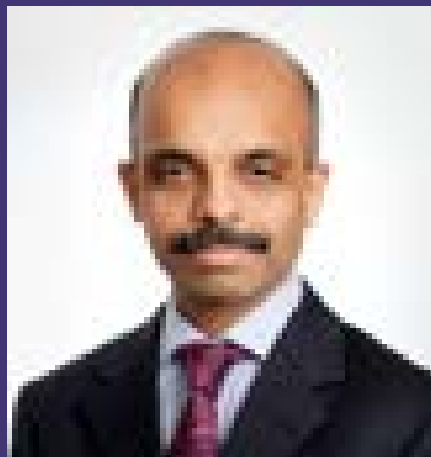


Smarter Commodity hedging - time for treasury to take action



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ACT conference 2018

PwC point of view

*Should
corporate
Treasurers
hedge
commodity
exposure?*

May 2018



Agenda

1

Introduction to commodities

A background into commodities, which can be hedged and why a corporate would decide to hedge.

2

Deciding whether to hedge

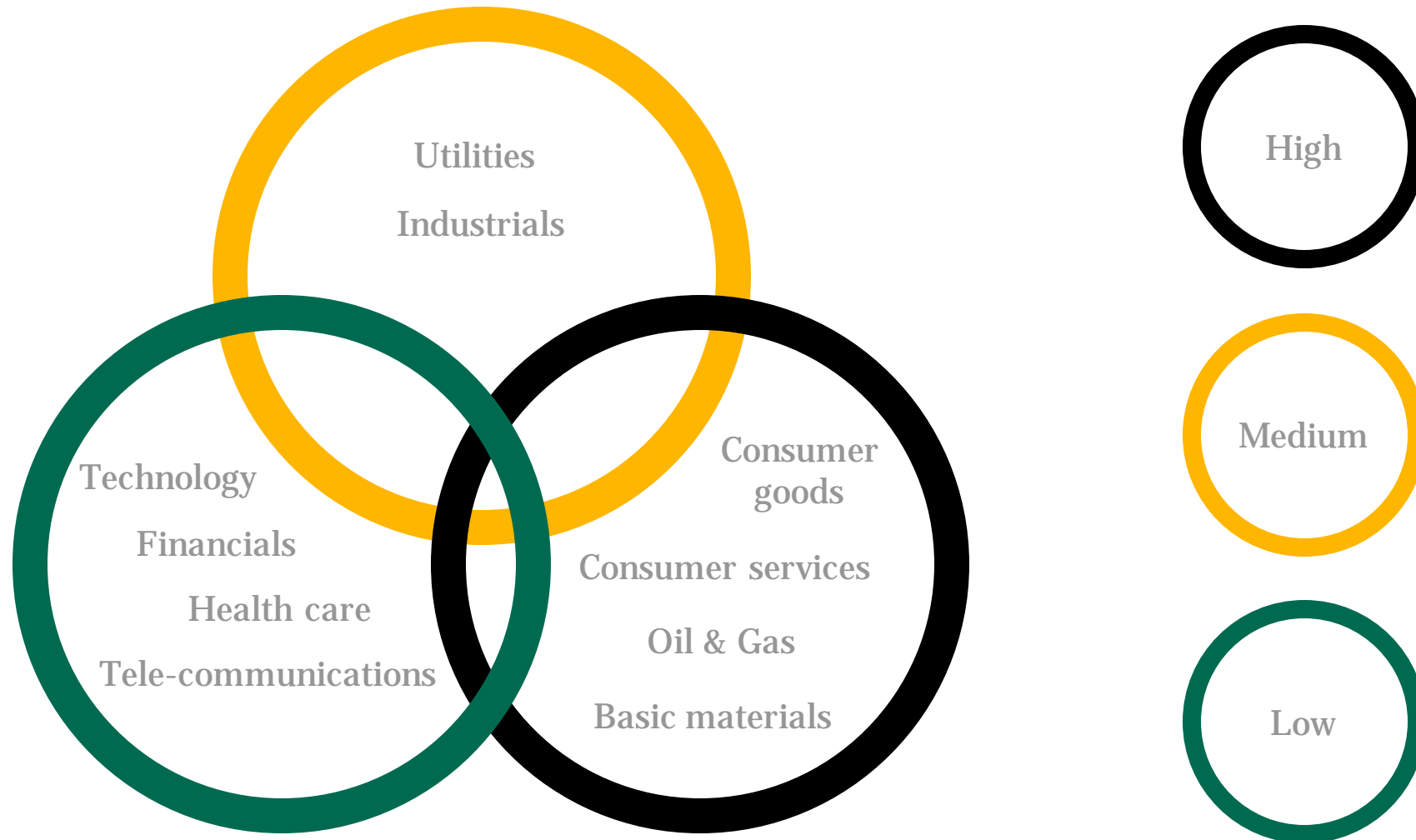
In depth look into why corporates are now deciding to hedge, the benefits of these and the process to implement a hedging strategy.

