

Enhancing Hedging Strategy

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- Managing Foreign Exchange Risks
- Managing Interest Rate Risks
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Introduction to Standard Chartered Bank

Standard Chartered Bank in Thailand

Standard Chartered Bank Bangkok Branch has been in Thailand since 1894 (115 years)

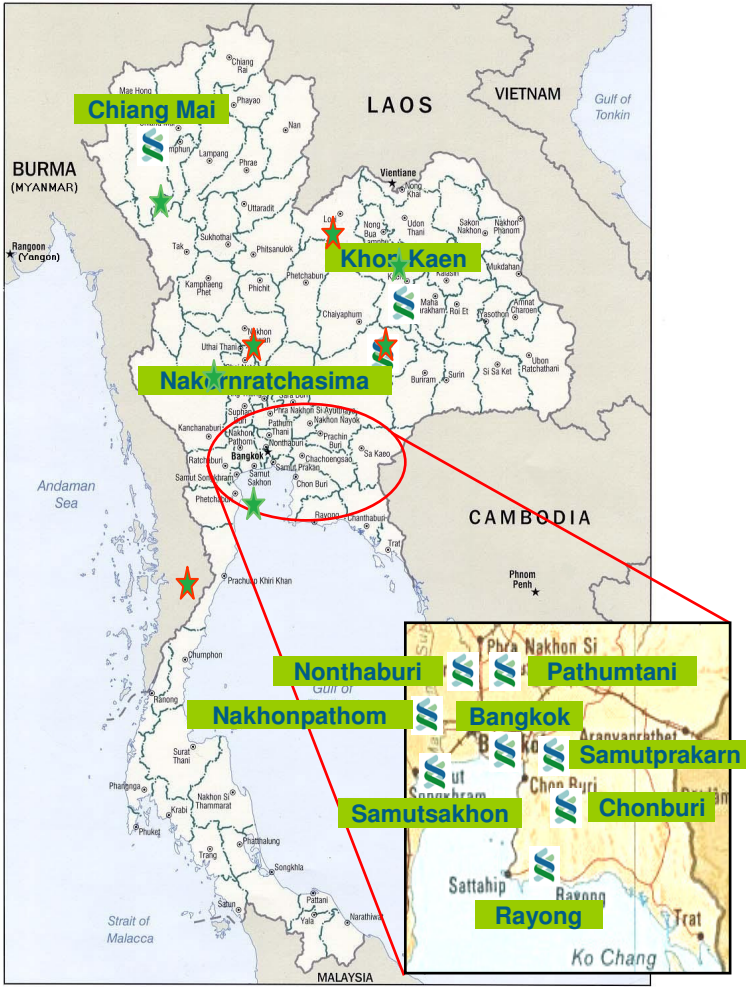
Acquired 99.8% stake in Nakornthon Bank and renamed to Standard Chartered Bank (Thai) Pcl in 2005

Benefits from being a local commercial bank yet, a part of a global financial institution

Offers complete suite of consumer, corporate and financial institution products

Fast Facts

- 31 branches in 12 cities
- 2,300+ staffs
- 620,000+ customers
- Assets over USD 5 billion
- Deposits over USD 3 billion
- Revenue over USD 300 million



Service Offerings

“SCBT is one of the selective banks in Thailand that is able to provide complete advisory and banking solutions to clients”

Commercial Banking Services

- Lending
- Supply Chain Financing
- Cash Management
- Trade Services
- Custody & Securities Services

Financial Markets

- Foreign Exchange & FX Options
- Interest Rates Swaps
- Cross Currency Swaps
- Commodity Derivatives
- Debt Capital Markets
- Loan Syndication
- Asset Backed Securitisation

Consumer Banking Services

- Credit Card
- Personal Loan
- Savings & Deposits
- Mortgage
- Bancassurance
- Investment Services

Corporate Finance

- Corporate Advisory
- Structured Trade Finance
- Project & Export Finance
- Private Equity

