

Managing Price and Counterparty Risk

CME GROUP BLACK SEA WHEAT AND CORN CONTRACTS



Launched in December 2017, CME Group's cash-settled (Platts) Black Sea Wheat and Corn futures contracts, and options subsequently listed, have been widely adopted by physical market participants to manage price and counterparty risk in the Black Sea grain cash markets. 320,000 lots, equivalent to 16 million tonnes, of Black Sea futures and options were traded, cleared and settled between launch and July 2019, with no defaults, reflecting the appeal of counterparty guarantee and hedge effectiveness of the contracts for clients with exposure to the region.

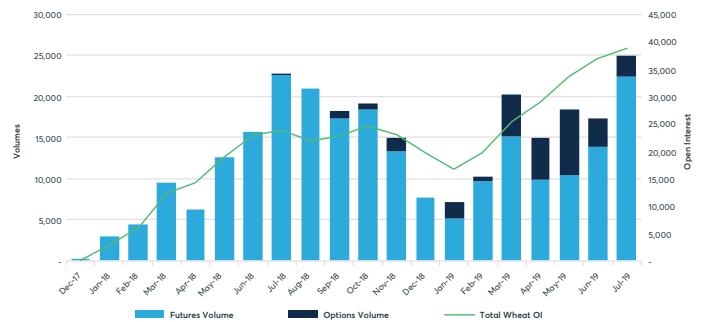
Black Sea Contracts are Cleared

Black Sea wheat futures and options are cleared by CME Group. CME Group is the central counterparty to all trades, thereby protecting customers from defaults and subsequent losses. This is not the case with OTC/bilateral trades between two parties, where there is no protection from default.



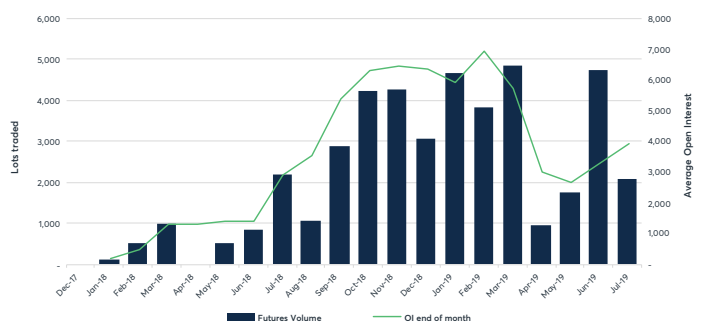
The cleared nature of CME's Black Sea Wheat and Corn contract has supported their quick adoption as a price risk management tool by a wide range of physical market participants, including producers, exporters, trading houses, and processors. By end July 2019, average daily volume reached 600 lots of Black Sea Wheat futures and 200 lots of options (equivalent to 40,000 tonnes of wheat daily) were traded and settled, with no defaults. July 2019 combined Black Sea Wheat futures and options hit an open interest on 39,000 lots, an increase of 50% year on year. Black Sea corn futures open interest and average daily volume have seen substantial year-on-year growth. By end July 2019, corn volumes totaled 23,000 lots (1.15 million tonnes of corn), an increase of 345% compared to the same period in 2018.

Black Sea Wheat (Platts) Futures and Options Volume and OI



Source: CME

Black Sea Corn (Platts) Futures - Volume and OI

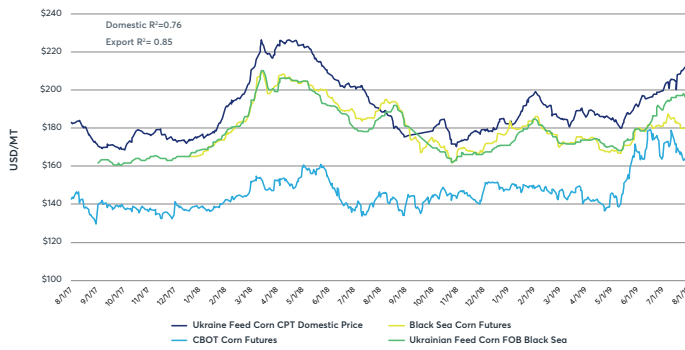


Source: CME

Black Sea Contracts Hedge Effectiveness

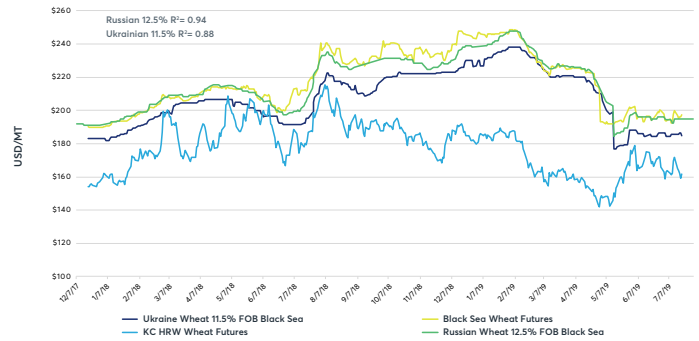
Hedge Effectiveness (R2) reflects how much price risk can be diminished when using a futures contract to hedge cash price exposure – 1.0 is a perfect hedge and a figure above 0.75 represents an effective hedge. Black Sea Wheat futures are a highly effective hedge for FOB Black Sea wheat cash markets, with hedge effectiveness equal to 0.94 for Russian 12.5% protein wheat and 0.88 for Ukrainian 11.5% protein wheat. As a hedging mechanism, Black Sea Corn futures are highly correlated with Ukrainian Domestic CPT and FOB Black Sea prices, with hedge effectiveness equal to 0.76 and 0.85 respectively.

Black Sea Corn (Platts) vs. Ukraine FOB and Domestic



Source: UkAgroConsult, CME

Black Sea Wheat (Platts) vs Russia and Ukraine FOB



Source: UkAgroConsult, CME

Accessing the Black Sea Contracts to Manage Price and Counterparty Risk

CME Group’s new cash-settled (Platts) Black Sea Wheat and Black Sea Corn futures and options contracts are well positioned to provide Black Sea grain cash market participants with effective price risk management, along with confidence that contracts will be performed.

For more information on the contracts, daily settlement prices, and how to access the contracts to trade, please visit www.cmegroup.com/blacksea or email blacksea@cmegroup.com today.

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