



**RISK MANAGEMENT – NEW PERSPECTIVES**

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April 2016

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**AGENDA**

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-  Introduction and background
-  Market review – fundamentals
-  Technical Analysis review
-  Risk management for farmers/producers

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## INTRODUCTION

- **Per Villumsen** – COO in Scanola A/S
- Part of the DLA Trading Team in Galten Denmark
- Responsible for the trading of
  - Rapeseed
  - Rape proteins
  - Rapeseed oil
  - Futures, OTC's & Structured products.
- 'Eternal student'



WHO IS?

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## INTRODUCTION TO SCANOLA A/S

- Opened in 1988
- Owned primarily by the DAVA Group
- Expanded capacity in 2015-16, expecting to reach 285.000 tons in 2016 crop year.
- Limited Danish acreage gives worries ahead of 2016-crop.



Key Figures	2011	2012	2013	2014	2015
Turnover, mio. DKK (EUR)	769 (103)	860 (115)	900 (120)	1020 (136)	962 (129)
Production / 1000 ton	239	209	174	250	237

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## Market review – Fundamental input

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## MACRO FUNDAMENTALS

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### Mineral oil has collapsed

- Still no balance between supply and demand
- Bottom formation building?
- Why are the funds long?

### Still an expansive financial policy

- Not only USA but also EU is still printing money

### Too much protein in the world

- Years without weather/production crises has made supplies ample – whilst demand from China is lagging.

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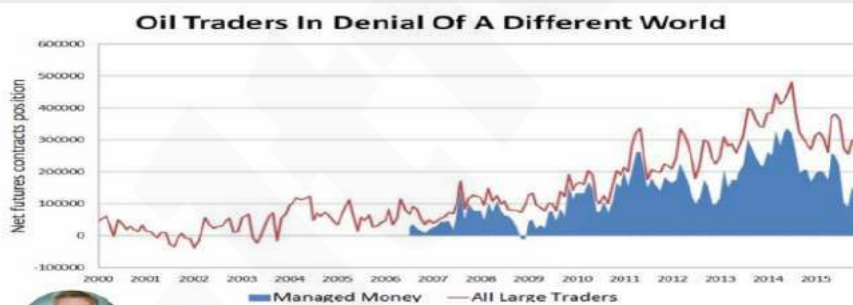
## CRUDE OIL IS BACK TO 2003-PRICES



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## WHY ARE THE FUNDS THEN LONG?



Jan Bylov  
Expert Strategist | Portfolio Manager | Asset Allocation | Private Banking | Economist | Behavioural Finance

### Oil Traders In Denial Of A Different World

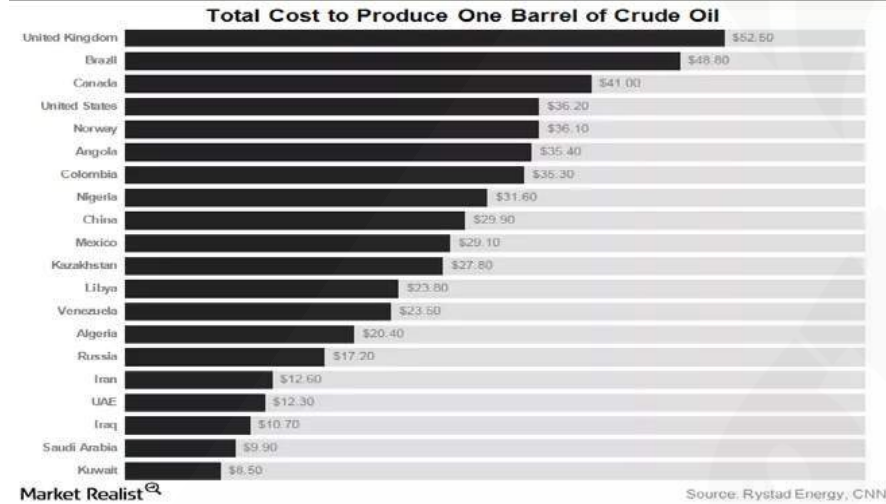
Dec 15, 2015 | 110 views | 10 Likes | 0 Comments | [in](#) [f](#) [t](#)

From the Nobel price winner in economics in 2002, Daniel Kahneman, we know that investors treat losing and winning investments differently. Investors postpone exiting loss-making investments while they are fast cashing in on winning investments. On a net basis this doesn't work out very well!