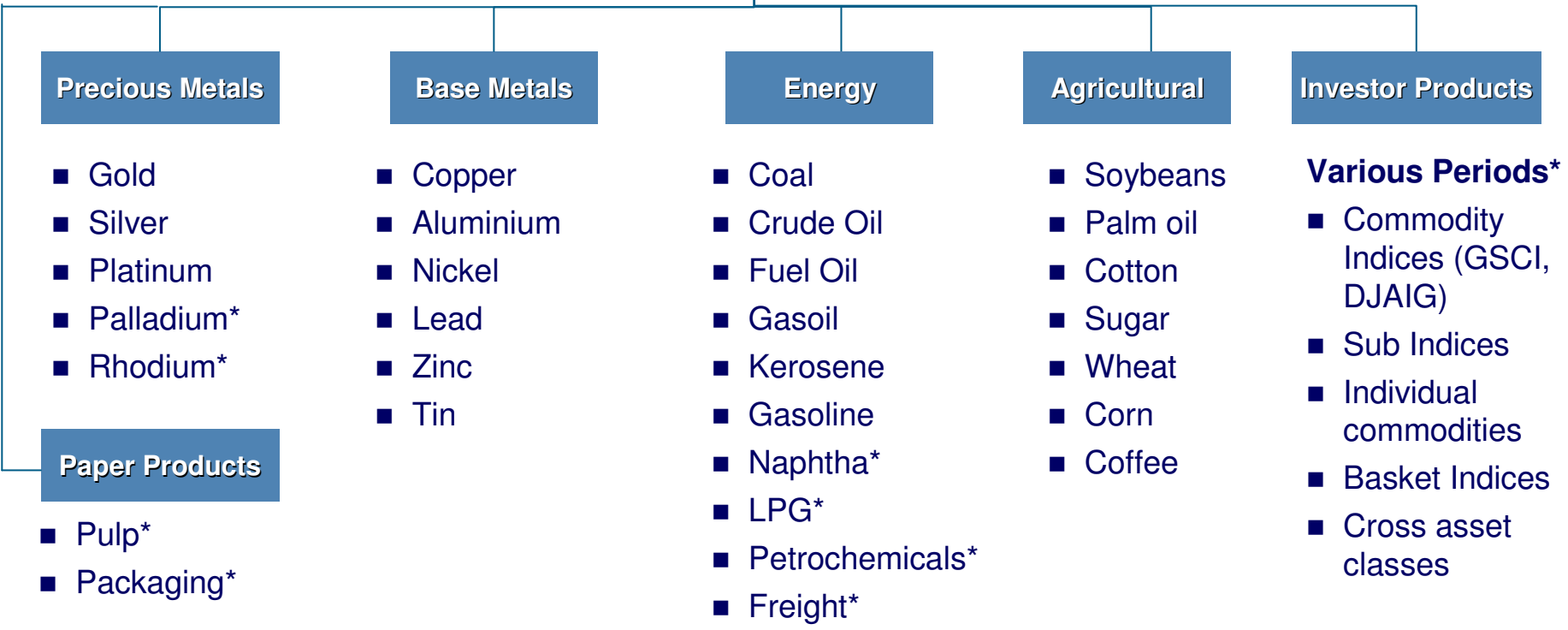
Selection of our clients in Thailand



Managing Sugar Price Risks

Commodities Offerings

Standard Chartered Bank Global Commodities



* Markets are not liquid. It will take times to get indicative pricing.

The best way for executions are via orders.

