“Pricing Scenarios/Purchasing Opportunities”

Paul Dubravec, Advance Trading, Inc.

Export Sorghum: The Smart Choice for Feed Grain Solutions

June 11, 2015

Houston, Texas

Introduction to ATI

Advance Trading, Inc. is a forward thinking, non-proprietary commodity futures/options/derivatives brokerage firm. We provide risk management assessment and analysis, and help in the development of and planning/execution of hedging/trading and procurement strategies.

Introduction to ATI

- Established in 1980 by veterans of the grain trade.
- Employee owned.
- Headquarters in Bloomington, Illinois, 37 branch offices
- 18 Commercial Broker Consultants, full time group of analysts
- Clients globally in all facets/segments of agriculture.
- Non guaranteed IB allowing for multiple clearing relationships and greatest flexibility for the client.

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Sorghum: Balance Sheet

6/5/2015 SORGHUM	USDA2 2012/13	USDA2 2013/14	USDA May 2014/15	ATI Trend	2015/16 Low	2015/16 May	2015/16 High
Planted Acres (myn a)	6.3	8.1	7.1	7.1	7.9	7.9	7.9
Harvested Acres	5.0	6.6	6.4	6.4	7.1	6.7	7.1
Abandonment	-20.6%	-18.5%	-9.9%	-9.9%	-9.9%	-9.9%	-9.9%
Yield	49.6	59.6	67.6	67.6	60.0	64.9	70.0
Beginning Stocks	23	15	34	34	17	17	17
Production	248	392	433	433	427	435	498
Imports	10	0	0	0	0	0	0
Total Supply	280	408	467	467	444	451	515
Feed and Residual	94	92	85	80	85	85	85
Food Seed & Indust.	95	70	15	15	15	15	15
Domestic Use, Total	189	162	100	95	100	100	100
Exports	76	212	350	350	335	335	335
Total Use	**265**	**374**	**450**	**445**	**435**	**435**	**435**
Ending Stocks	15	34	17	22	9	17	80
U.S. Stocks/Use Ratio	5.7%	9.2%	3.7%	5.0%	2.0%	4.0%	18.4%
Avg. Farm Price	$6.33	$4.28	$3.90-$4.10	$4.21	$5.30	$3.55	$3.26
	2 USDA May	**Base line: ATI					

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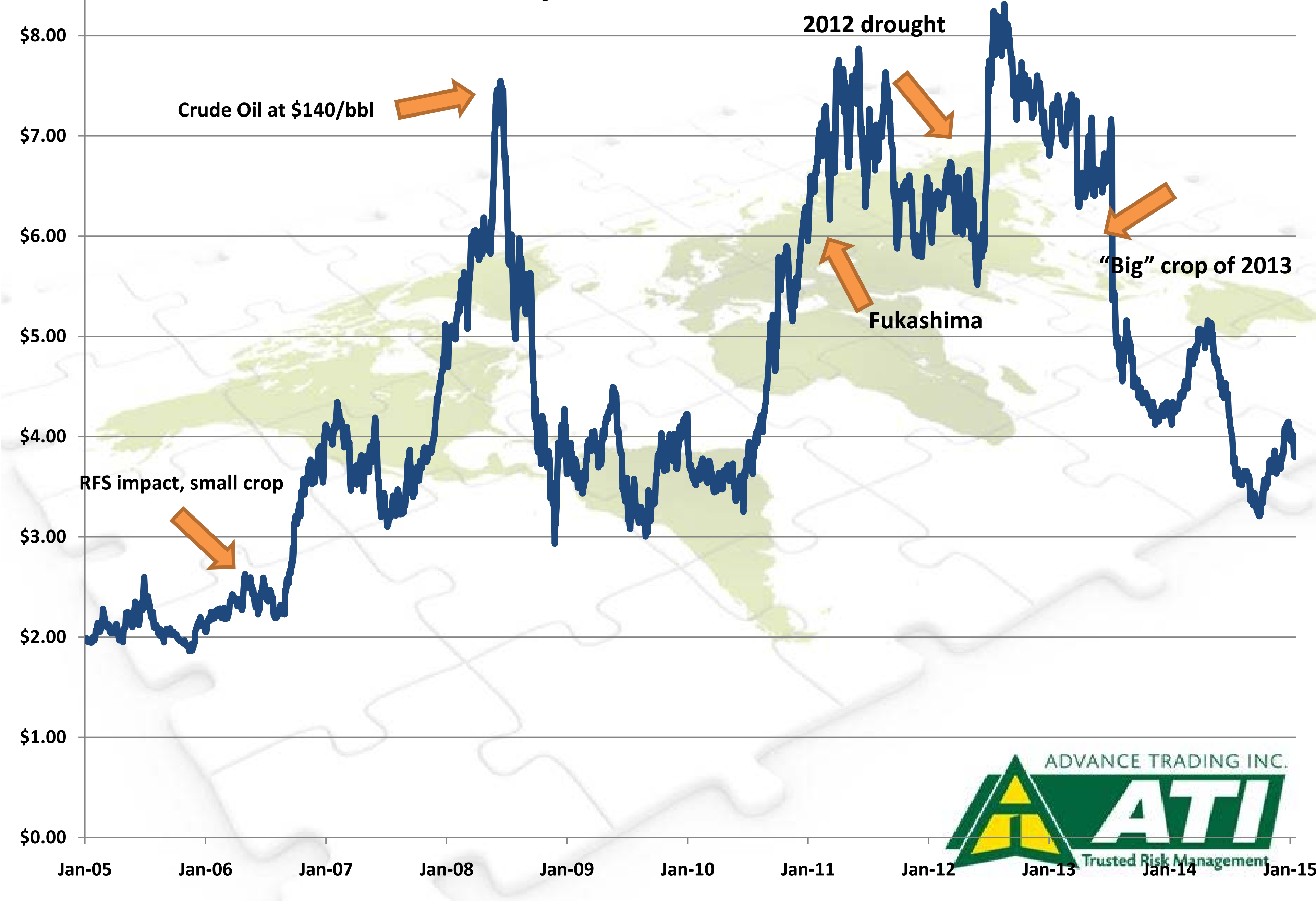
Nearby Corn Futures

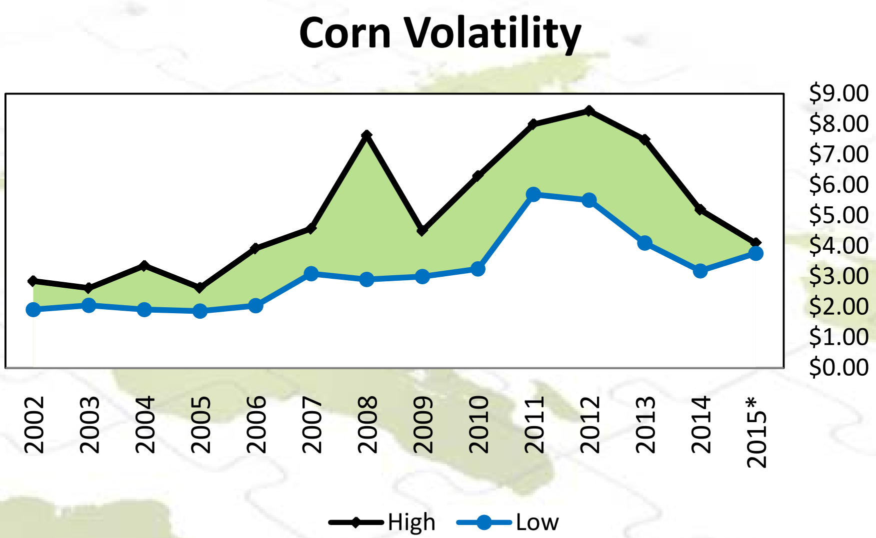


Corn Price Volatility

CORN

Year	High	Low	Change
2015*	$4.10	$3.53	$0.57
2014	$5.20	$3.18	$2.01
2013	$7.49	$4.10	$3.39
2012	$8.44	$5.51	$2.93
2011	$8.00	$5.70	$2.30
2010	$6.30	$3.25	$3.05
2009	$4.50	$3.00	$1.50
2008	$7.63	$2.90	$4.73
2007	$4.57	$3.09	$1.48
2006	$3.92	$2.04	$1.88
2005	$2.63	$1.86	$0.77
2004	$3.35	$1.91	$1.44
2003	$2.62	$2.05	$0.57
2002	$2.85	$1.91	$0.94
2001	$2.30	$1.84	$0.46

