

Steel Futures and Price Hedging Workshop

Agenda

- A. **Steel Prices** – What Happened and Why – A Witness to History
- B. **Steel Cost** – What Can I Do About It – Planning for Uncertainty
- C. **Steel Futures** – What is Happening and Where – A \$25 Trillion Market
 - 1. NYMEX vs. LME vs. OTC – Financial vs. Deliverable vs. Swap
 - 2. What does all this mean for us, our customers, and our competitors?
 - 3. How do we take advantage of this opportunity?
- D. **The Five C's of Hedging**
 - 1. **Control**
 - i. Planning your bottom line in advance
 - 1. Without a hedge, you are speculating
 - 2. Don't be left at the mercy of the market
 - ii. Combine existing market risk (that you already have) with an *equal but opposite* financial risk (steel hedge)
 - iii. A true hedge has no losers
 - 2. **Concepts**
 - i. Futures, Swaps, Options, Collars, Etc.
 - ii. Give up the plus to avoid the minus
 - iii. Buy & sell as you always have
 - iv. Use the hedge cash flow to offset price movement up or down
 - 3. **Correlation**
 - i. Converting internal data to external indexes
 - ii. Nobody but you cares what you actually pay
 - iii. Basis Risk – the hidden land mine
 - 4. **Credit**
 - i. Credit limits, Margin calls, Mark to market
 - ii. What you should expect from your counterparty
 - iii. What will be expected of you
 - 5. **Command**
 - i. From the Board to the trader to the documentation
 - ii. **No Monday morning quarterbacking**
 - iii. FAS 133
 - iv. Sarbanes-Oxley
- E. **What Next** – The 3 Requirements for Every Company
 - 1. Educate yourself
 - 2. Designate a Chief Risk Officer
 - 3. Establish a relationship with a firm that can execute your transactions



Jonathan C. Putman, Chairman & CEO

After 25 years at Hanna Steel Corporation, the first 18 as CFO and the last 7 as Executive Vice President Steel Purchasing, Putman launched Birmingham Futures in 2003. Birmingham Futures seeks to match counterparties who desire to eliminate market risk in domestic steel & scrap prices through the use of Steel Futures and over the counter (OTC) price swaps. Birmingham Futures Incorporated is a registered member of the National Futures Association (NFA ID: 0404229) and an Introducing Broker Guaranteed by FCStone LLC.