Sugar Indices

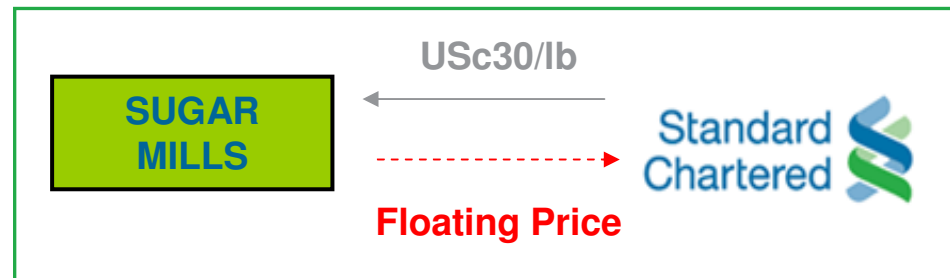
1.) Raw Sugar No.11 (ICE)

2.) Refined Sugar No.5 (LIFFE)

	Raw Sugar No.11	Refined Sugar No.5
Reference Month	March, May, July, October	March, May July September, December
Products	Swap - Bullet & Average up to 2 years	Swap - Bullet & Average up to 2 years
	Options & Structure - Vanilla European & Asian	Options & Structure - Vanilla European & Asian
Minimum Amount	10 lots	10 lots
Contract Size	1 lot = 112,000lb	1 lot = 50mt
Price Terms	US cents per pound (Usc/lb)	USD per metric tonne (USD/mt)

Liquidity Swap

References:	New York Sugar #11/ May 11
Fixing Date:	28 th April 2011 (2 days before first notice date)
Hedging Strategy:	Sugar Mill Sells Swap (Sugar#11 – May 2011) 120 lots Sugar mill Receives Fixed Rate at USc30/lb; and Sugar mill pays Floating Rate (Settlement Price of Sugar#11 - May11)



Swap Payoff:	If Floating Price < USc30/lb, CPI receives [30– Floating Price] per lb
(Cash Settlement)	If Floating Price > USc30/lb, CPI pays [Floating Price – 30] per lb
Liquidity Swap Fee	To be agreed

The payment is T+2 (2nd May 2011) / following business day basis

Unwinding the Swap (Close the Position)

Unwinding The Position

Prior to Expiry Date, Sugar mills can unwind (close out) selling position by **buying back** at the-then Market Rate.

Example: (Sugar#11 May11 goes down to USc25/lb)

Outstanding Position: Sugar mills sell at USc30/lb for 120 lots

Sugar mills would like to unwind, hence

Sugar mills buy Sugar #11 May11 120lots at market rate (USc25/lb)

Net settlement is Sugar mills gain USc30/lb on 120lots

Sugar mills receive USc30/lb * 120lots = USD672,000 [before PV]

Example: (Sugar#11 May11 goes up to USc35/lb)

Outstanding Position: Sugar mills sell at USc30/lb for 120 lots

Sugar mills would like to unwind, hence

Sugar mills buy Sugar #11 May11 120lots at market rate (USc35/lb)

Net settlement is Sugar mills lost USc5/lb on 120lots

Sugar mills pay USc5/lb * 120lots = USD672,000 [before PV]

*As required by BOT, the settlement will be in THB and therefore Sugar mills to fix the USDTHB for the settlement