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## WHAT ARE THE PRODUCTION COSTS OF CRUDE OIL?



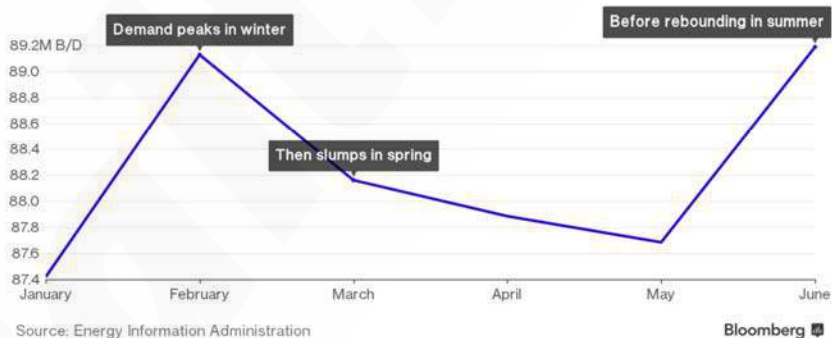
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## SO WHERE ARE WE GOING NOW?

### Oil Demand: Downhill From Here

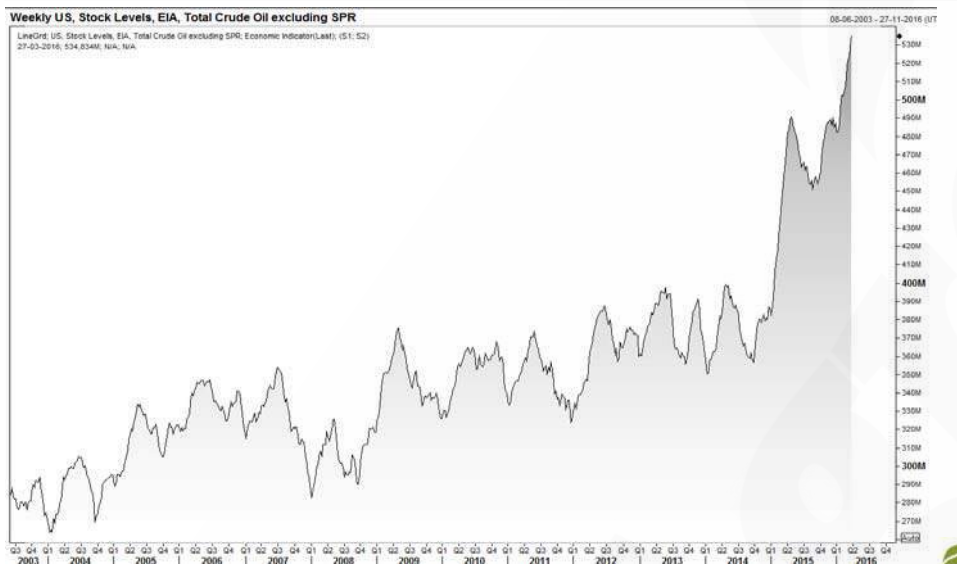
10-Year average in consumption ebbs from February to May



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## BUT ONE BIG PROBLEM REMAINS FOR CRUDE OIL



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## WHY THE VOLATILITY?