3

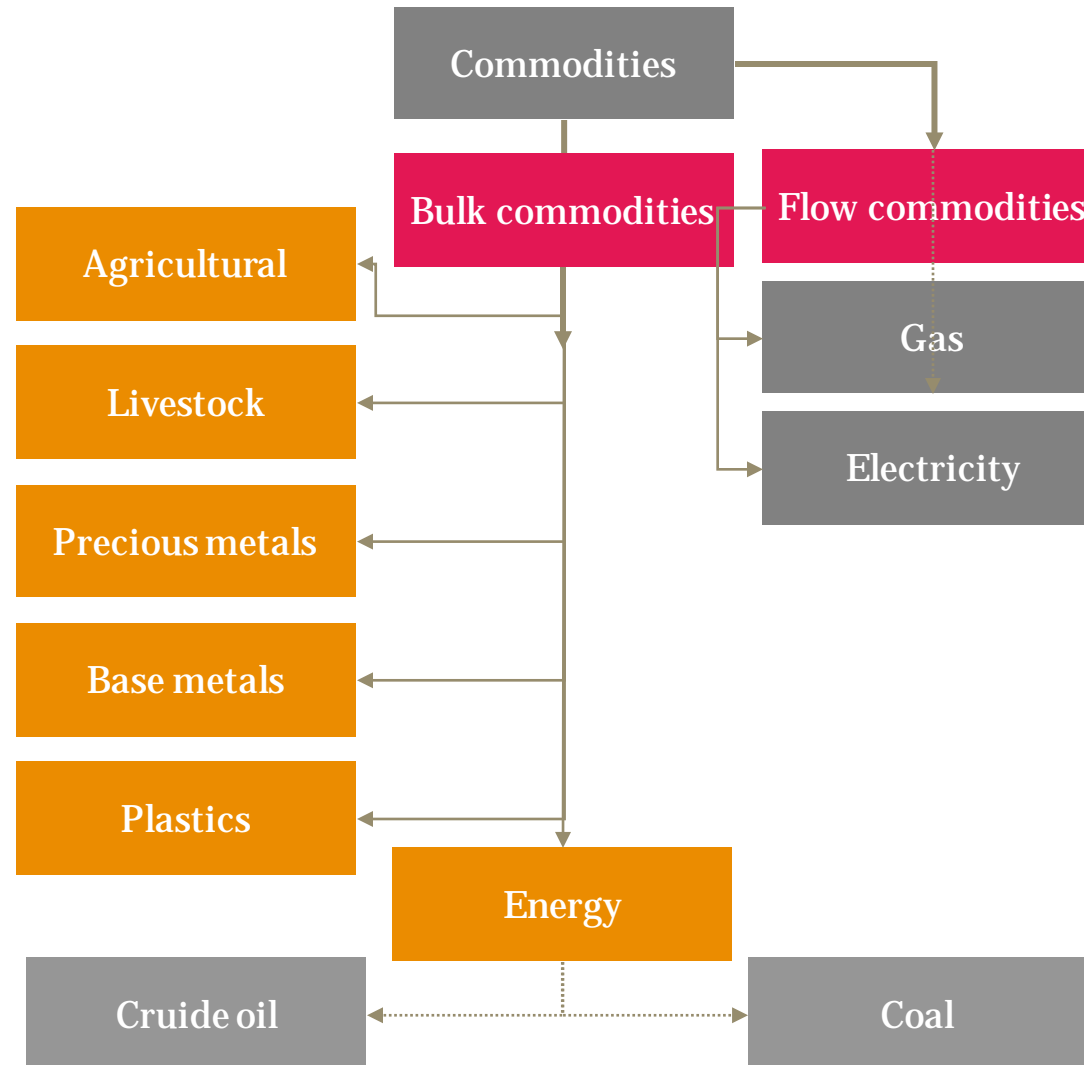
Commodity hedging and technology

A look into the commodity trading and risk management solutions available to support in hedging and implementation considerations.

