

## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENT .....</b>	<b>II</b>
<b>LIST OF TABLES .....</b>	<b>VII</b>
<b>LIST OF FIGURES .....</b>	<b>IX</b>
<b>ACRONYMS AND ABBREVIATIONS.....</b>	<b>XI</b>
<b>ABSTRACT.....</b>	<b>1</b>
<b>1 INTRODUCTION.....</b>	<b>2</b>
<b>2 OBJECTIVES OF THE STUDY.....</b>	<b>4</b>
<b>3 RESEARCH QUESTIONS .....</b>	<b>5</b>
<b>4 STRUCTURE AND METHODOLOGY .....</b>	<b>6</b>
<b>5 PUBLIC WAREHOUSING AND FUTURE MARKET IN HUNGARY .....</b>	<b>7</b>
5.1 PUBLIC WAREHOUSING IN HUNGARY .....	7
5.1.1 Brief History .....	7
5.1.2 Concept .....	9
5.1.3 The Whole Process at a Glance.....	10
5.1.4 Key Conditions for a Guaranteed Operation.....	11
5.1.5 Warehousing in Hungary .....	12
5.1.6 Risks Involved in Negotiating Warehouse Receipts.....	17
5.2 FUTURE MARKETS .....	18
5.2.1 Brief History .....	18
5.2.2 Basic Concepts .....	18
5.2.3 The Whole Process at a Glance.....	20
5.2.4 Key Conditions for a Successful Operation .....	23
5.2.5 Future Markets Within the EU With Special Focus on Hungary.....	25

<b>6</b>	<b>RISK AND PRICE MANAGEMENT TOOLS IN THE EU .....</b>	<b>28</b>
6.1	BACKGROUND .....	28
6.2	ORIGIN OF INCOME CRISIS MEASURES AT EU LEVEL.....	30
6.3	EXISTING TOOLS (CAP AND WITHIN THE EU) AND PROPOSED TOOLS (COM 74) .....	31
6.3.1	Single Farm Payment (SFP).....	32
6.3.2	Set Aside Within the SPS.....	33
6.3.3	Single Area Payment Scheme (SAPS).....	34
6.3.4	Help for Semi-Subsistence Farmers.....	35
6.3.5	Coverage Against Income Crisis – Liquidity Support Payments .....	36
6.3.6	Risk Management Tools .....	37
6.3.6.1	<i>Marketing techniques</i> .....	37
6.3.6.2	<i>Hedging (futures and options)</i> .....	38
6.3.7	Crisis Management Tools .....	39
6.3.7.1	<i>Safety net provision of CMO (Cereal market)</i> .....	39
6.3.8	De Minimis. State aids .....	40
<b>7</b>	<b>KOZÁR MODEL.....</b>	<b>40</b>
7.1	FUNCTIONING IN BRIEF.....	41
7.2	STAGES OF THE MODEL.....	42
7.3	INPUTS OF THE MODEL.....	43
7.4	MODEL CALCULATIONS.....	44
7.5	KOZÁR RESULTS.....	48
<b>8</b>	<b>EXTENDING THE KOZÁR MODEL .....</b>	<b>52</b>
8.1	NEW ELEMENTS COMING FROM EU MEMBERSHIP (CAP IMPACT).....	52
8.1.1	Single Farm Payment (SFP).....	52
8.1.2	Set Aside Within the SFP.....	53
8.1.3	Single Area Payment Scheme (SAPS).....	53
8.1.4	Help for Semi-Subsistence Farmers.....	53