*Calendar Year To Date



Fourteen Year Average Volatility for Corn = $1.96

2010 - 2014 Average Volatility for Corn = $2.74

Source: CME Group

Challenges we face in '15-'16

- Crop Production – scattered planting timeline on Southern milo crop, production concerns, later start to harvest.
- Weather conditions for US growing season creating volatility in futures prices.
- Geopolitical issues/changes – unexpected events.
- Transportation/Handling capacity of upcoming crop.

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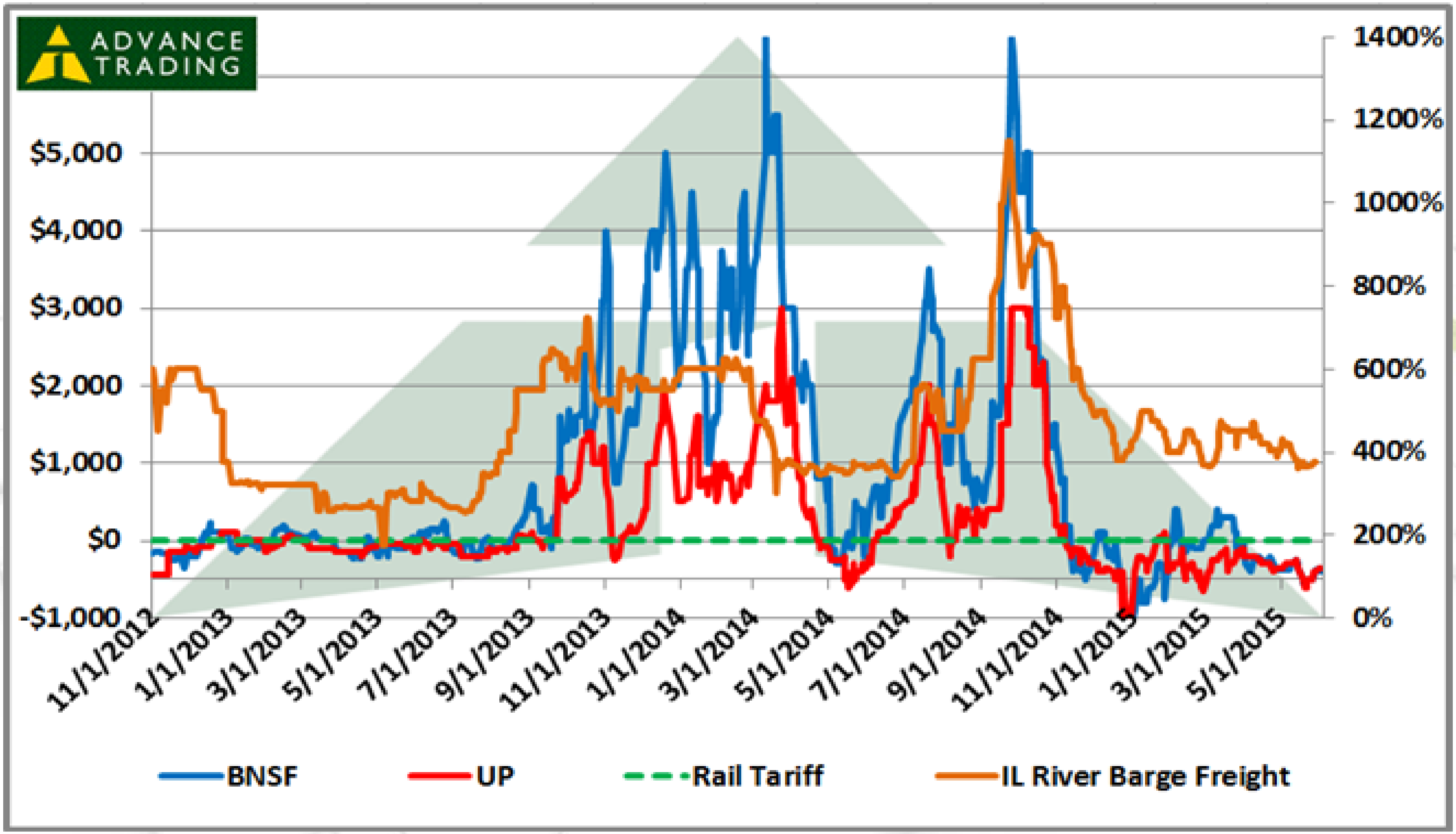
BN/UP Shuttle Car Costs



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Price is Unpredictable

Trading/Merchandising a positon based on price prediction will be volatile and will <u>add risk to your business.</u>

All merchandising/procurement programs need to manage all price risk via prudent hedging practices.

Hedging price risk on priced cargos along, managing deferred price opportunities are both ways we will discuss in terms of pricing scenarios and purchasing opportunities.

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Sorghum Pricing/Basis Calculations

- Years ago the US/Export market valued milo 85% to 90% value of corn(mainly feed/export market driven).
- Ethanol industry growth has narrowed the spread to 95% value of corn – generally there is a 5% yield drag in ethanol yield when using sorghum.
- Premiums paid in the CI (Carbon Intensity) by California not what they once were – market flush with product so incentive to utilize sorghum in greater capacity today is gone.
- Interest by Chinese buyer has inflated values to big premiums over corn.

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Sorghum Pricing/Basis Calculations

- Absent of the huge export program for US milo, basis would typically be bid 90% offered 95% value of corn.
- Today, new crop milo (OND) rough calc Tx gulf is bid 109% value of corn.
- Export demand has created a market in which values trading far exceed traditional levels that should be sold or purchased.
- Basis is heavily inverted creating a market in which buyers should maintain a hand to mouth buying posture.

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A maximum "target" value to consider as a buyer in normal times would consist of a Delivery Value Equivalent using the 90% to 95% value of corn factor.

Example –

DVE Corpus at +80 CZ(rail) + Elevation/ loading etc at $0.20

DVE Corpus = $1.00 CZ Corn

Using $4.00 futures:

90% value of corn would be +50 CZ

95% value of corn would be +75 CZ

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Purchasing Opportunities/Strategic Planning

When markets are inverted (basis today), a hand to mouth purchasing plan should be implemented.

Todays market is offering some attractive values which can be managed while leaving downside pricing opportunities open.

Inclusion of options strategies in your procurement program/strategies can offer this flexibility.

Other tools such as average/maximum pricing OTC products may also be considered.

