



# KYOS Commodity Risk Solutions

## Insights in risks

### Butter & whey



March 2024

#### Learn about the risks of a commodity portfolio with KYOS Insight in Risks.

What are the risks you are facing? At KYOS we offer several analytical modules in our platform to optimize your business:

- **Risk reporting:** understanding the current situation
- **Risk analytics:** simulating the future.

In this report we would like to explain two important advanced risk metrics: Cashflow-At-Risk and Value-At-Risk. These are based on market price volatilities, correlations and Monte Carlo simulations,

We will compare two commodities to illustrate the amount at risk, and what measures you could take to mitigate the risk.

#### Advanced risks metrics offered by KYOS:

- **Stress tests:** how are your financial results if there is a specific change in market prices, volatilities or positions?
- **Options and accumulators:** what are the values of your derivatives, using Monte Carlo simulations?
- **Value-at-Risk:** what is a '95% worst-case' impact on your MtM in one single day?
- **Cashflow-at-Risk / Profit-at-Risk:** what is a '95% worst-case' scenario of your cash-flows over a longer period?

### Portfolio example: butter & whey

In this example we show a food producer who needs to buy butter and whey during the budget year 2025. In the table below we present the current costs to hedge this portfolio on the forward market (without any margins for the supplier). In QII, QIII and QIV we will follow the portfolio value and associated price risks to keep you updated.

22 Mar 2024			
Commodity	Exposure	Average price	Total
Butter	1,500 MT	6,001 EUR / MT	EUR 9,0 million
Whey	7,200 MT	1,022 EUR / MT	EUR 7,4 million
Total			<b>EUR 16,4 million</b>



### Cash-flow at Risk

The Cashflow-at-Risk is calculated as a '95% worst-case' scenario of your cash-flows over a longer period. If you do not hedge this "floating priced" position, your Cashflow-at-Risk (=CfaR) from today until 31 December 2025 (=21 months) can be presented as the potential cashflow difference between:

Sourcing volume \* current market prices versus

Sourcing volume \* simulated market prices

	22 March 2024
Current value	Eur 16.4 mio
5% worst case scenario	Eur 21.4 mio
Cashflow-at-Risk	Eur 21.4 mio - Eur 16.4 mio = Eur 5.0 mio

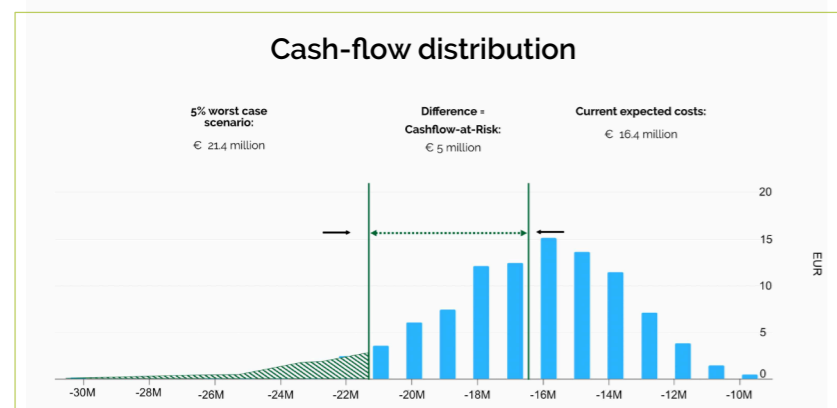
We estimate with 95% confidence that the total costs to source these two commodities will not be more than Eur 21.4 mio. This means that the difference between the current costs Eur 16.4 mio and the worst-case costs (Eur 21.4 mio) is the CfaR of Eur 5.0 mio.

To reduce the CfaR, you can use financial instruments like hedging with swaps, futures and options like accumulators. Or agree a partially fixed price with your supplier.

What will you do? Hedge now, at current market prices and pay Eur 16.4 million? Or leave it open? There is a 5% chance that costs will go up and you have to pay an extra Eur 5 million—or more.

KYOS can calculate the "cashflow@risk" of your particular position & hedging strategy.

The graph underneath shows the distribution of the CfaR.

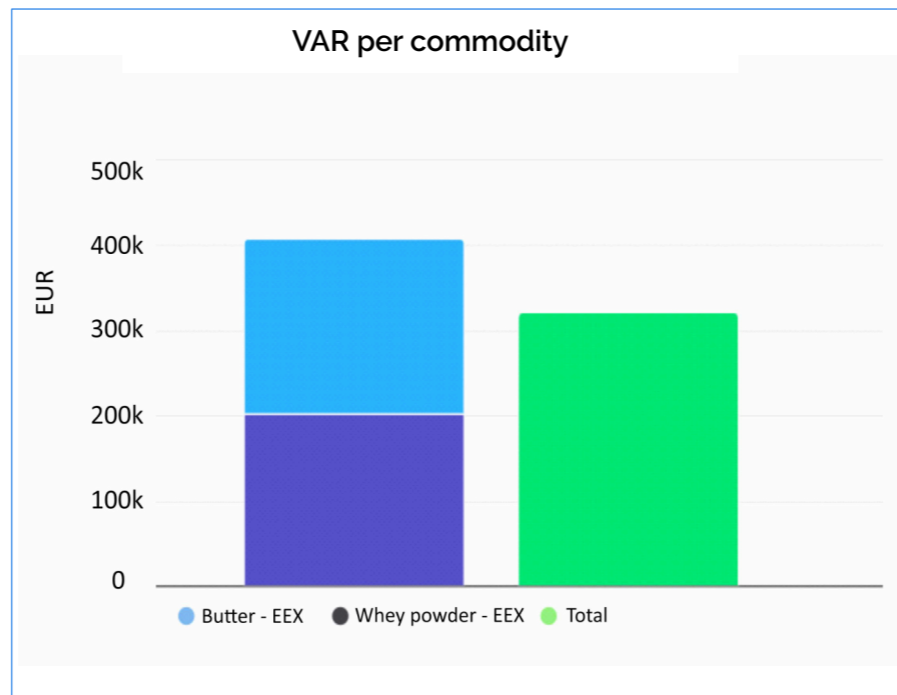


### Value-at-Risk

The Value-at-Risk shows the '95% worst-case' impact on your MtM due to various price changes in the short-term.