Liquidity Swaps vs Exchange Futures

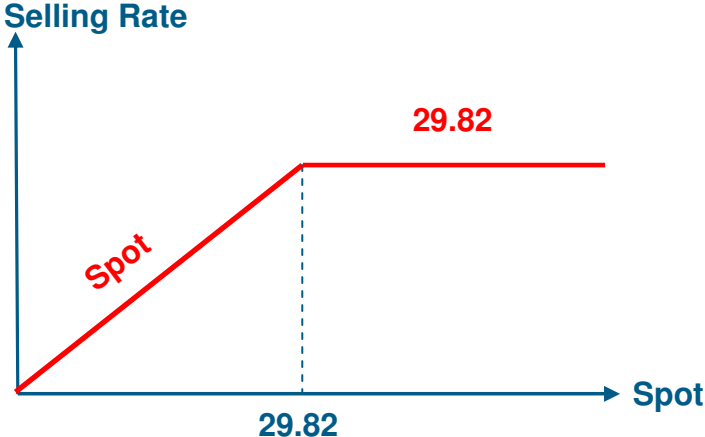
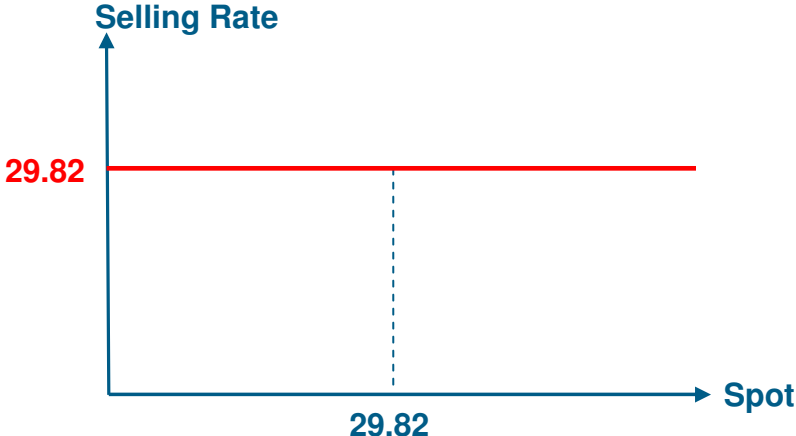
LIQUIDITY SWAPS	EXCHANGE FUTURES
ORIGINAL MARGIN	
No Original Margin Required.	Required – there is an associated funding cost with financing margins/access to credit issues
VARIATION MARGIN	
Based upon CSA threshold. There is no call for margin under the threshold.	Required – margin to the exchange receives no interest and there are daily pay/receive requirements for variation margins

- Swaps are financially settled at maturity based on official exchange settlement prices
- Swaps can be early matured through offsetting transactions and the net positive or negative equity in the transaction present valued
- Swaps position can be rolled forward at prevailing rates
- Swaps are governed under an ISDA Master Agreement
- MTM is measured against a CSA threshold

Managing Foreign Exchange Risks

Enhanced Forward: Exporter

Spot ref 29.62, 6mth FWD 29.72



Two Settlements with a Better rate than Forward

Payout at Expiry

1st Settlement: 1 month

- Client sells USD1mil @ 29.82

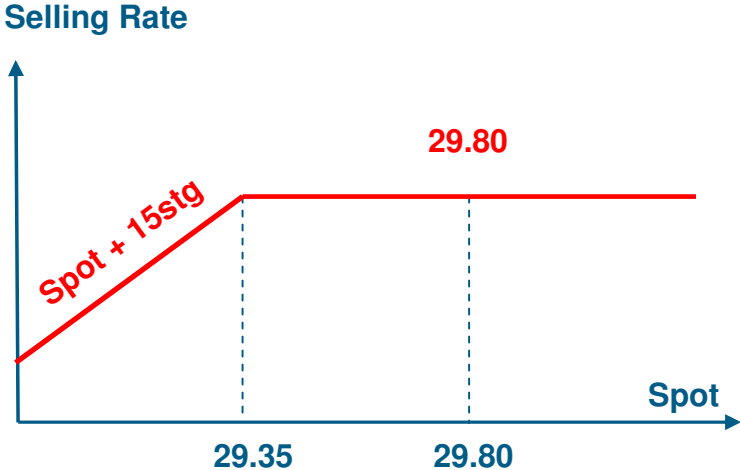
2nd Settlement: 6 months

- If Spot \geq 29.82, Client sells \$1mil @ 29.82
- If Spot $<$ 29.82, No obligation

Pros	Con
<ul style="list-style-type: none"> Guarantee 1st sett at Better rate than FWD 2nd sett give better Strike rate than FWD 	<ul style="list-style-type: none"> No protection (2nd sett) if Spot $<$ Strike

Subsidized Forward: Exporter

Spot ref 29.62, 6mth FWD 29.72



Better rate than FWD with Rebate

Payout at Expiry

- If Spot > 29.35, Client sells \$1mil @ 29.80
- If Spot <= 29.35, Client receives 45stg/USD