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Purchasing Opportunities/Strategic Planning

Call option – buyer pays a “premium” to guarantee a maximum futures price while remaining open to price at lower levels.

Example – buyer today purchases a December 3.80 Call that guarantees him a futures price of $3.80 per bushel for a cost of $0.25 per bushel. Option/price coverage through November 20.

Assume US FOB basis offer is +200 for October shipment.

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Purchasing Opportunities/Strategic Planning

This strategy sets the buyer at:

$3.80 Futures maximum guarantee

+ $0.25 cents premium for the option

+ 200 CZ (basis at the time the Calls are purchased)

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= $6.05/ bu, $238/MT Maximum Price

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Purchasing Opportunities/Strategic Planning

Dec Futures rally to $5.00/bu at time of pricing:

$5.00 + 2.00 basis = price fixed at $7.00

- $0.95 cents net premium received for selling option(1.20-.25)

____

= $6.05/ bu, $238/MT which was your original Max price set

Result of strategy is cargo price $6.05 vs $7.00, $0.95($37.40/MT) better price.

Purchasing Opportunities/Strategic Planning

Dec Futures fall to $2.80/bu at time of pricing:

$2.80 + 2.00 basis = price fixed at $4.80

+ $0.25 cents premium loss

____

= $5.05/ bu, $199/MT

Result of strategy is cargo price $5.05 vs $5.80 at time when strategy was executed. Pricing/cash price improvement of $0.75/bu ($1.00 drop in futures - $0.25 prem loss), $29.53/MT

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Purchasing Opportunities/Strategic Planning

Put option – buyer pays a "premium" to set a futures floor on priced commodities(premium paid, no margin call exposure).

Example – price set on a cargo, December 3.80 Put option purchased giving him a futures floor of $3.80 per bushel for a cost of $0.25 per bushel. Option/price coverage through November 20.

Assume US FOB basis offer is +200 for October shipment.

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Purchasing Opportunities/Strategic Planning

This strategy sets the buyer at:

$3.80 Futures floor guarantee

+ $0.25 cents premium for the option

+ 200 CZ (basis at the time the cargo was booked)

= $6.05/ bu, $238/MT Maximum Price

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Purchasing Opportunities/Strategic Planning

Dec Futures rally to $5.00/bu between time of pricing to time of cargo arriving at destination:

$3.80 + 2.00 basis = price fixed at $5.80

+ $0.25 cents net loss in Put premium

= $6.05/ bu, $238/MT

Result of strategy is cargo price $6.05 vs $7.00, $0.95($37.40/MT) better price($1.20 future rally - $0.25 premium loss.)

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Purchasing Opportunities/Strategic Planning

Dec Futures fall to $2.80/bu between time of pricing to time of cargo arriving at destination: :

$3.80 + 2.00 basis = price fixed at $5.80

- $0.75 cents net premium gain ($1.00 lower price - $0.25 prem)

____

= $5.05/ bu, $199/MT

Result of strategy is cargo price $5.05 vs $5.80 at time when strategy was executed. Cargo price savings of $0.75/bu, $29.52/MT

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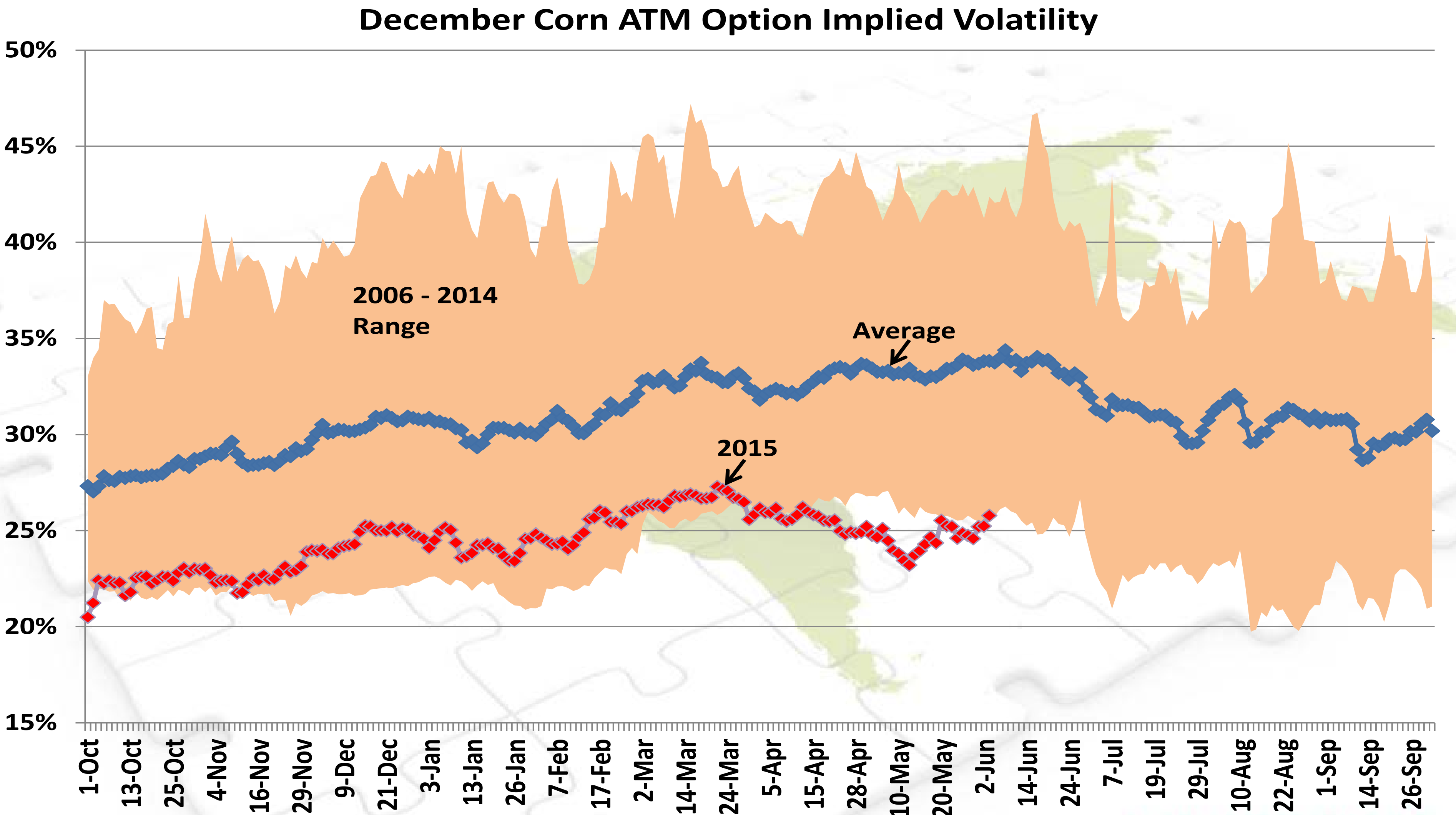
December Corn Option Volatility