The graph shows the Value-at-Risk for a basket of commodities: left for the individual commodities butter and whey, on the right for the two together. Do you notice the difference? The combined exposure is lower than the sum of the two because the commodity prices are not strongly correlated.

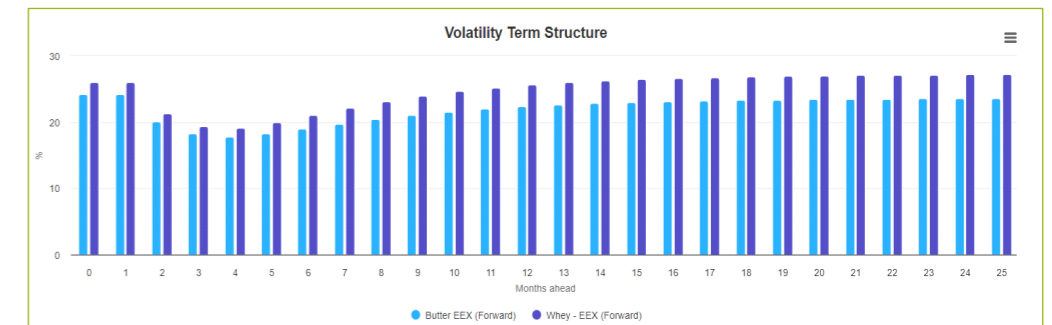
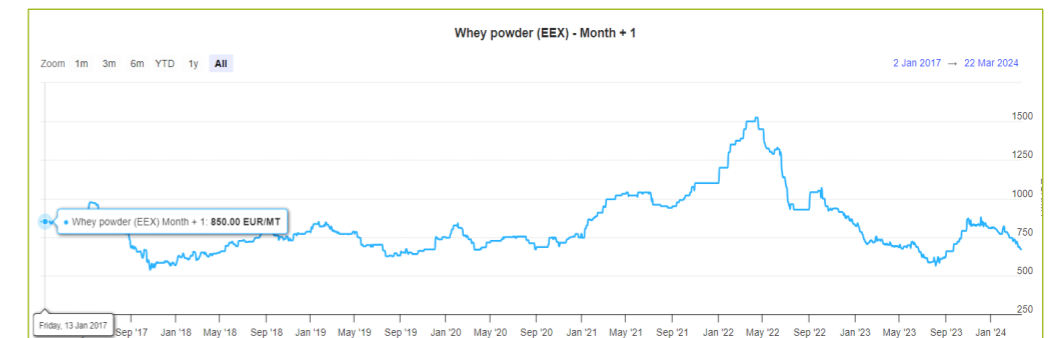
See in the table the Value-at-Risk calculations for 1 day. We also show how quickly the value could go up (or down) for 10 days (holiday scenario). Beware that this is not the maximum. The actual cost increase may be higher with 5% probability.



VAR Per commodity: 1 day vs 10 days - all amounts in Euro.

		22 March 2024	
Commodity	Exposure	1 day	10 days
Butter	1500 MT	205,706	648,447
Whey	7200 MT	201,695	594,410
Total individual		407,401	1,242,857
<b>Total basket</b>		<b>322,548</b>	<b>902,114</b>

### Market Trend





## Advantages KYOS Portfolio and Risk Management System

### Short term versus Long term

KYOS software is used globally by procurement teams to calculate short- and long-term risks.

Short term risks can be calculated using stress tests or by using Value@Risk (=VaR) calculations. VaR can be calculated using different modelling techniques and depending on the underlying commodity, clients should apply a different technique.

### Accumulators - embedded options

Many clients in the food & beverage industry use accumulators to manage the price risk. KYOS has developed software to verify price valuations. It enables our clients to have an independent calculation of the value as well as the MtM. It also enables clients to play with the strikes to find their optimum.

### KYOS adds value

To help you understand price risks and improve your company's cash flow prediction, KYOS has developed risk management software to effectively manage any commodity portfolio. This software is tailor-made to reflect your specific requirements. The KYOS commodity portfolio & risk management system captures years of industrial experience in managing budgets, commodity contracts, physical and/or financial hedging, market price analysis including sophisticated cash flow forecasting.

### For all departments

Are you still using different spreadsheets to calculate your numbers? Whether you are in Procurement, Sales, Finance or Treasury – every department needs good, dependable figures. We at KYOS are confident a good cash flow forecast will make your life easier.

Please do not hesitate to contact us so we can discuss how we can help you save time – and probably money too.

This is just a brief overview of what we can offer you. Have a look at our website [www.kyos.com](http://www.kyos.com) for more detailed information.

Do not hesitate to contact us for more information, or a short demonstration: [info@kyos.com](mailto:info@kyos.com)



### Head office and European markets:

Nieuwe Gracht 49  
2011 ND Haarlem  
The Netherlands  
E-mail: [info@kyos.com](mailto:info@kyos.com)  
Tel: +31 (0)23 551 02 21

[www.kyos.com](http://www.kyos.com)