8.1.5	Coverage Against Income Crisis – Liquidity Support Payments .....	54
8.1.6	Safety net Provision of CMO (Cereal market).....	54
8.1.7	De Minimis: State aids .....	55
8.2	FINAL LIST OF ELEMENTS .....	56
<b>9</b>	<b>EMPIRICAL RISK ANALYSIS BASED ON AN EXTENDED KOZÁR MODEL.....</b>	<b>57</b>
9.1	BRIEF REVIEW OF DIFFERENT RISK ANALYSIS TOOLS .....	57
9.1.1	Risk Metrics .....	58
9.1.2	Historic Back Simulation .....	59
9.1.3	Monte Carlo Simulation Approach .....	60
9.1.3.1	<i>Fundamental mathematics of Monte Carlo simulation and VaR....</i>	<i>62</i>
9.1.3.2	<i>VaR Theory .....</i>	<i>63</i>
9.2	EQUATIONS OF NEW ELEMENTS AS A RESULT OF THE CAP .....	66
9.3	CONFIGURATION OF THE NEW SPREADSHEET .....	69
<b>10</b>	<b>APLICATIONS OF THE EXTENDED MODEL.....</b>	<b>71</b>
10.1	STEPS TO GENERATE SIMULATIONS ACCORDING TO CRYSTAL BALL® .....	72
10.1.1	Defining Assumptions.....	73
10.1.2	Defining Probability Distributions.....	73
10.1.3	Defining Forecast Variables.....	75
10.1.4	Defining Decision Variables.....	77
10.1.5	Run Simulation .....	78
10.2	BASE SCENARIO .....	78
10.3	COMPILATION OF DATA.....	82
10.4	SIMULATIONS RESULTS WITH CRYSTAL BALL® .....	86
10.4.1	Results for Assumptions .....	86
10.4.2	Results for Forecast Variables .....	87
10.4.3	Business Decisions.....	90
10.4.4	Comparisons between the Kozár Model and the Extended Model.....	98

<b>11</b>	<b>SUMMARY AND CONCLUSIONS .....</b>	<b>100</b>
<b>12</b>	<b>REFERENCES.....</b>	<b>107</b>
<b>13</b>	<b>APPENDICES .....</b>	<b>113</b>

## LIST OF TABLES

Table 1. Example of a transaction with future contracts .....	21
Table 2. Example of a transaction with future contracts .....	22
Table 3. Commodity information of a wheat future contract .....	27
Table 4. Inputs of the calculation. First stage.....	46
Table 5. Inputs of the calculation. Second stage.....	47
Table 6. Outputs of the calculation.....	49
Table 7. Results of stage 2. Prices in HUF/mt and €/mt. (Outputs of the calculation).....	50
Table 8. Elements (entries) of calculations .....	56
Table 9. New features of the extended Model.....	99
Table appendix B. Future daily statistics at the BET (17/02/2006) .....	116
Table appendix C. Monthly increases in the intervention price.....	117
Table Appendix D(b). Spreadsheet model in Microsoft Excel.....	121
Table Appendix E. New spreadsheet in Microsoft Excel with inclusions .....	122
Table Appendix G. Results of goodness-of-fit tests for lognormal distribution	126
Table Appendix H: Data series for each of the inputs with uncertainty .....	127
Table Appendix I(A): Variance-Covariance matrix $\Sigma$ .....	130
Table Appendix I(B): Matrix $A'$ .....	130
Table Appendix I(C): Matrix $Y$ .....	130
Table Appendix I(D): Matrix $Z$ .....	130
Table Appendix I(E): Matrix $\sigma\sqrt{t}$ .....	130
Table Appendix I(F): Matrix $\sigma\sqrt{t}Z$ .....	131
Table Appendix I(G): P1 simulated prices .....	131
Table Appendix J[B]: Descriptive statistics for selling price in HUF/mt .....	136
Table Appendix J[C]: Percentiles for selling price in HUF/mt .....	137
Table Appendix J[D]: Descriptive statistics for selling price in EUR/mt .....	138
Table Appendix J[E]: Percentiles for selling price in EUR/mt.....	139
Table Appendix J[F]: Descriptive statistic for VaR of May wheat futures in HUF/mt.....	140