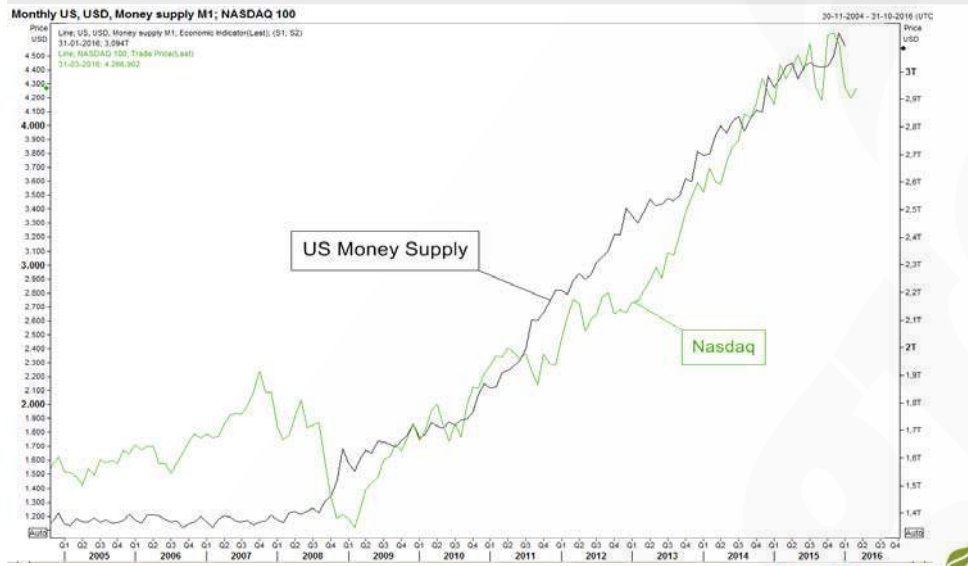
### THE AFTERMATH OF QUANTITATIVE EASING

- Quantitative easings have given a huge influx of cash into the markets, especially in the USA.
- In the EU we now try to do the same by printing more than 1.100 BILLION EUR
- Inflation is still very low/negative.
- "Cash is king", they say, but if everyone has too much money, they have to be placed actively.
- When interest rates have been driven to zero, the stocks have reached the skies they need to find other investment opportunities.
- That is why raw material prices can easily be driven up / down completely without any relation to fundamentals.
- THAT is why we need technical analysis

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## MONEY SUPPLY IS STILL DRIVING STOCK PRICES

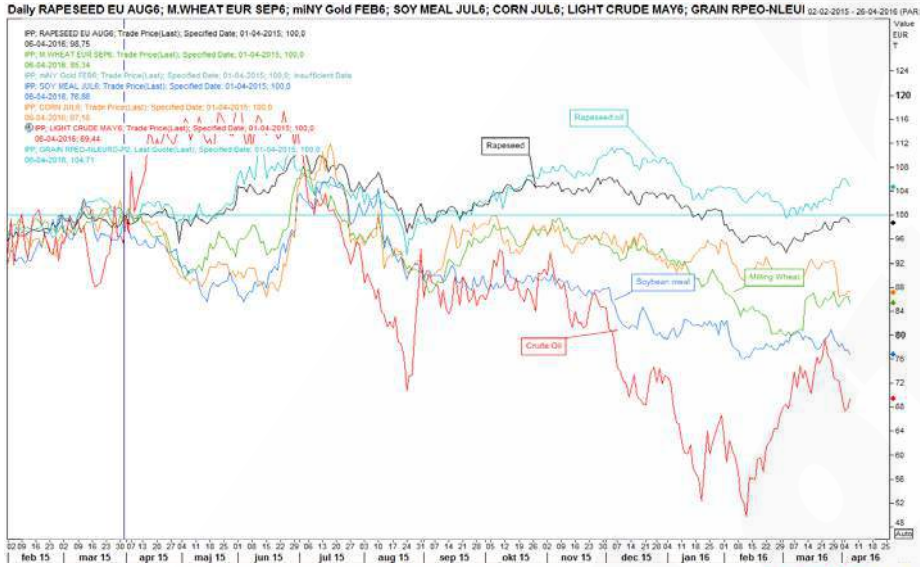


## Market Review - Prices

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## INDEX OVER THE LAST YEAR – RAPE IS THE STRONG LEG



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## SOJAMEAL



Actually, we're back to 2010-prices!

Good crop years in both North and South America has put pressure on prices...





## IS THE STRONG DOLLAR (FINALLY) CHALLENGED?



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## MILLING WHEAT – AMPLE SUPPLY IN 2016 ALSO?