<p><u>Pros</u></p> <ul style="list-style-type: none"> ■ Better rate than Forward (8stg) ■ Max rate: 29.80 	<p><u>Cons</u></p> <ul style="list-style-type: none"> ■ If Spot <= 29.35, Client has to sell at Spot, but will get some rebate ■ Min rate: Spot + 45 stg
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Managing Sugar Interest Rate Risks

Interest Rate Swap (IRS)

Definition:

An agreement / obligation between two parties to exchange the floating interest payment with fixed interest payment in the same currency for each periodic interest period.

Case A: The client pays fixed rate and receives floating rate



Case B: The client pays floating rate and receives fixed rate



THB Floating Indices

Average 6-month Fixed Deposit Rate: **Average of 6-month Fixed Deposit Rate from 4 large local banks i.e. BBL, Kbank, SCB, and Krung Thai Bank**
Source: www.bot.or.th, 3pm Bangkok time

Average MLR: **Average of MLR from 4 large local banks i.e. BBL, Kbank, SCB, and Krung Thai Bank**
Source: www.bot.or.th, 3pm Bangkok time

Cross Currency Swap (CCS)

Definition:

An agreement / obligation between two parties to exchange the interest payment in one currency with the interest payment in another currency for each periodic interest period. The interest payment on both leg can be either fixed or floating interest rate.

What for?:

To manage the currency mismatch of cash-inflows and cash-outflows.

Interest Payment:



Principal Exchange (at maturity):



