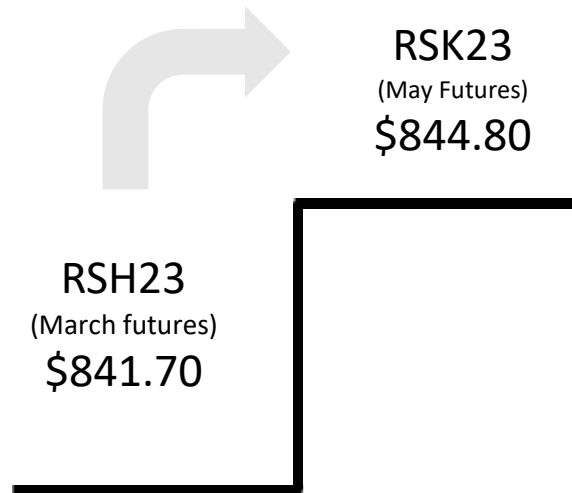
Storage Cost



Carry Calculation

$$\text{Nearby} - \text{Deferred} = \text{Carry}$$

- The market is going to pay you \$3.10 / MT to store Canola 3 months
 - Mar-Apr-May



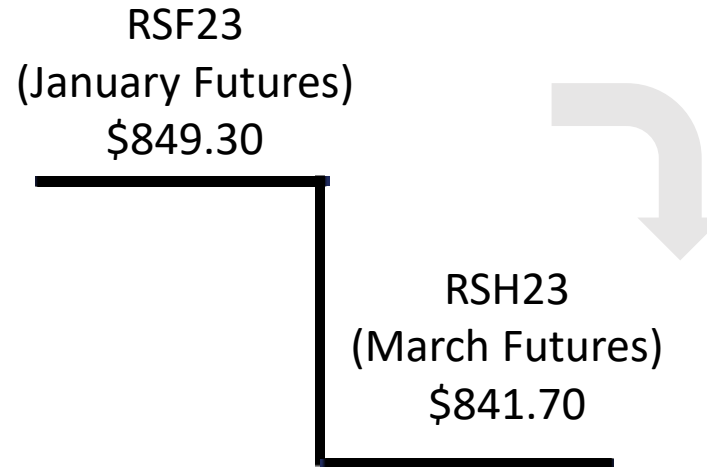
Note: Carry can also be referred to as Contango

$$\$841.70 - \$844.80 = \$3.10$$

Market Structure – Inverse

Nearby – Deferred = Carry

- The market is going to penalize you \$7.60 / MT to store Canola 3 months Jan-Feb-March



Note: Inverse can also be referred to as Backwardation

$$\$849.30 - \$841.70 = \$7.60$$

Carry Market

Soybeans Basis Western Canada

Del.	Fut. Mth.	Net	\$ / Metric Tonne		\$/bu Net	
			Future	Basis		
2023						
Dec 1 -Dec 31	Jan 2023	654.11	528.56	125.55	17.81	>
Jan 1 -Jan 31	Jan 2023	654.11	528.56	125.55	17.81	>
Feb 1 -Mar 31	Mar 2023	658.07	531.50	126.57	17.91	>
Apr 1 -May 31	May 2023	661.77	534.25	127.52	18.01	>
Jun 1 -Jul 31	Jul 2023	664.01	535.91	128.10	18.08	>
Aug 1 -Aug 31	Nov 2023	624.03	506.24	117.79	16.99	>
Sep 1 -Sep 30	Nov 2023	586.03	506.24	79.79	15.95	>
Oct 1 -Nov 30	Nov 2023	593.29	506.24	87.05	16.15	>