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### CRUDE OIL



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### RAPSEED



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# Technical analysis - review

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## IMPORTANT TOOLS AND INDICATORS

- A multitude of indicators with varying accuracy and timing.
  - A fast indicator is relatively inaccurate
  - A slow indicator is relatively accurate
- The main indicators are:
  - Moving Averages
  - RSI
  - MACD
  - Volume
- On top of this, figures and movements can also be analyzed
- **A farmer will often need to use slower indicators as he is forced to use a longer-term perspective.**

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## AN EXAMPLE – TRADING A GOLDEN AND A DEAD CROSS



## RULES OF THE 'GAME'



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### LET'S LOOK AT SOME MORE INDICATORS – AGAIN ON RAPESEED



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### MILLING WHEAT



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Other uses?

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### A SCARY CHART IS NOW A BIT LESS SCARY?



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# Risk management

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## RISK MANAGEMENT FOR FARMERS

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### We all think alike

- Because no-one can guess the future, we instead have to look into how people think – and this is the background for technical analysis

### The 'cave man' is still alive

- Why does the way a 'cave man' thinks affect our decisions in 2015?

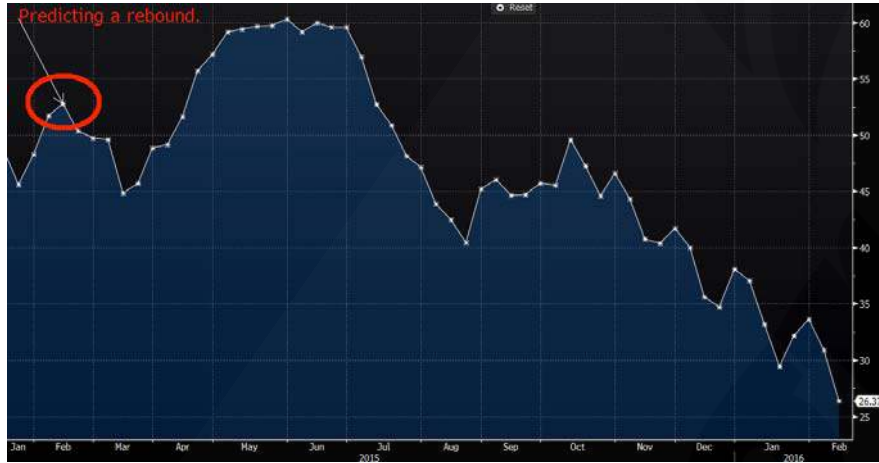
### How to protect ourselves from the 'cave man'?

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## AN EXAMPLE OF A FORECAST



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## THE BIGGEST PITFALLS/DANGERS



Basic assumptions

- **No-one** can predict the future!
- **All** predictions – no matter how exact they might be when they're made – are obsolete in the next second.
- **Every bit** of fundamental news is 'priced in' to the market prices the second they are published.



Primary loss-making factors

- **Stubbornness**  
'Being right rather than making money'
- **Feelings** rather than analysis  
'The market is wrong!'
- **Greed & Gambling** urge  
'I will miss the money train!'
- No **system/systematics**
- No clear **strategy**
- No **post-rationalization** of errors and successes

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## RISK MANAGEMENT FOR FARMERS AND PROFESSIONALS ALIKE

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Well defined strategies

Consistency in execution

Focus on the core business

Keep to your plan – discipline is everything!

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## WELL DEFINED STRATEGIES

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- This is an extremely important part of disciplined trading!
  - **Do you have one?**
- **Do you know your production cost** – your production economy?
  - All parts must be part of the calculation – including any allowances/penalties/discounts etc.
  - Ideally, calculate this per hectare or per kilo produced.
- If you do – **have you then transferred your production cost into a strategy?**
  - Remember a strategy needs both a Plan A & Plan B
  - Remember a strategy needs a Target & a Stop/Loss
  - Remember a strategy needs a Risk - Rewards ratio to ensure that it is a good speculation, you're doing.