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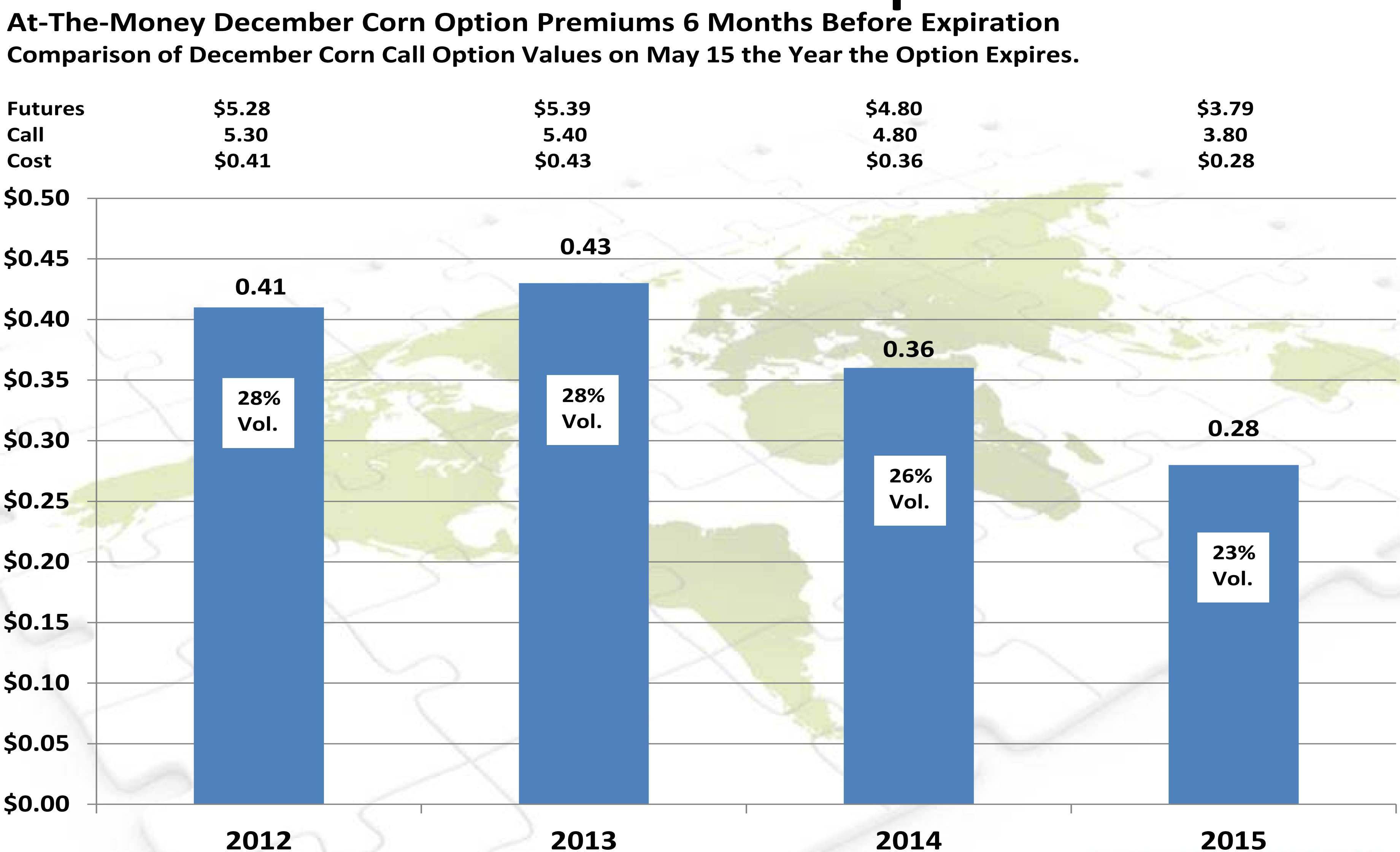
Source: ATI

December Corn Call Options



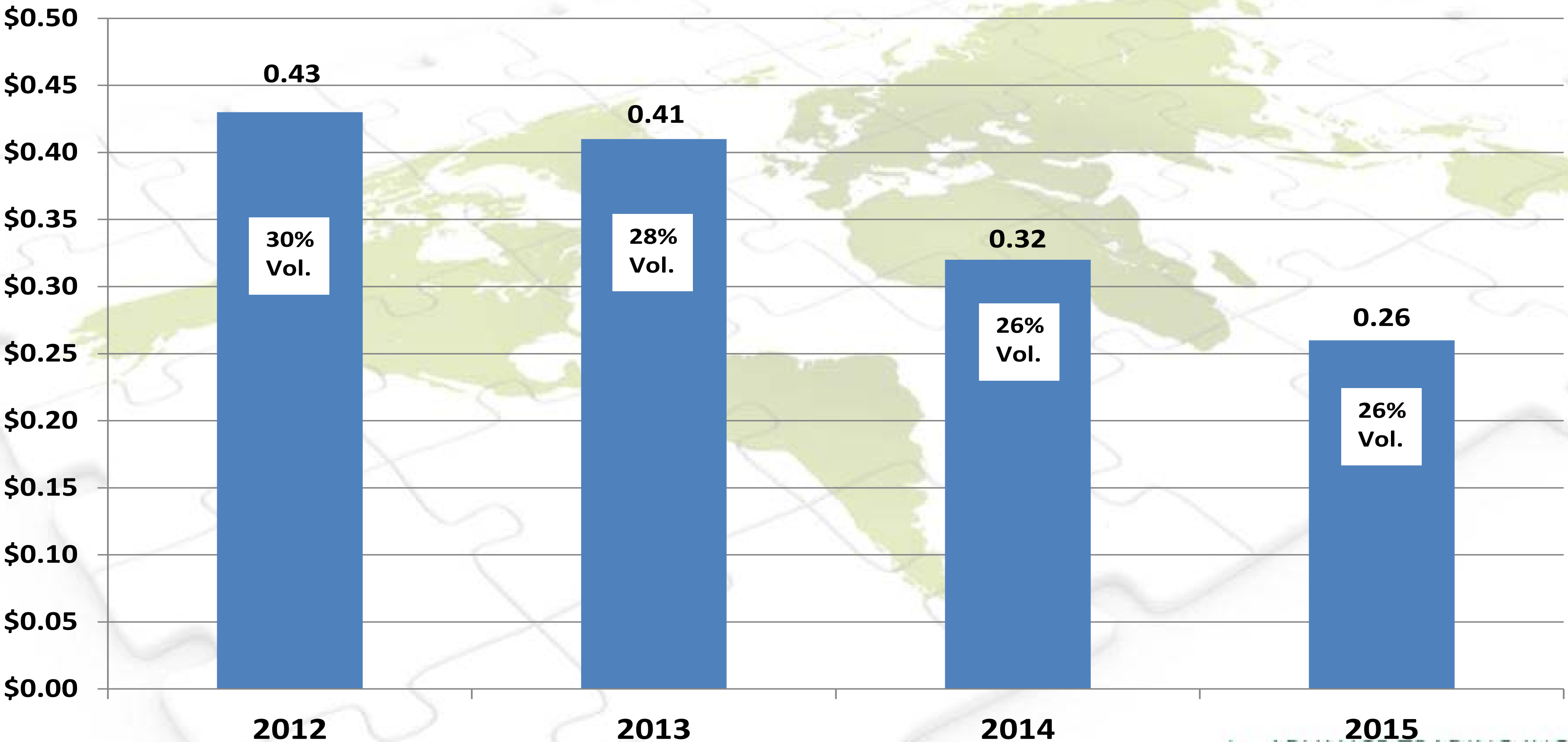
Source: ATI

December Corn Put Options

At-The-Money December Corn Option Premiums 6 Months Before Expiration

Comparison of December Corn Put Option Values on June 5 the Year the Option Expires.

