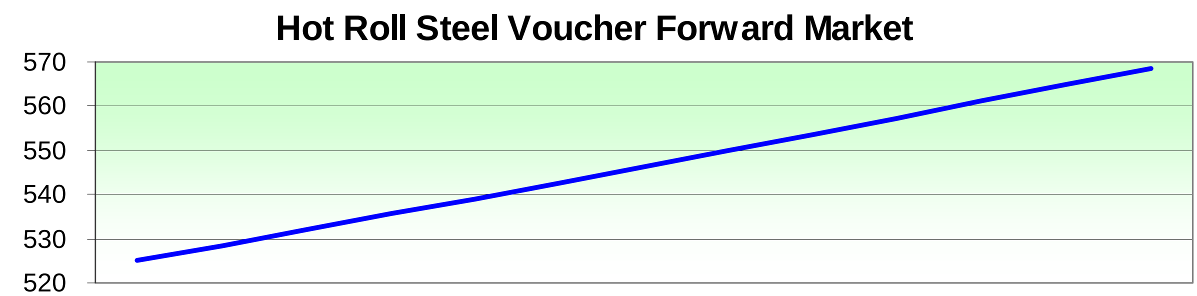
Birmingham Futures Exchange
210 Olde Towne Road
Birmingham, Alabama 35216

Steel Price Hedging Examples Utilizing A Forward Voucher Market



	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Hot Roll	525.00	528.50	532.02	535.57	539.14	542.73	546.35	550.00	553.66	557.35	561.07	564.81	568.57

All examples use the simulated data in the above chart.

Construction Project

Market Issue: Contractor wins a bid to build a new bridge. He used the voucher forward curve to estimate steel cost of $542.73 a ton based on a May 2008 delivery. He must now lock in his cost and would prefer not to tie up his capital buying the vouchers today.

Voucher Solution: Contractor buys forward vouchers for May delivery at $542.73 a ton to cover his projected cost and posts the required margin, which is only a fraction of the final purchase price. To avoid any potential basis risk (the difference between the voucher price and steel invoice) he decides to make the voucher mill his preferred supplier. When the steel is delivered in May he settles his forward voucher purchase for $542.73 and pays his steel bill with vouchers. Whether steel prices rise or fall the contractor enjoys the budgeted steel cost and has avoided leaving his bottom line at risk due to increasing steel prices.

Foreign Buy

Market Issue: Domestic buyer wants to buy 5,000 tons of foreign steel at the spot price in effect at time of delivery in May 2008 less the current $20 price advantage. The foreign trader must commit to the current mill price at the time the order is placed in December 2007.

Voucher Solution: Buyer agrees to pay for material with 4,810 tons in vouchers (reflecting the $20 discount) in May 2008. Trader sells 4,810 forward voucher tons for May delivery at $542.73 a ton to cover his order at the current mill price of $505. This yields $17/ton extra for his trouble. Buyer purchases 4,810 voucher tons at spot price in May to pay for his 5,000 tons of steel, enjoying the price discount and lower cost if steel prices have fallen but paying more if prices have risen. In either event, the trader receives the vouchers from the buyer to deliver against his forward sale and receives the cash from his forward sale to cover his purchase order at the foreign mill.

Arbitrage Opportunity

Market Issue: Astute investor realizes that he can purchase vouchers today and sell them forward for May delivery at below $542 a ton and still make more profit than he is currently earning on his cash. In addition, he has the potential to lend his vouchers to short sellers during the 5 months and make additional income.

Voucher Solution: Voucher forward prices continuously adjust based on the dynamics of an aggressive buy/sell marketplace thereby insuring competitive pricing for all participants.

(205) 972-1300 • info@bfex.net • www.bfex.net