Corporate grouping by commodity exposure



Types of commodities you can hedge



But not all commodities can be hedged with paper derivatives...

Commodity	CME ¹	CBOT	NYMEX	LME	ICE
Coal			✓		✓
Cruide oil			✓		✓
Electricity			✓		✓
Livestock	✓				
Natural gas			✓		✓
Precious metals			✓	✓	✓
Soft (agriculture)	✓	✓	✓		

¹ CME, CBOT, NYMEX, LME and ICE are names of commodity exchanges.

Commodity hedging – hot topics

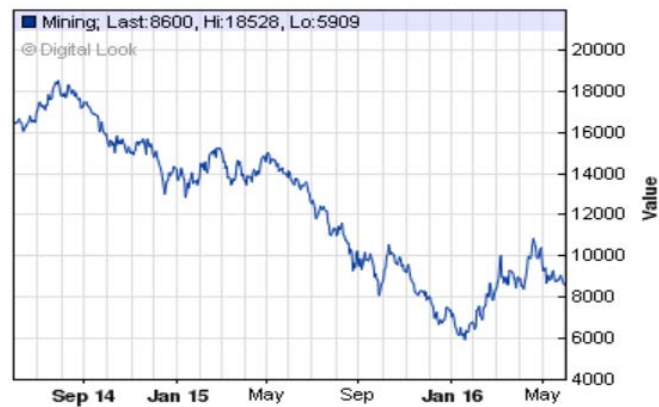
High volatility in commodity prices makes corporates nervous.

Cost-cutting and debt restructuring is on the top of the agenda.

Active price risk management in the form of hedging still gets little attention.