Inverted Market

Spring Wheat Basis Western Canada

Del.	Fut. Mth.	Net	\$ / Metric Tonne		\$/bu Net
			Future	Basis	
2023					
Dec 1 -Dec 31	Mar 2023	422.49	338.50	83.99	11.50 >
Jan 1 -Jan 31	Mar 2023	424.95	338.50	86.45	11.56 >
Feb 1 -Feb 28	Mar 2023	425.95	338.50	87.45	11.59 >
Mar 1 -Mar 31	Mar 2023	425.95	338.50	87.45	11.59 >
Apr 1 -Apr 30	May 2023	417.19	337.58	79.61	11.36 >
May 1 -May 31	May 2023	419.64	337.58	82.06	11.42 >
Jun 1 -Jun 30	Jul 2023	422.90	337.03	85.87	11.51 >
Jul 1 -Jul 31	Jul 2023	420.45	337.03	83.42	11.44 >

How to Capture Carry



“HOLDING & HOPING”

is not the same as

**“CAPTURING THE
CARRY”**

Sell Deferred futures

Buy a Put Option

Sell Physical Deferred Delivery



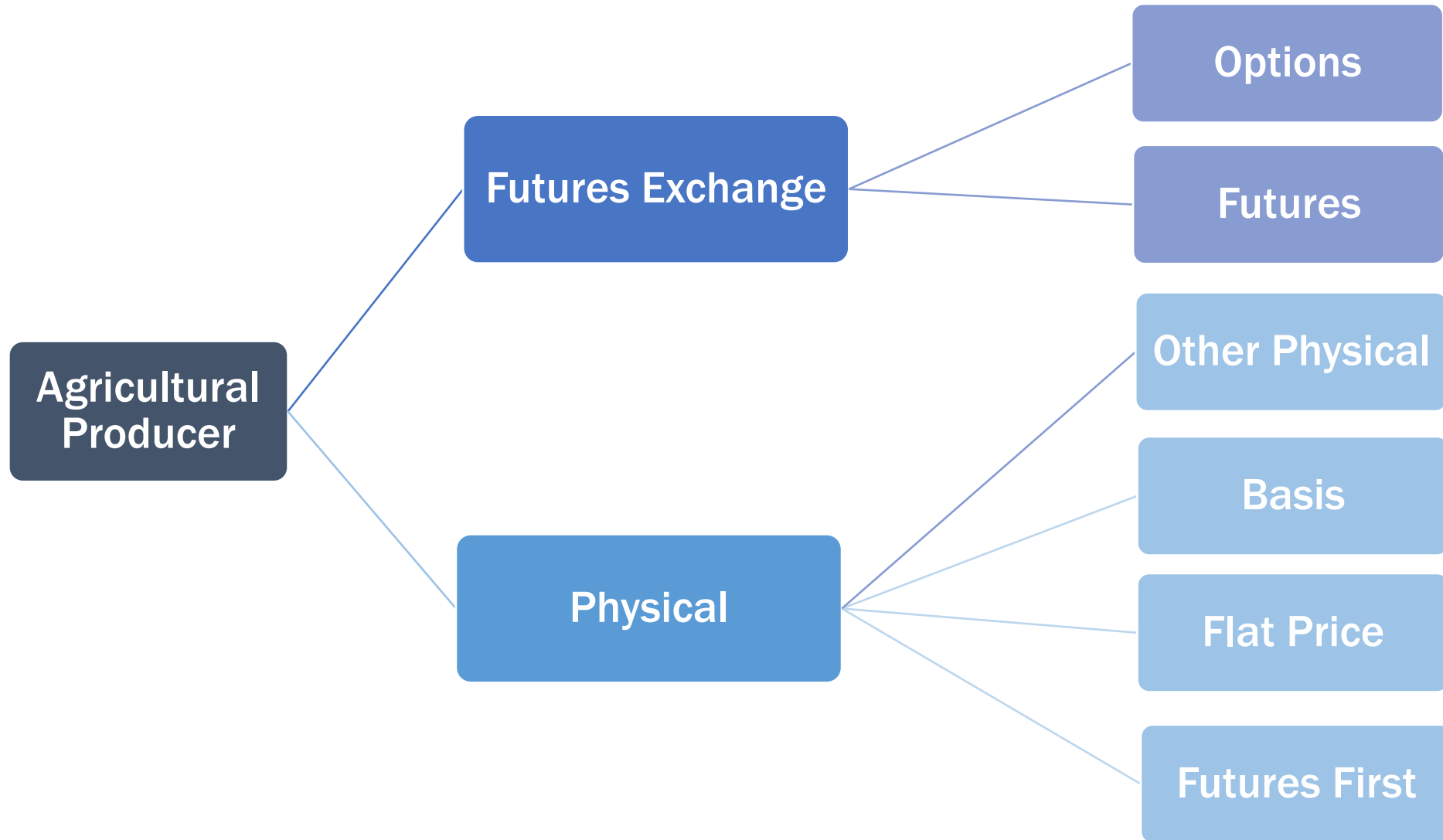
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Cash Market Contracts