Futures	$5.20	$5.51	$4.50	$3.81
Put	5.20	5.50	4.50	3.80
Cost	$0.43	$0.41	$0.32	$0.26



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Source: ATI

Purchasing Opportunities/Strategic Planning

Other options based products currently used in the trade include:

- Weekly options
  - Great for short term hedge – less time value less cost
- Short dated options
  - July Short Dated - Manage Dec futures with July option expiration
- Calendar Spread Options
  - Allows “optionalization” of spreads
    - Put (bear spread) Call (bull spread)

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Purchasing Opportunities/Strategic Planning

OTC products:

- Products exist today allowing buyer to guarantee a maximum price with a proportional amount of product to be priced at or lower than the guaranteed maximum.
    - Ex("Cap"): $3.80 Maximum, proportional amount priced weekly for 23 weeks at or below $3.80. Settlement at end of 23 weeks
    - Ex("Floor"): 3.70 Floor, proportional amount priced each week for 23 week at or above $3.70. Settlement at end of 23 weeks.

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Purchasing Opportunities/Strategic Planning

Options vs OTC:

- Options
  - Risk known upfront
  - Position manageable after execution
  - You can determine based on cost of option how close to the market you want to own coverage
  - Liquid markets allowing good entry/exit of positions
  - Price transparency – exchange traded products

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Purchasing Opportunities/Strategic Planning

Options vs OTC:

- OTC Products
  - Risk known upfront on cost, final pricing undertirmined
  - Difficult to manageable after execution
  - Like options, you can decide cost of product - term of product such as time span/futures cap or floor.
  - Difficult to trade out of once executed – need to go to full term.
  - Lack of price transparency – no live screen.

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Summary/Take Aways

- Plenty of potential for volatility this year going forward – weather/geopolitical/policy changes etc.
- Sorghum basis inverted – hand to mouth buying pattern suggested as much as is feasible
- Strength in sorghum basis a function of export demand primarily from China and current policy.
- New crop cash markets trading at significant premiums to corn DVE – roughly 110%.
- Utilization of price risk management tools available today to protect advantageous flat price levels.

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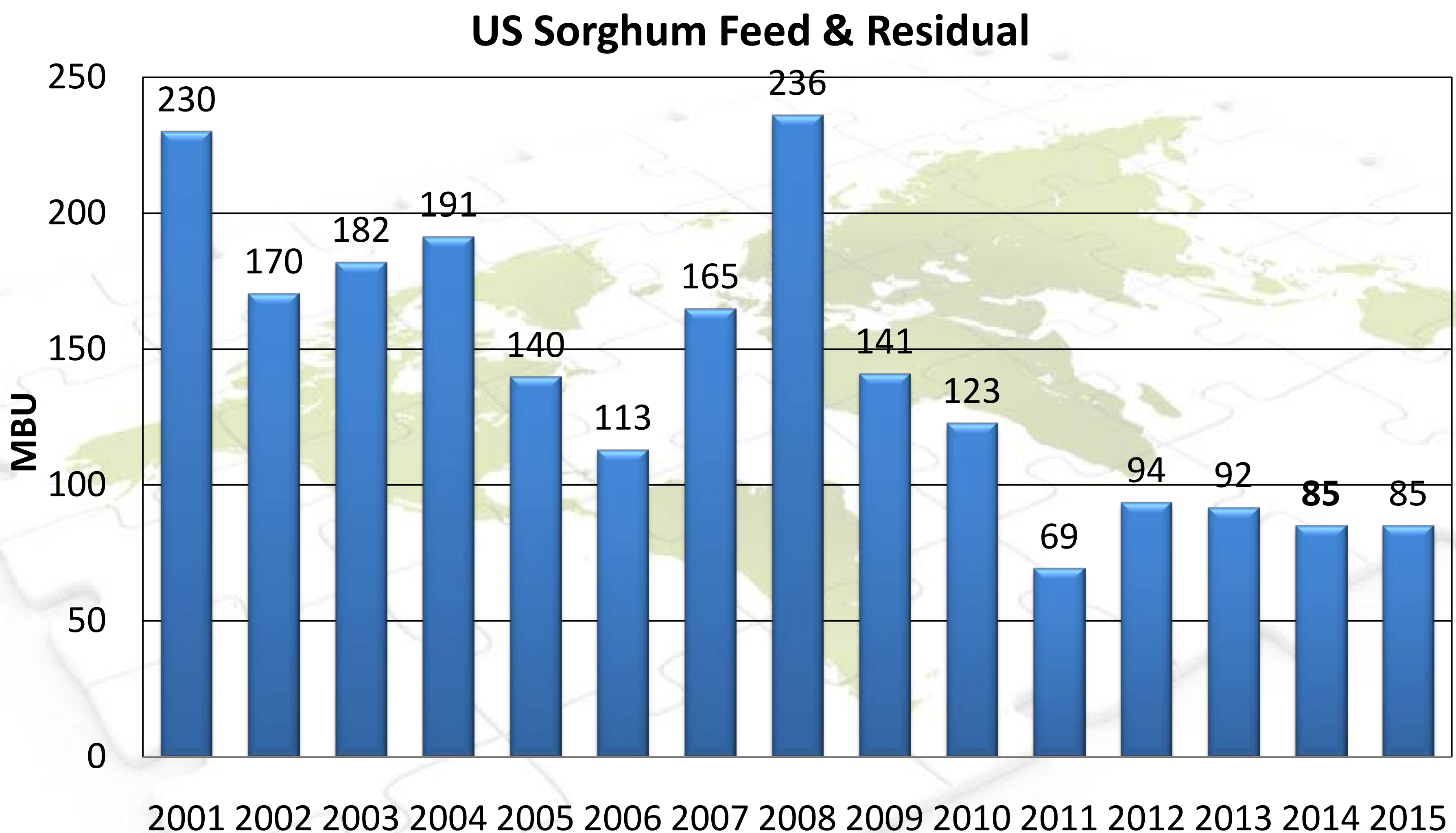
Sorghum: Feed/Residual