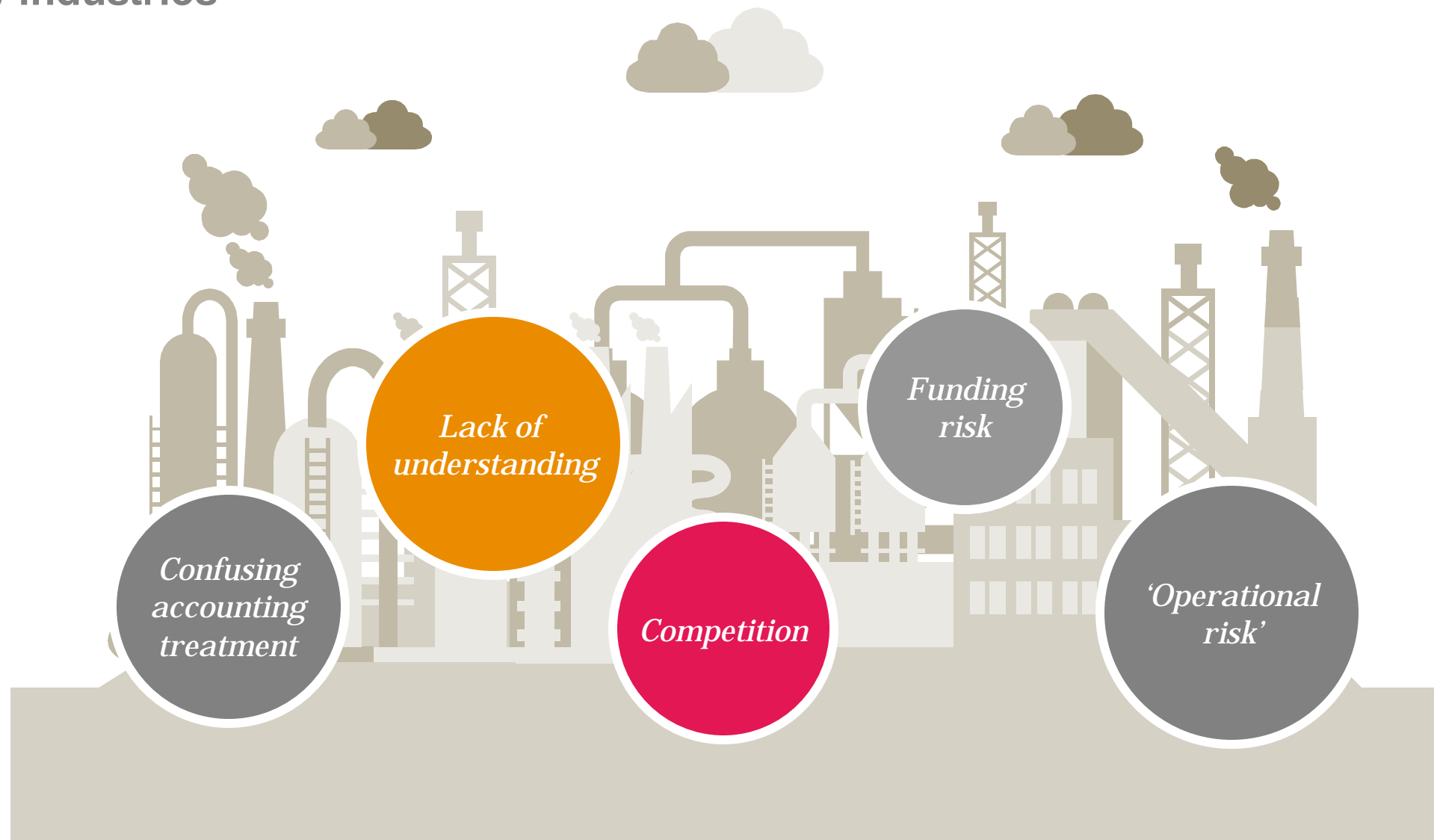
Changing investor preference and relative power between debt and shareholders should be considered.

2 years historical performance Mining sector index



Source: shareprices.com

Historically issues with hedging appeared in many industries



Shifting stakeholder preferences



Understanding the preferences of both debt holders and equity holders is paramount

Debt holders preference for hedging could weigh more heavily on a company's decision making

Some shareholders see the benefits from well-defined hedging programme



The historical conflict of interest in exposure to market prices may not be so apparent in today's environment

The benefits of hedging

Benefits from hedging price exposure and providing more certainty around future cash flows



External

- Increased attractiveness to debt investors
- Increase market share by expanding the product offering