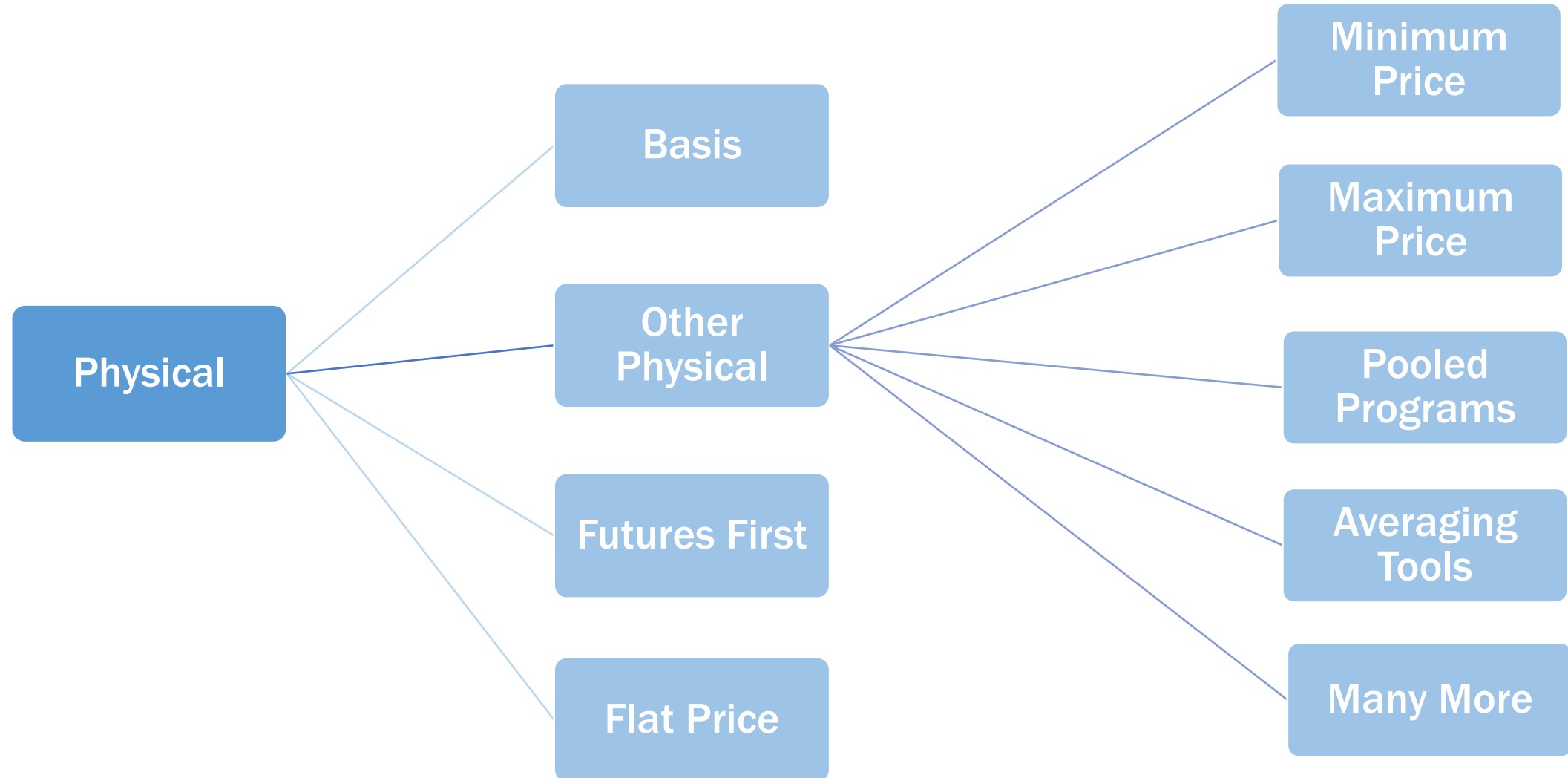
Agree or Disagree?