Local Corporate Contacts: 02-724-8880



Ketrat



Nichapat



Darin



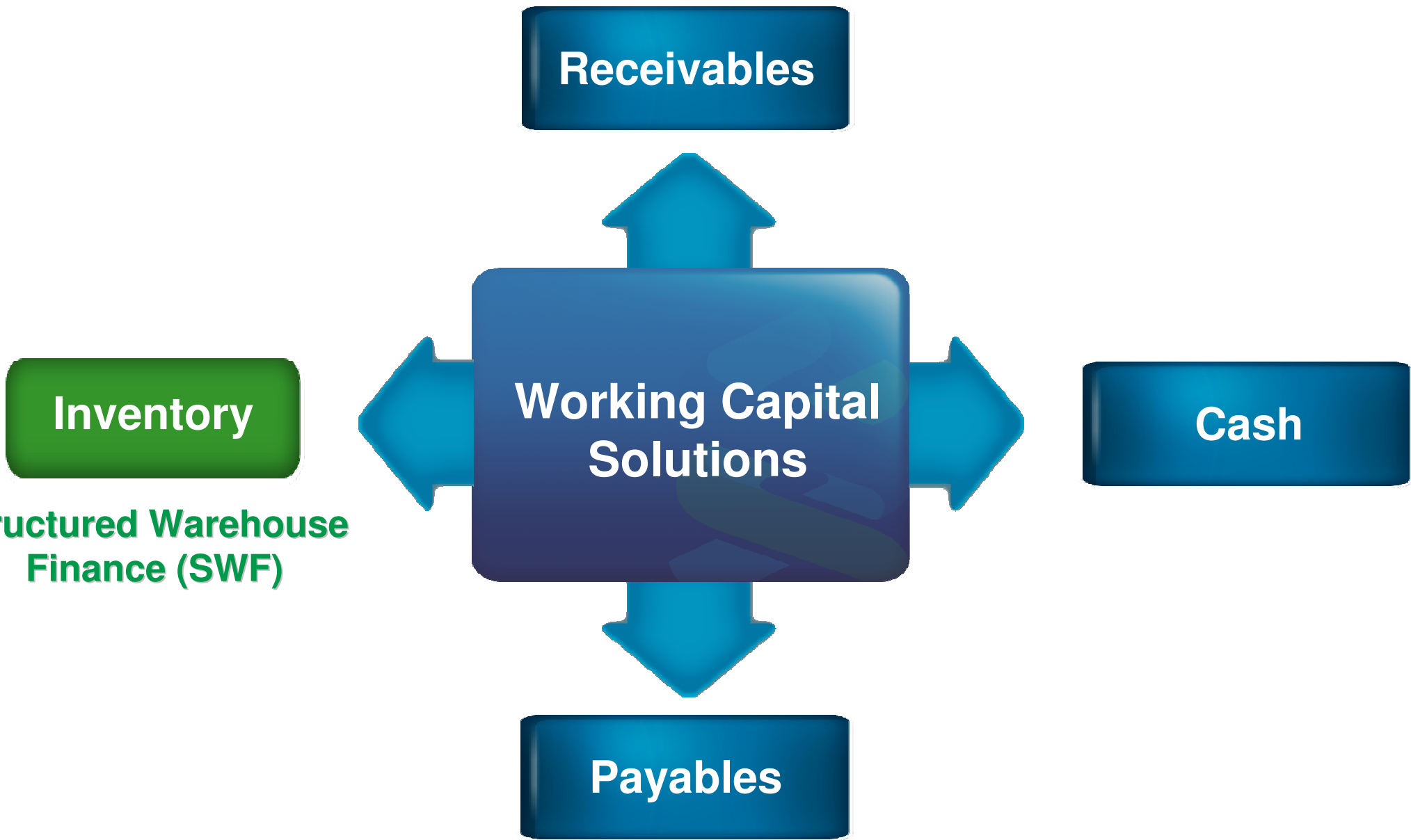
Triwit



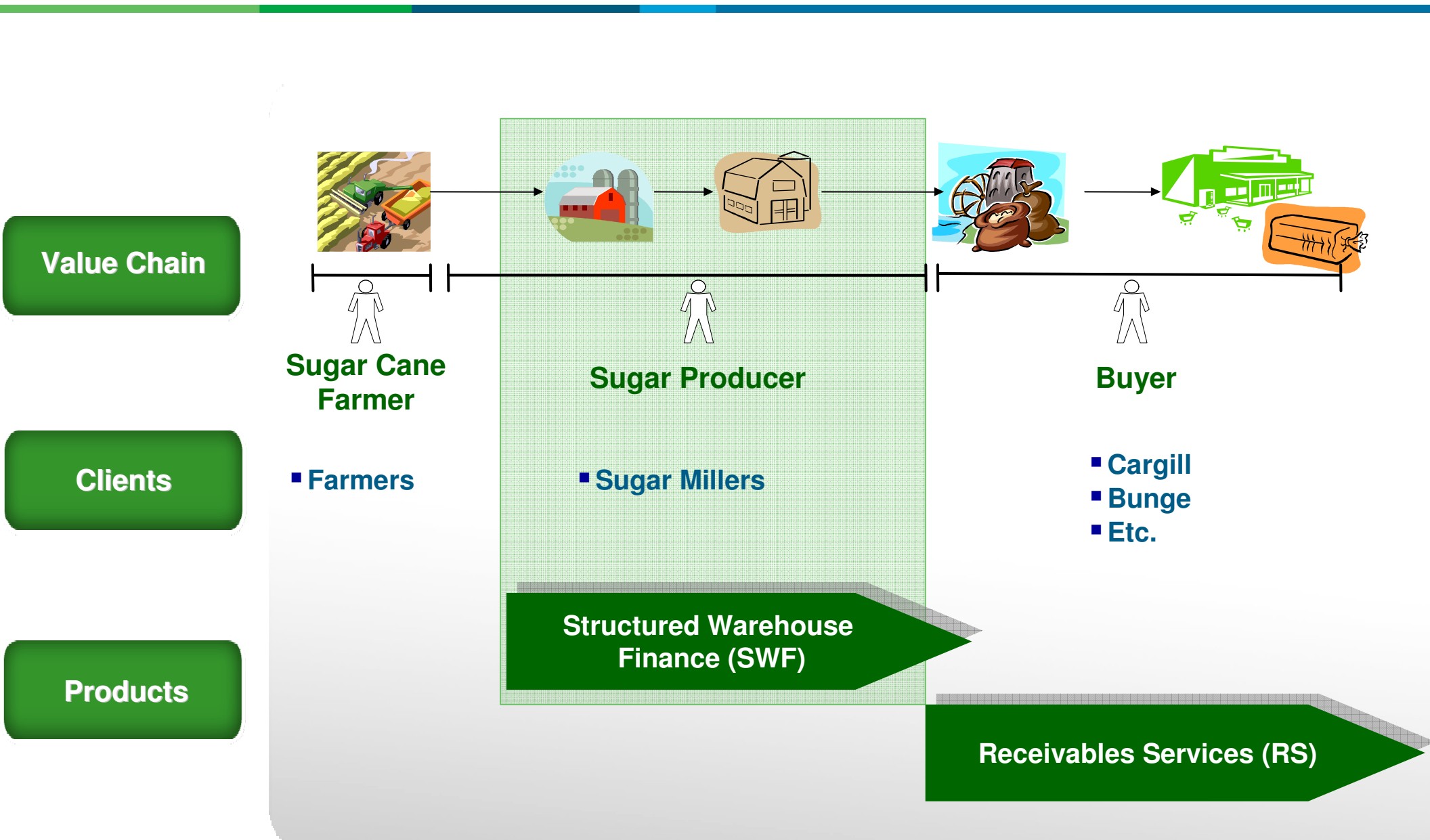
Benjamas