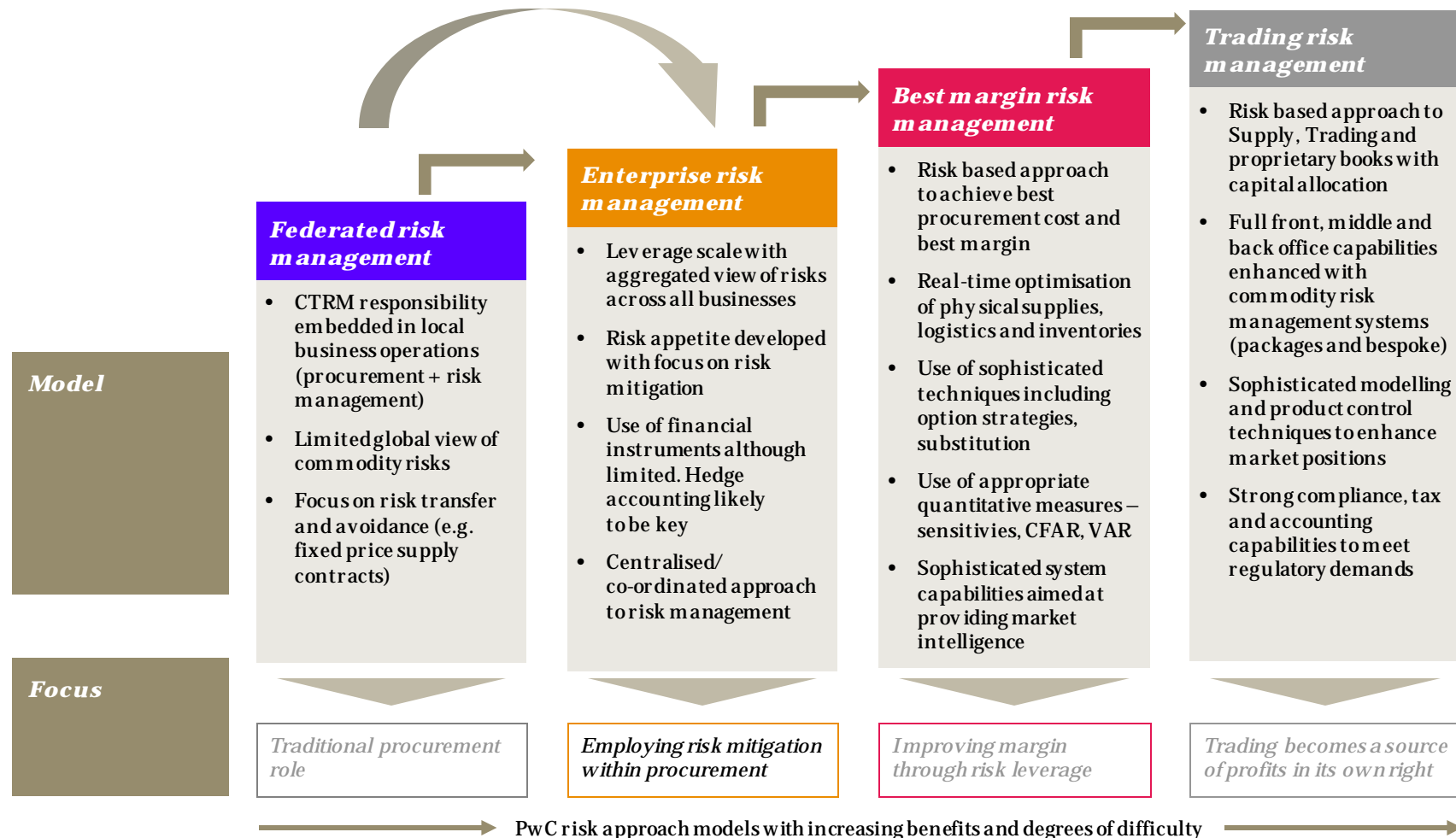
Internal

- More certainty to future profits, irrespective of the price level
- Potential to improve liquidity
- Improve project finance decision making