- ▶ It's harder to make money farming in Canada today than 30 years ago.
- ▶ 20 years ago?
- ▶ 10 years ago?
- ▶ Why?
- ▶ What do you do differently today?

Producer Contract Options



Producer Contract Options

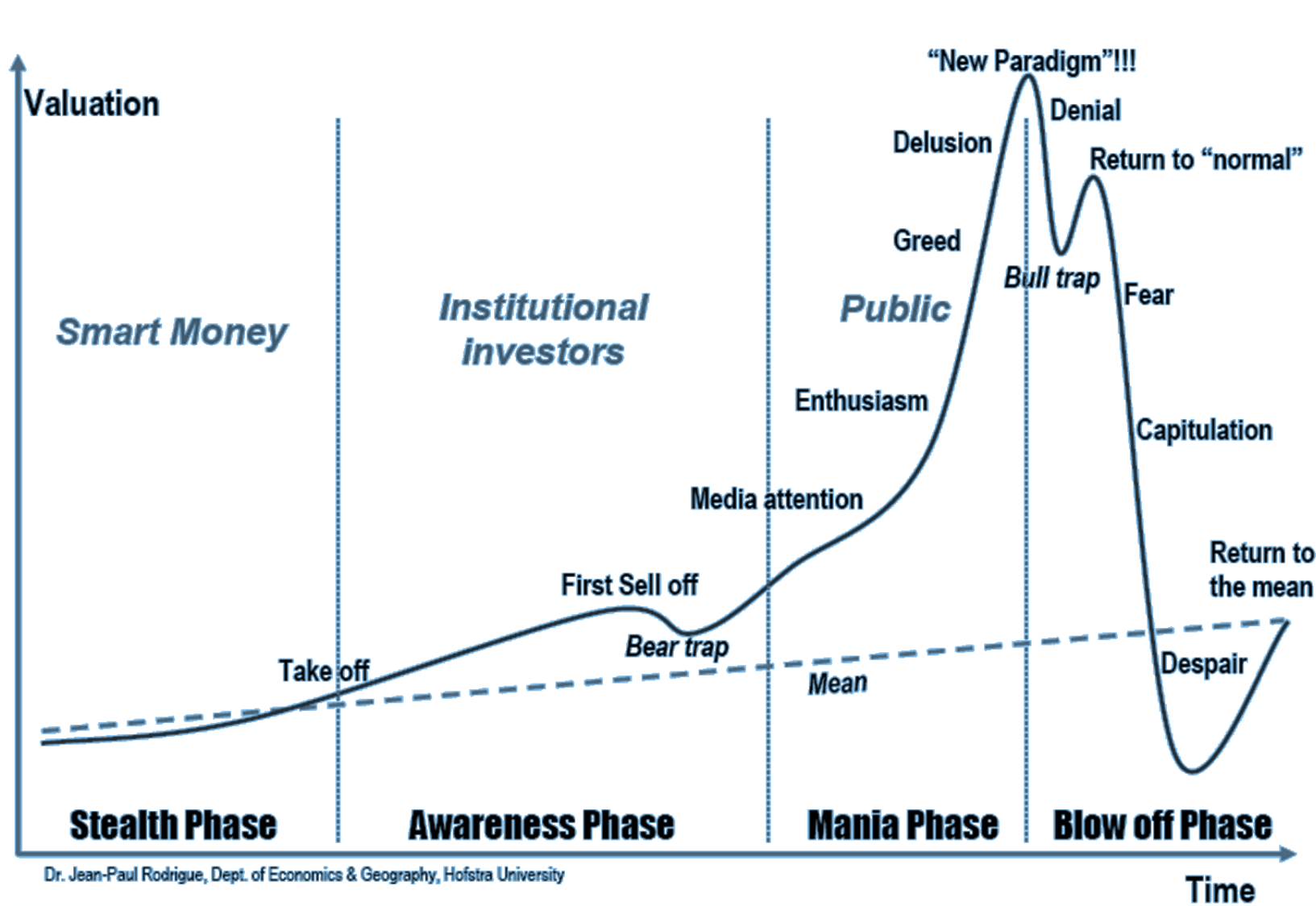




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Crop Marketing 101

The Bubble



Crop Marketing Plan Fundamentals