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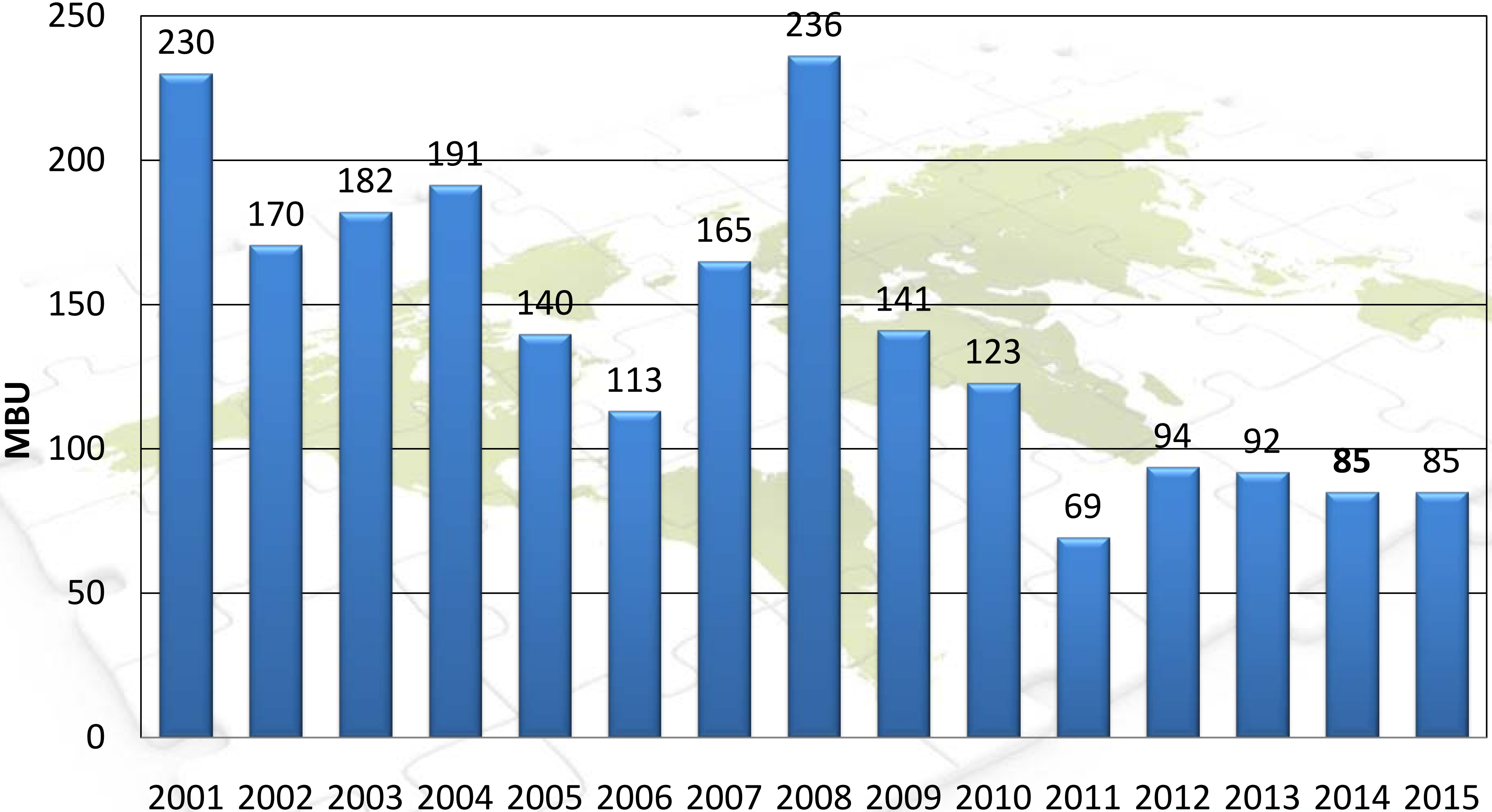

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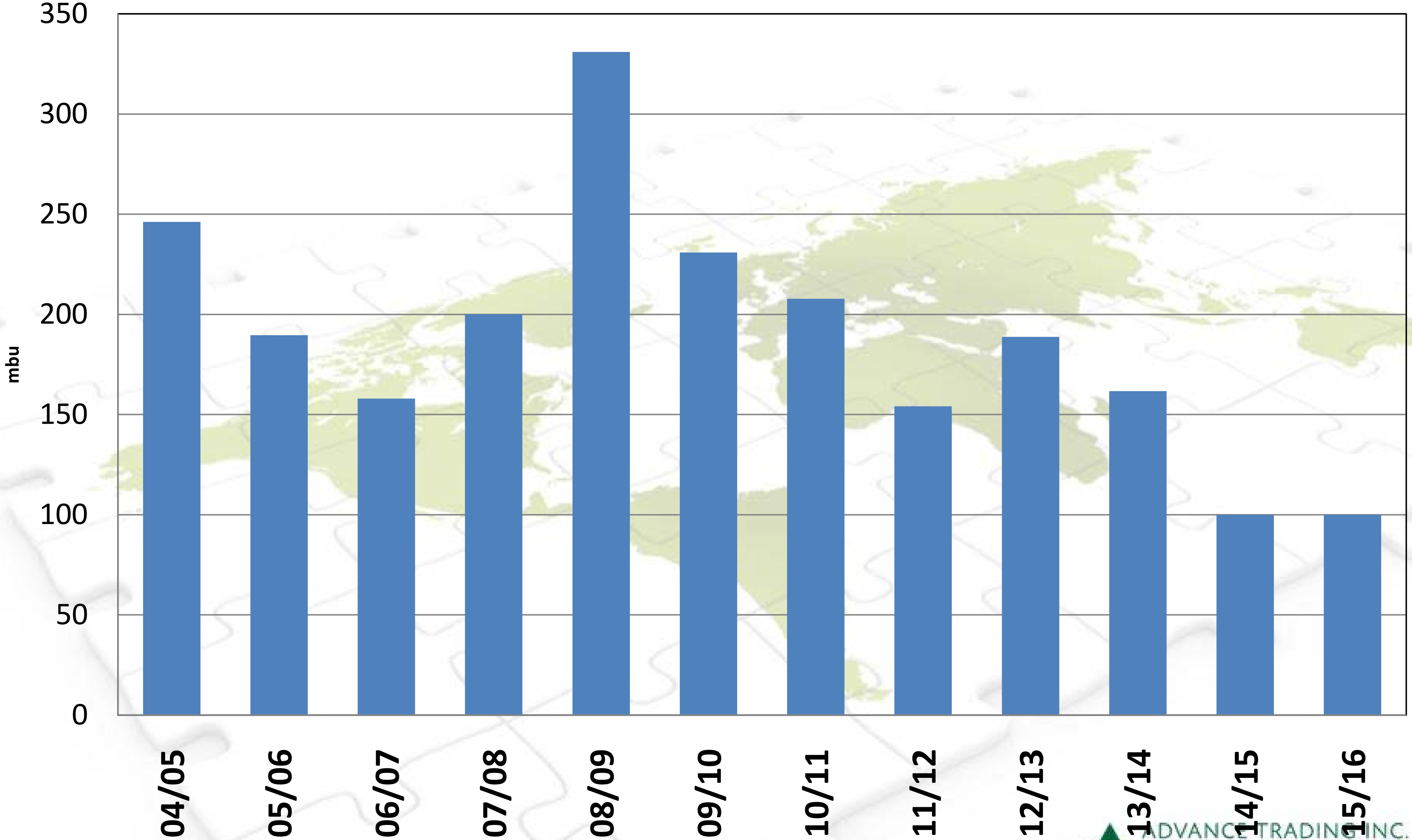
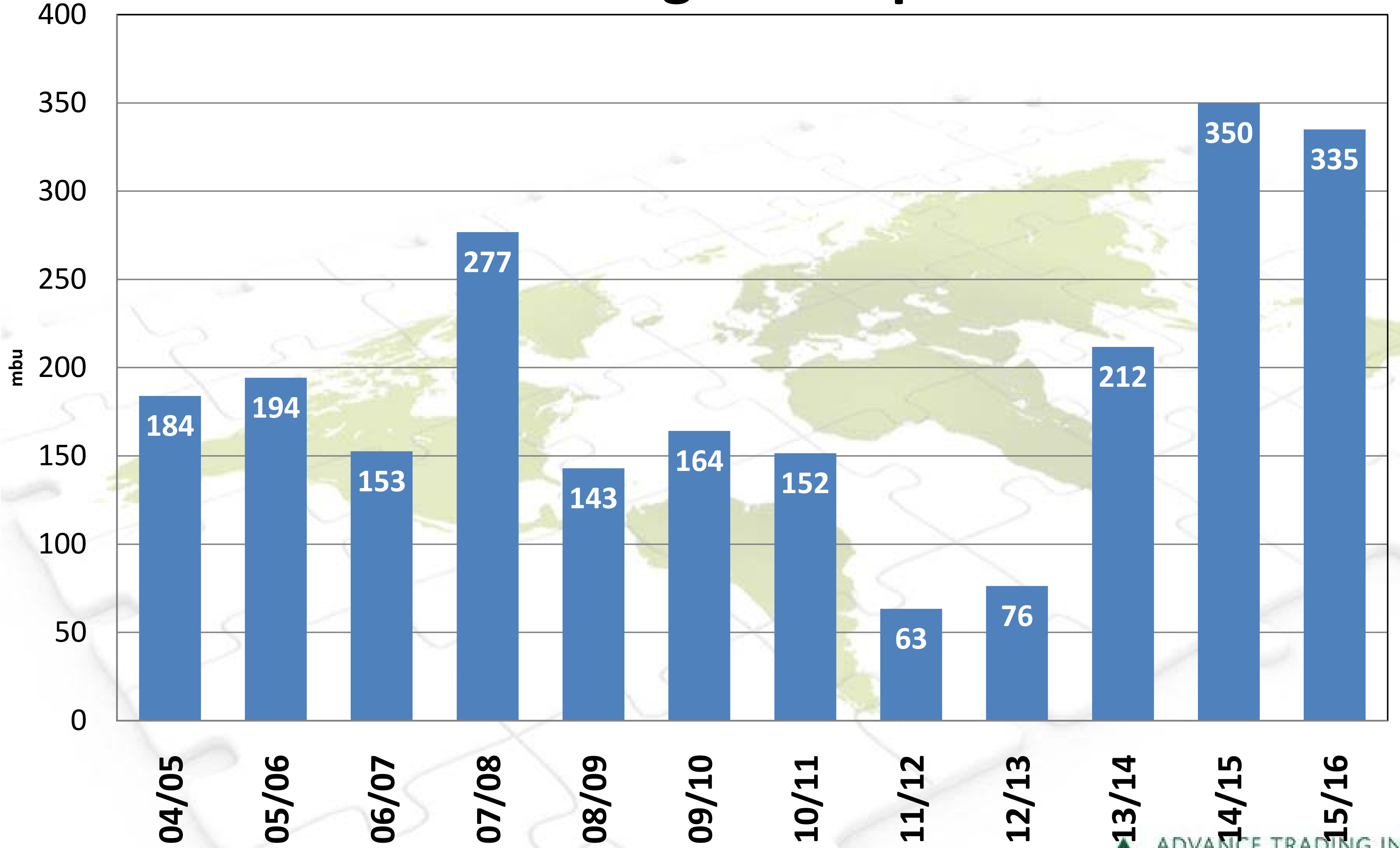
US Sorghum Domestic Usage