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## CONSISTENCY IN EXECUTION

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- A really simple task – but very, very hard to perform!
- Planning is easy – but sticking to the plan is very difficult – both when prices go against you or when they go the way you planned.
  - “The greed trap” – I have reached my goal, but I want more
  - “The loss numbness” – I have lost so much now, that it doesn’t matter...
- The best advice against these traps is:
  - Write your strategy down from the beginning and FOLLOW it
  - Be sure to analyze **BOTH** losses & gains afterwards, and learn from them!

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## EXAMPLE 1/6

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- A farmer has 1.000 tons of rapeseed with 20 EUR/ton potential profit today. We don’t know if this is going to improve or to worsen – how to proceed?:
    1. Decide already now what you want to risk losing
      - This is called your Stop-Loss
    2. Decide what you hope to gain
      - This is called a target/minimum price objective
    3. Evaluate the relation between nr. 1 and nr. 2 – does the ‘bet’ make sense?
- Risk taking is not bad – it is almost a necessity in our business
- But, the risks have to be calculated risk – not involuntary speculation

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## EXAMPLE 2/6

- Different price strategies:
  - Partial pricings – a very good way to ensure that the biggest swings in the market don't become too expensive.
    - If the trend is down, we price a little more **aggressively** than normal
      - For instance, 3\*350 tons or 2\*500 tons
    - If the trend is up, we price a little more **hesitantly** than usual
      - For instance, 100 tons/month, or 200 tons/month

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## EXAMPLE 3/6 – TRADING A BULL-TREND

Using the chart from before, we get a bull signal at the end of the year 2014 – we then decide to use a more hesitant pricing strategy for our 1.000 tons as long as the trend is still up.

We thus decide to price our goods with 100 tons/month, Oct-Jan, and 200 tons/month Feb-May = 1.000 tons total.



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## EXAMPLE 4/6

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- Using the monthend prices from these months, this gives us a pricing as follows:
  - Oct: 340 EUR / 100 tons
  - Nov: 340 EUR / 100 tons
  - Dec: 349 EUR /100 tons
  - Jan: 350 EUR / 100 tons
  - Feb: 362 EUR / 200 tons
  - March: 360 EUR /200 tons
  - April: 357 EUR / 200 tons

Weighted Average price: 354 EUR/ton

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## EXAMPLE 5/6

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- Other alternatives:
  - Pricing everything on day one: Price: 340 EUR / ton
  - Pricing evenly through the period: 351 EUR / ton
  - Pricing as if this was a downtrend: 348 EUR / ton
- Price difference between worst and selected strategy:  $354 - 340 = 14$  EUR

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### EXAMPLE 6/6



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### ANOTHER EXAMPLE – WHEN TO SELL MY WHEAT?



- In November, a farmer is making his sales strategy. He need to sell latest March. He can either choose to:
  - Sell everything spot
  - Sell hesitantly (downtrend)
  - Sell aggressively (uptrend)
- When we get a signal for a downtrend (red arrow), the farmer decides to sell aggressively.

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**-CONTINUED**

- Volume: 1.000 tons
  - Strategy: Aggressive selling, farmer chooses 3\*333 tons, 1 parcel/month.
  - Pricing (using monthend prices):
    - November: 183 Eur/333 tons
    - December: 180 EUR/333 tons
    - Jan: 169 EUR/333 tons
  - Average price: 177 EUR
- Had the farmer misread the signs, and chosen a conservative pricing using 200 tons/month, his pricing would have been:
    - Nov: 182
    - Dec: 180
    - Jan: 169
    - Feb: 154
    - Mar: 163
  - Average price: 169 EUR

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**- CONTINUED**



- The ideal would of course have been to sell everything day 1 – but since no-one knows the future, we try to follow the trend. In this case, the market dropped 20 EUR during the period, but our strategy only lost 6 EUR from the top.
- A hesitant approach would have lost another 8 EUR.

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## SUMMARY

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- If you don't buy/sell today, you're going to the casino with all of your profits/potential risks
  - be sure to have a plan for your stay at the casino!
  - Be sure you know what you're betting, what you're hoping to win and when to go home!

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Thank you for  
your attention!

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