**Table Appendix J[G]: Percentiles for VaR of May wheat futures in HUF/mt . 141**  
**Table Appendix K[B]: Trend chart data ..... 143**  
**Table Appendix K[C]: Combination of decision variables ..... 144**

## LIST OF FIGURES

Figure 1: The warehouse receipts financing process .....	10
Figure 2a. Wheat and Corn prices 02 Jun,2005 .....	14
Figure 2b. Wheat and Corn prices 11 Aug,2005 .....	14
Figure 3. Wheat and Maize spot prices from 1990 to 2004 .....	19
Figure 4. Development of public storage of cereals (Intervention stocks) .....	29
Figure 5. Daily future contract prices of May wheat 2002, from August 1, 2001 to April 30, 2002 in HUF/mt .....	45
Figure 6. The influence of exchange and interest rates on price .....	51
Figure 7. Prices of May wheat future contracts vs spot wheat market .....	80
Figure 8. Frequency distribution for interest rate (BUBOR-3 months) .....	84
Figure 9. Frequency distribution for exchange rate HUF/EUR .....	85
Figure 10. Frequency distribution for May wheat future contract price P1.....	85
Figure 11. Frequency distribution for soft wheat average price P1.....	86
Figure 12. Frequency chart of selling price in HUF/mt.....	88
Figure 13. Frequency chart – Forecast selling price in EUR/mt .....	89
Figure 14. Frequency chart of VaR for May future contract .....	89
Figure 15. Daily future contract prices of May wheat 2004, from August 1, 2003 to April 30, 2004 in HUF/mt.....	91
Figure 16. Frequency chart of VaR for selling price in HUF/mt.....	94
Figure 17. Frequency chart of VaR for selling price in EUR/mt.....	94
Figure 18. Frequency chart of VaR of May wheat future contract.....	96
Figure 19. March wheat price at the Budapest Stock Exchange in HUF/mt at 19:21 pm on February 8, 2006 .....	97
Figure 20. Model sensitivity and assumption uncertainty affecting a forecast .....	97
Figure H1. Overlapping between a graph paper and May futures graph.....	128
Figure J[a1]. Probability distribution for interest rate -BUBOR 3 months.....	132
Figure J[a2]. Probability distribution for exchange rate.....	133
Figure J[a3]. Probability distribution for May wheat future contract.....	134
Figure J[a4]. Probability distribution for Wheat spot market price.....	135

<b>Figure K[a1]. Certainty bands of multiple forecast for selling price in HUF/mt...</b>	<b>142</b>
<b>Figure L[a1]. Sensitivity Chart – Target forecast: selling price in HUF/mt .....</b>	<b>145</b>
<b>Figure L[a2]. Sensitivity Chart – Target forecast: selling price in EUR/mt .....</b>	<b>145</b>
<b>Figure L[a3]. Sensitivity Chart – Target forecast: VaR of wheat futures .....</b>	<b>146</b>



## **ACRONYMS AND ABBREVIATIONS**

<b>€</b>	<b>Euro</b>
<b>BAT</b>	<b>Budapest Commodity Exchange</b>
<b>BET</b>	<b>Budapest Stock Exchange</b>
<b>CAP</b>	<b>Common Agricultural Policy</b>
<b>CMO</b>	<b>Common Market Organisation</b>
<b>EU</b>	<b>European Union</b>
<b>EUR</b>	<b>Euro</b>
<b>FM</b>	<b>Future Markets</b>
<b>HUF</b>	<b>Hungarian Forint</b>
<b>KSH</b>	<b>Hungarian Central Statistical Office</b>
<b>MNB</b>	<b>Hungarian National Bank</b>
<b>mt</b>	<b>Metric ton</b>
<b>NMS</b>	<b>New Members States</b>
<b>SAPS</b>	<b>Single Area Payment Scheme</b>
<b>SFP</b>	<b>Single Farm Payment</b>
<b>PW</b>	<b>Public Warehousing</b>
<b>WTO</b>	<b>World Trade Organisation</b>