US Sorghum Exports



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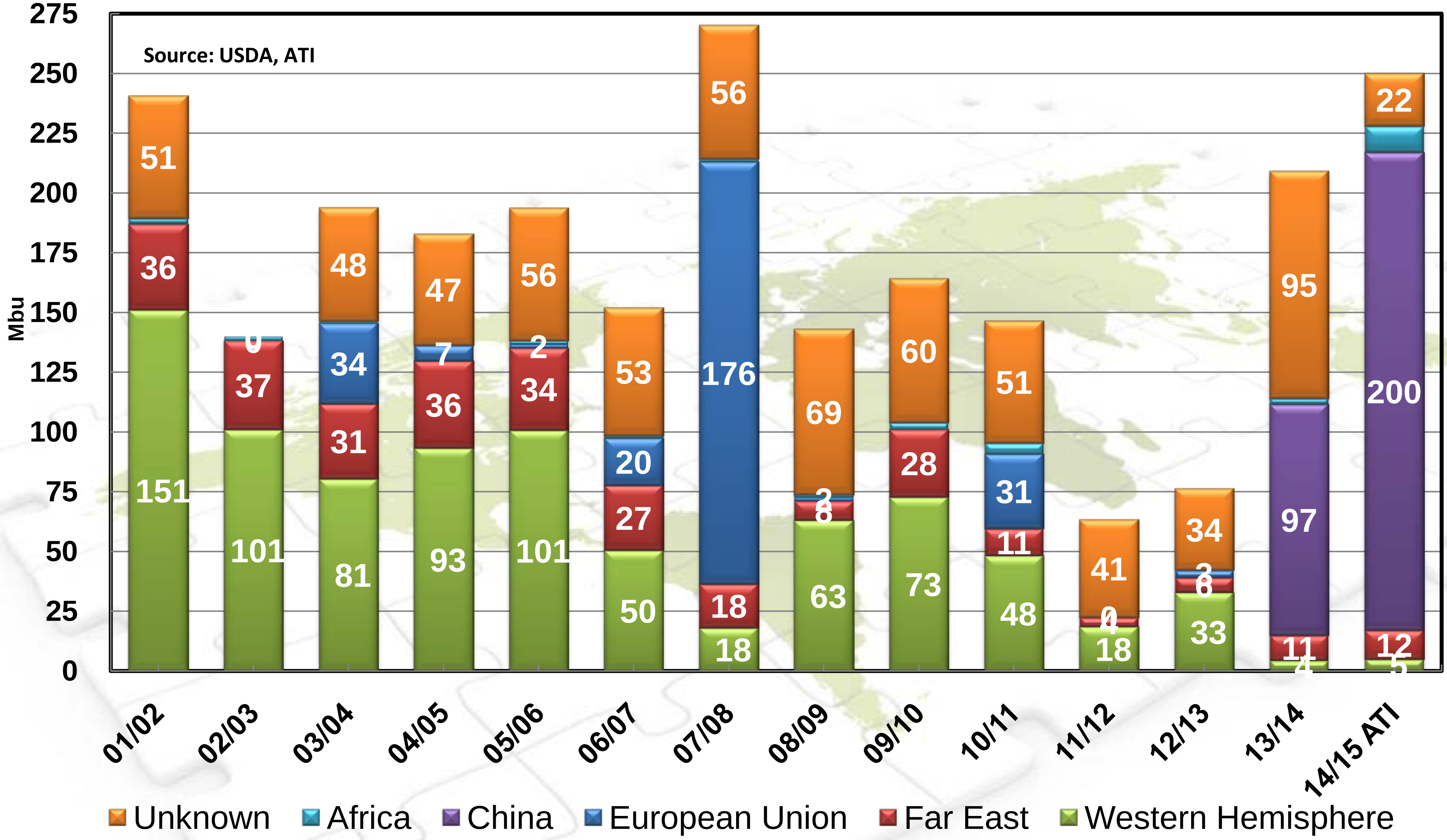
Annual Sorghum Export Shipments