Designing and implementing a hedging strategy

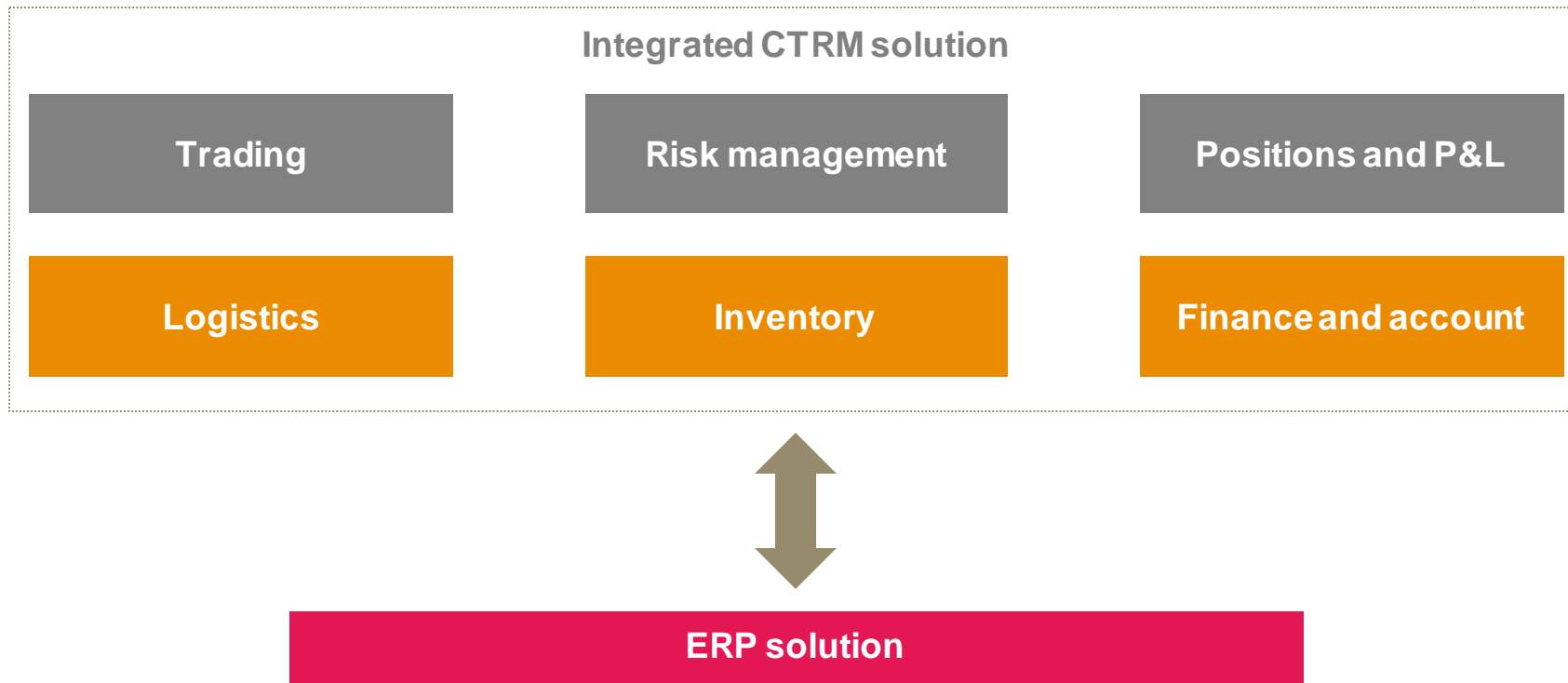


How commodity strategy drives CTRM technology?



CTRM technology options

Certain vendors offer **integrated CTRM solutions** that **include physical management and risk management functionality**. Under this scenario, a **majority of the commodity handling/trading functionality is maintained in the CTRM** with interfaces to the ERP for general ledger postings, etc.



Implementation – Things to consider

1

Sponsorship



2

People and change management



3

Operating model



4

Vendor selection



5

Delivery model



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Drivers for Optimizing Treasury

Financial

- Automation cost savings
- IT synergies
- Fraud prevention
- Reputational risk

Tactical

- Improving cash visibility
- Increasing productivity
- Enhancing internal controls