Funding Linked to Hedging

Complete Suite of Working Capital Products



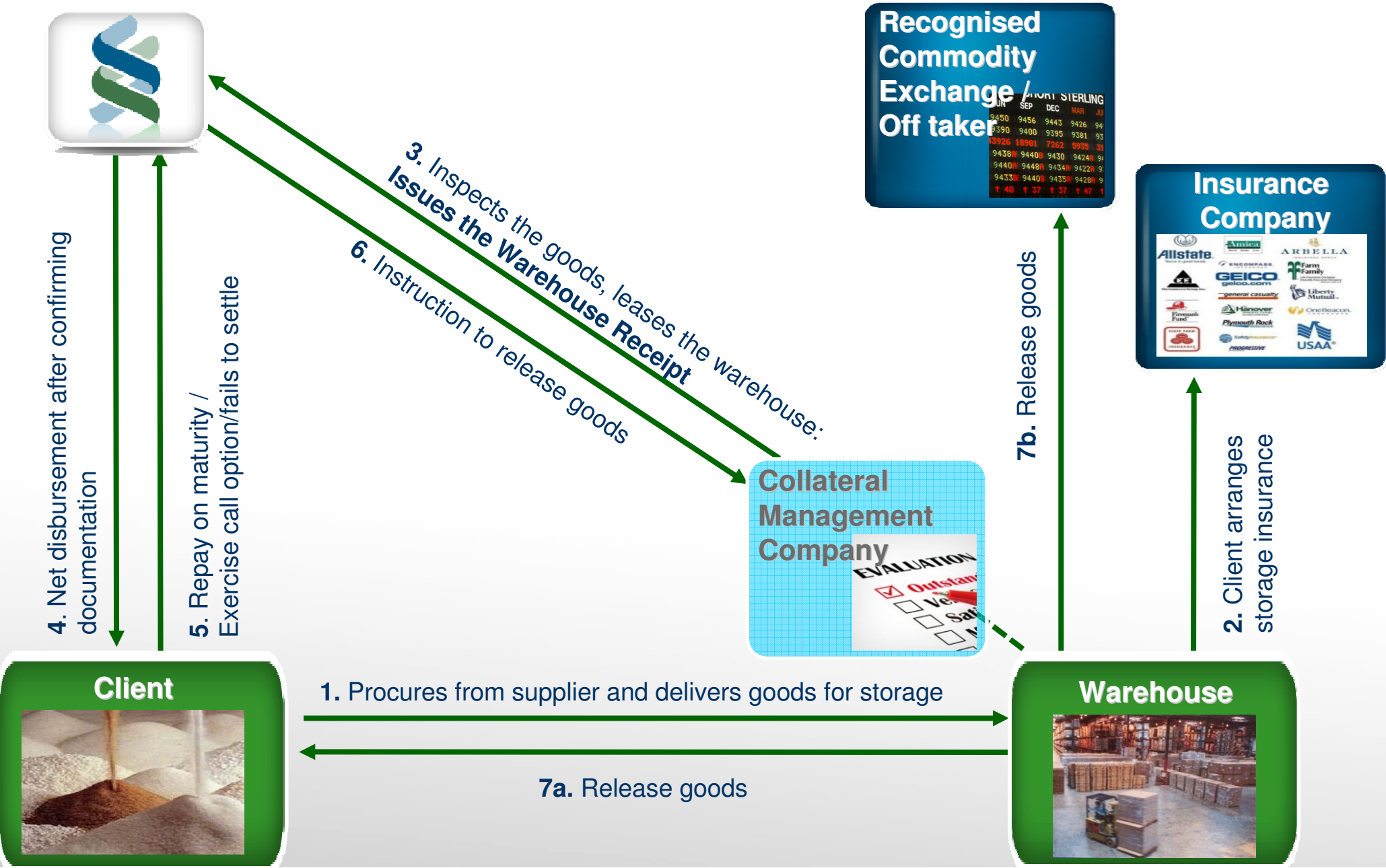
Structured Warehouse Finance in the Value Chain