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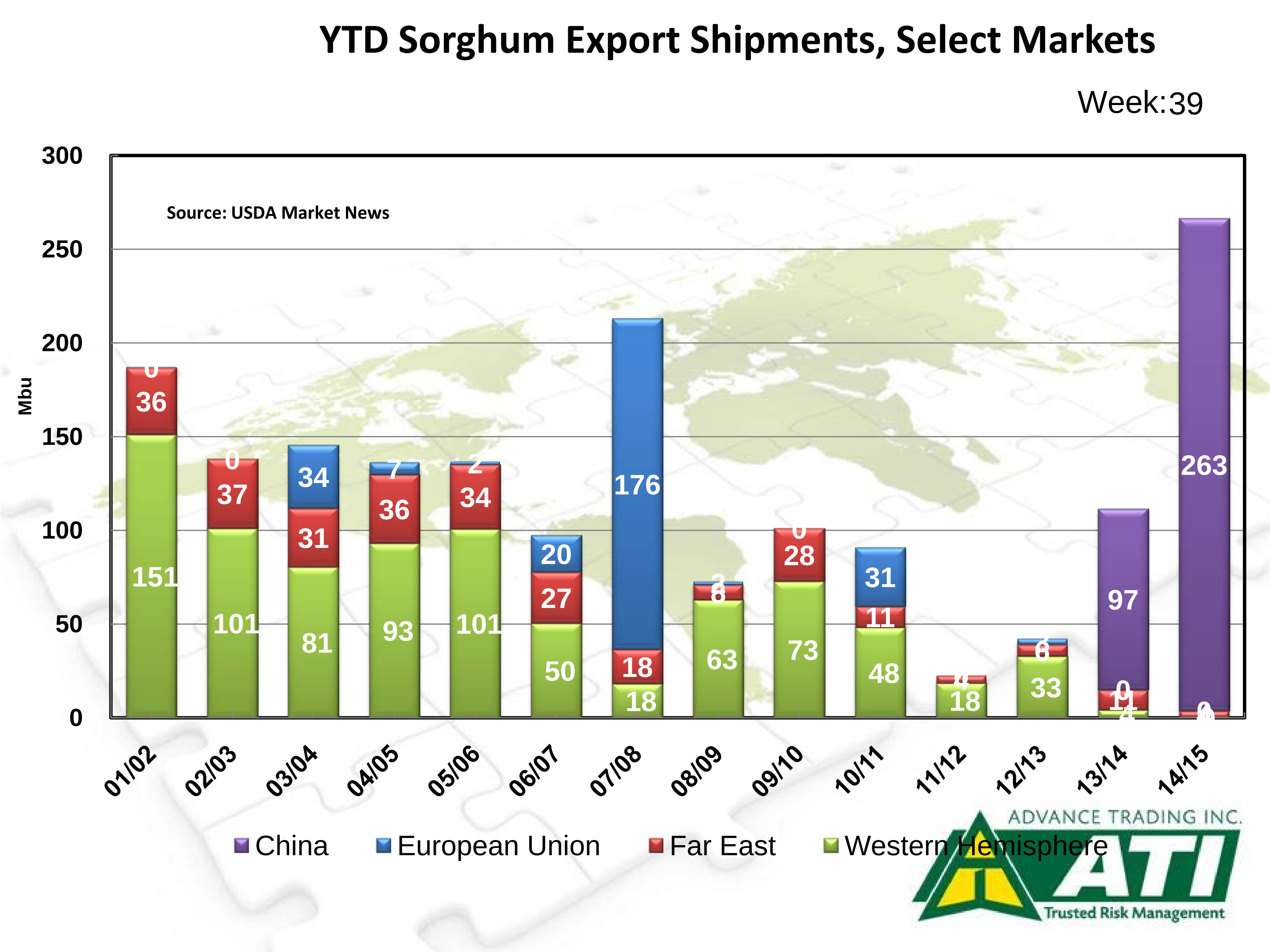
YTD Sorghum Export Shipments, Select Markets
Week:39
Source: USDA Market News
Mbu
300
250
200
150
100
50
0
01/02
02/03
03/04
04/05
05/06
06/07
07/08
08/09
09/10
10/11
11/12
12/13
13/14
14/15
151
36
0
101
37
0
81
31
34
93
36
7
101
34
2
50
27
20
18
18
176
63
73
28
0
48
11
31
18
33
97
263
China
European Union
Far East
Western Hemisphere
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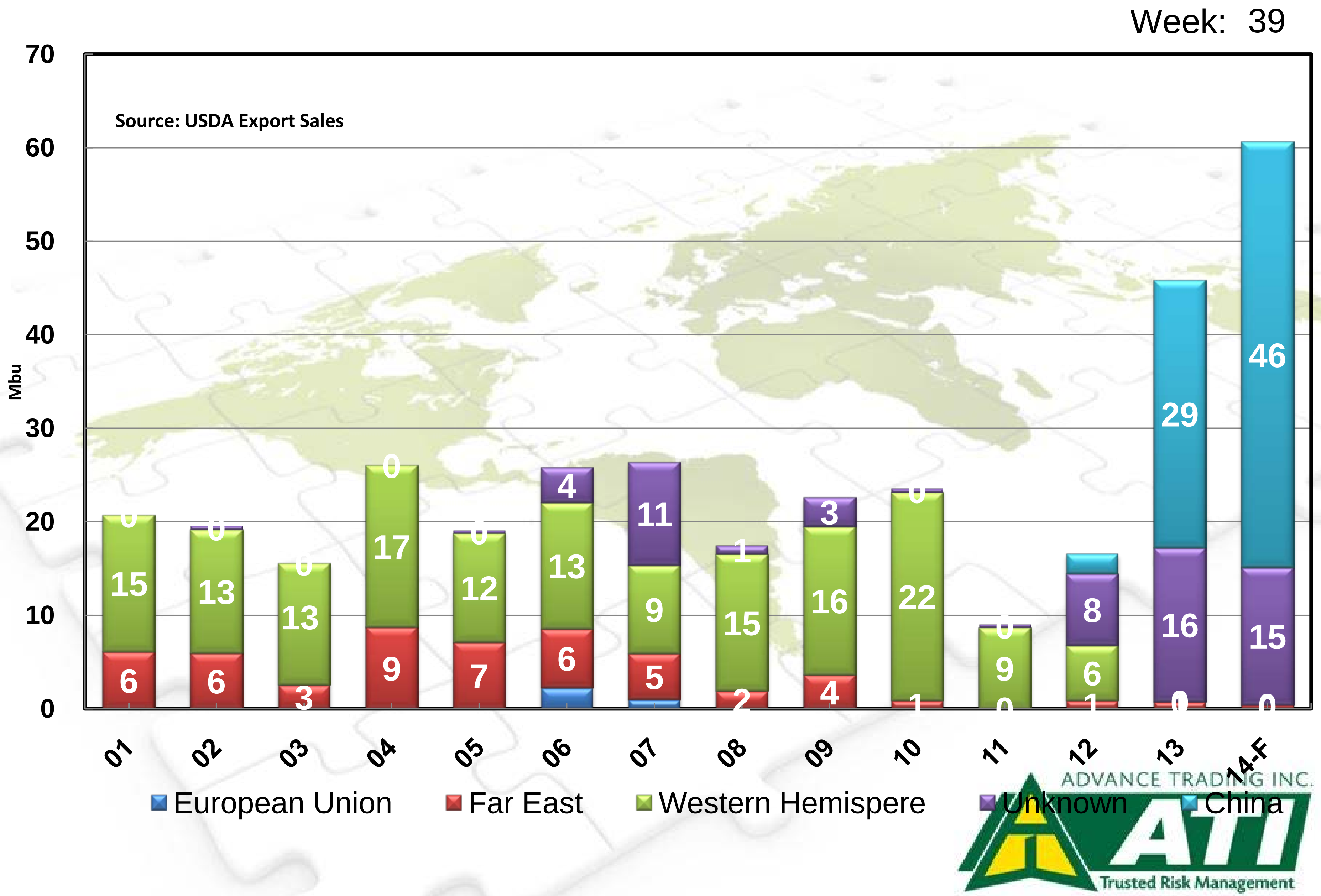
Unshipped Sorghum Sales by Destination



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