Cost of Production

Budget Summary	\$/acre	Total
Projected Revenue	\$496.72	\$288,099.20
Variable Expenses	\$174.83	\$101,401.51
Fixed Expense Contribution (Assigned to 580.00 Farmable Acres) 	\$225.00	\$130,499.86
Canola Margin	\$96.89	\$56,197.83

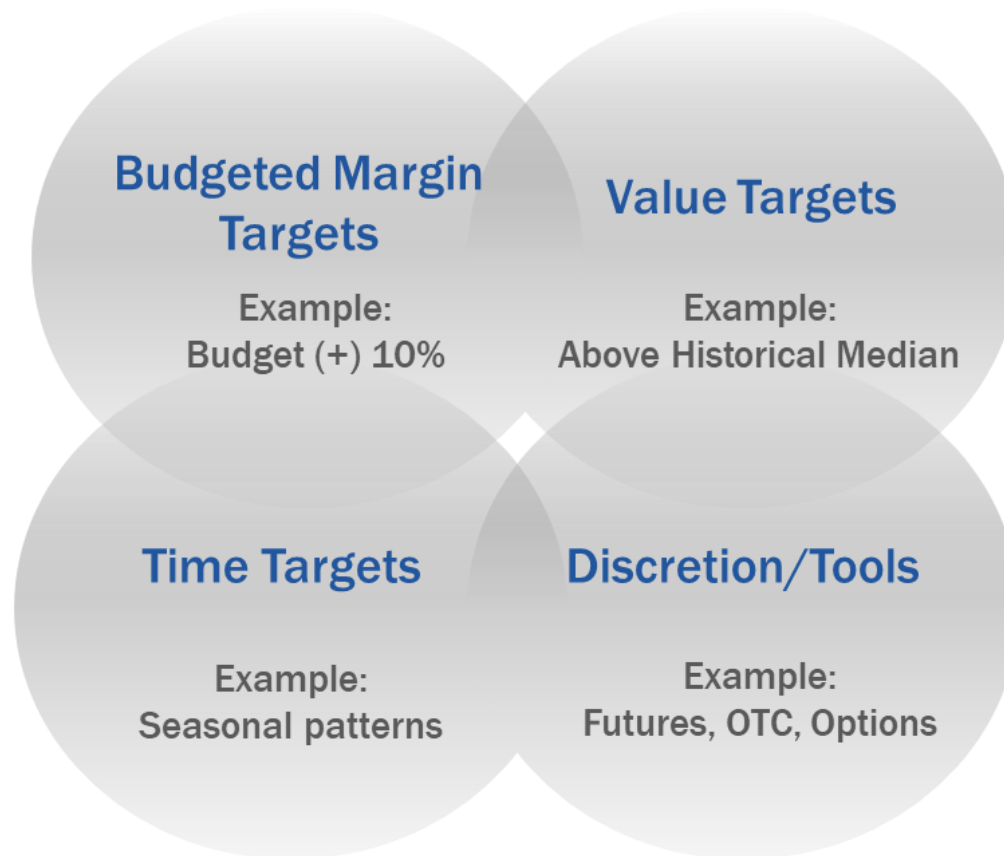
Break-Even		
Break-Even Price	@ 45 bu/ac	\$391.76 /MT
Break-Even Yield	@ \$486.70/MT	36.22 bu/ac