Funding Your Inventory

- **End-to-end inventory financing solution**
- **Financing up to 80% of Raw / Refined Sugar Current Market Value in your warehouse**
- **Mark-To-Market approach to price risk**
- **Primary risk and evaluation on the commodity**
- **Bank has control and title to Raw / Refined Sugar for the entire financing tenor**
- **Physical control Raw / Refined Sugar through a CMC appointed by SCB**

Transaction Flow



Recognised Commodity Exchange / Off taker

	APR	SEP	DEC	MAR	JU
9450	9456	9443	9426	94	
9390	9400	9395	9381	93	
9326	18981	7262	9919	31	
9438	9440	9430	9424	91	
9440	9448	9434	9422	9	
9433	9440	9435	9428	9	
	1 40	1 37	1 37	1 47	1



How Does MTM Work? – An Example

Assuming the following:

- Market price (LIFFE / ICE) on financing day is \$100
- Financed percentage is 80% = \$80
- Stop Loss is set at 90% = \$90
- The MTM concept relies on margin top up to ensure that the price does not fall below the stop loss level
- If the price falls from \$100 to \$90 there is no need for a top up since we still have a collateral buffer of \$10 (\$90-\$80)
- If the price falls below \$90 say to \$88, the client will top up the \$2 within 24 hours to restore collateral value to \$90
 - Client can top up more than the required \$2
 - Top up can be in additional collateral or cash
 - Failure to top up within 24 hours will result in the bank liquidating the collateral at the prevailing market price in this case at \$88
- Sugar Hedging can be applied to fix the value of the inventory – less top up requirement

Benefits To The Clients

Better Procurement Price

Ability to secure goods at a better price (quantity wise) and improving marketability through a significant savings in transport costs since optimum quantities can be ordered.

Financial Position Not The Key Driver

Less reliance on balance sheet of the client for FAWR but on commodity

Incremental Financing & Better Use of B/S

Access to incremental financing using inventory as collateral

Taking Advantage of Favourable Market Conditions

Client is able to build inventory when the conditions are favourable for instance low prices during harvest time for agri commodities

Financing Linked to CMV

For commodities there is relative flexibility in facility amounts available when price rises as the facility is linked to the market value

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Thank You

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