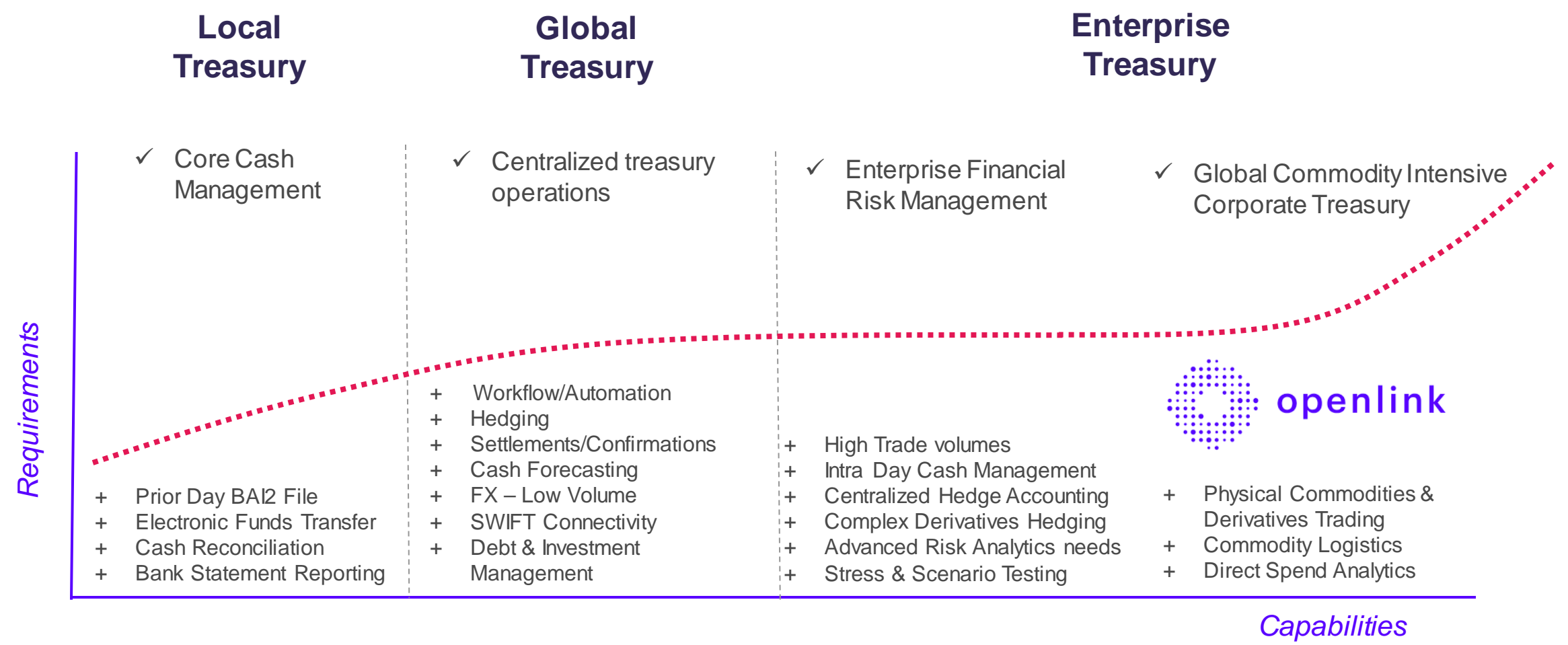
Strategic

- Enterprise view of data
- Global exposures and risk
- Integration

Platform

- Single Source of Truth
- Asset Class Coverage
- Breadth of Functionality
- Flexibility
- Cloud vs On-premises

Client Needs Vary Depending Upon Business Requirements






Enterprise Treasury Consolidated in One System

For Enterprise Treasury, maximum effectiveness requires a product that is modular, scalable and integrated

- Open and Flexible Architecture
- Single source of truth
- Deliver on-premise or Cloud

Reporting	Dashboards		Accounting		Regulatory Reporting	
Enterprise Risk	Analytics	Stress testing		Hedge Effectiveness	Limit Monitoring	
Commodities	Direct spend	Inventory		Category Management	Trading	
Financial Trading	Investment	Debt		FX	Derivatives	
TMS	Payments	Pooling	Reconciliation	In-house Banking	Cash Position and Forecast	Bank Reporting

Some Client Use Cases

	Scenario	Resolution
 Consumer Packaged Goods	<ul style="list-style-type: none">• Position management was spreadsheet dependent and error-prone.• Opaque hedging program prone to hedge redundancy.• Annual production planning was time-consuming.• Multiple point solutions with included TMS, Risk and Hedge Accounting	<ul style="list-style-type: none">• 3 systems (commodity price risk management, derivative and treasury management) in one single product - OpenLink• Centralized global treasury, cash mgt. and commodities hedging• Giving the business a holistic view of risk, as well as opportunities to maintain and improve margins, all while reducing costs
 Bulk Commodities and Refining	<ul style="list-style-type: none">• Metals and cash exposures in separate systems• Opaque hedging program prone to hedge redundancy.• Annual production planning was time-consuming.	<ul style="list-style-type: none">▪ Centralized treasury, cash mgt. and metals hedging in a single product – OpenLink▪ Transparency on all treasury activities▪ Improved their operational efficiency▪ Reduced IT costs
 Transportation	<ul style="list-style-type: none">• Separate systems for risk and treasury• Limited risk analytics (e.g., no VaR)• High cost to maintain• No integration between systems• Changes required IT and too much time	<ul style="list-style-type: none">▪ Replaced legacy TMS and Hedge Accounting with single product – OpenLink▪ Full automation from execution through into ERP▪ Reduced multiple interfaces and reconciliation▪ Centrally managed

Questions?