Develop a Plan

HEDGING STRATEGY:

Designed to control price, not predict price.

May include a combination of...



A Successful Price Target Strategy:

- Meets marketing objectives
- Acknowledges quantified market risks and volatility
- Considers market opportunities beyond current planning cycle
- Contains objective execution parameters

Know-RiskTM

Crop Marketing

Build a **proactive crop marketing plan**
and know where **your profit margins** stand on a daily basis.



Strategic
Marketing Plan



Expert
Advisor



Data
Management

A CROP MARKETING **ECOSYSTEM** FOR GROWERS.



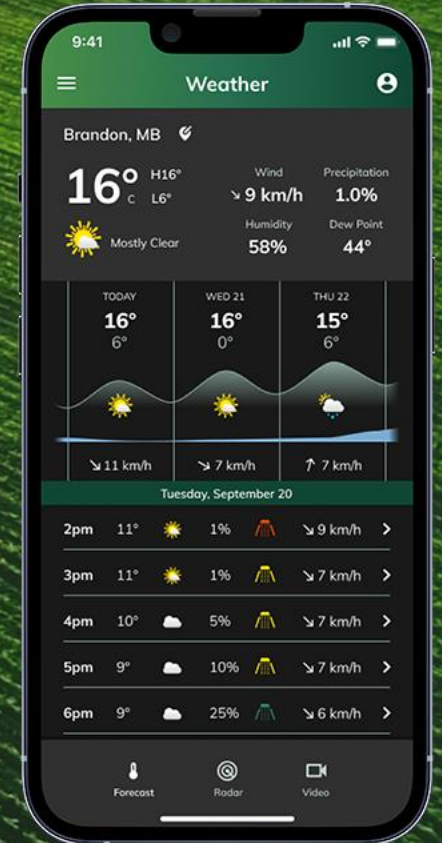
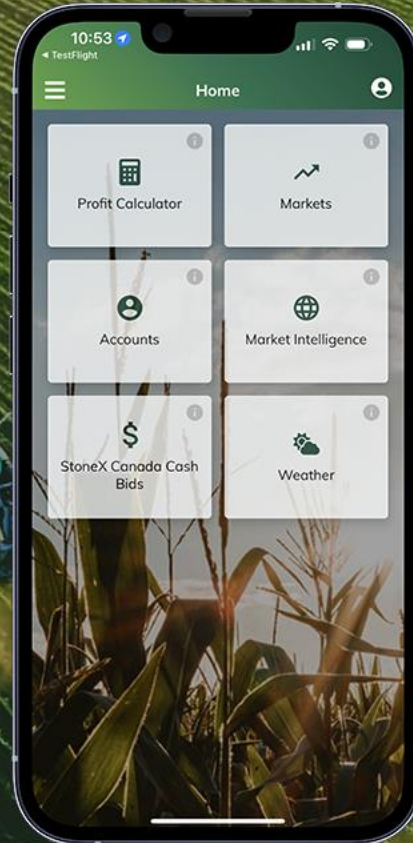
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