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Launch date for NZ milk price futures and options

NZX is pleased to announce that the launch of milk price futures contracts will occur on 27 May 2016. The launch of the related milk price options contracts will be announced in June following the futures contracts launch.

These contracts are designed to address growing demand from producers and purchasers of milk products wishing to manage risk relating to price fluctuations. For example, both contracts can help New Zealand dairy farmers to mitigate the financial risks associated with a variable milk price.

The path to launch has included consultation with a range of dairy industry participants and NZX Derivatives Market stakeholders, as well as formal approval of the contracts by the Financial Markets Authority and the Reserve Bank of New Zealand.

NZX Head of Markets Mark Peterson commented: "We are committed to building markets for the long term, and the launch of milk price futures and options contracts is no exception. We will continue to focus our efforts on growing market participation and trading activity, and educating interested parties on the benefits of commodity risk management tools."

"As expected with new derivatives products, we expect that liquidity in the market will build slowly at first."

"With 95% of their product sold overseas, New Zealand dairy farmers are highly exposed to the global dairy market. The new futures and options contracts will help to level the playing field with their overseas counterparts in the US or Europe, who have access to a wide range of risk management tools."

Once the futures and options contracts are available for trading on NZX's dairy derivatives market, all users of these contracts will be required to trade through an NZX Derivatives Participant (a broker). To view a list of accredited NZX Derivatives Participants, please visit: www.nzxfutures.com/access

Derivatives contracts carry risk and operate differently to fixed price schemes offered by milk processors. NZX encourages parties wanting to enter into these contracts to seek advice from an authorised financial adviser as to whether derivatives contracts are appropriate for their individual circumstances.

To view the final contract specifications, learn more about NZX's Derivatives Market and download an introductory guide to milk price futures and options contracts, please visit: nzx.com/derivatives

Quote vendor codes, exchange fees, starting prices, the final margin circular and all other details pertaining to the first trading day will be released to the market in the coming days.



NZX and participating brokers will be holding educational seminars throughout the NZ National Agricultural Fieldays to be held 15-18 June 2016. To receive updates on the seminars, please register here: nzx.com/derivatives

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About NZX Limited

NZX builds and operates capital, risk and commodity markets and the infrastructure required to support them. We provide high quality information, data and tools to support business decision making. We aim to make a meaningful difference to wealth creation for our shareholders and the individuals, businesses and economies in the countries in which we operate. To learn more about NZX, please visit: www.nzxgroup.com

Frequently asked questions:

What are futures and options contracts?

A futures contract is an agreement, generally made through an exchange, to buy or sell a commodity or asset at a date in the future, and at a price agreed today.

When futures contracts mature, they can be settled by buyers and sellers either exchanging the commodity or asset, or by settling in cash whereby the contracting parties pay or receive a loss or gain (calculated by reference to the settlement price).

In the case of NZ milk price futures, the buyers and sellers will settle by exchanging cash, calculated by reference to Fonterra's announced Farmgate Milk Price.

Options contracts provide the purchaser with the right, but not the obligation, to buy or sell a particular asset or commodity at a pre-determined price, on an agreed date in the future. For example, a dairy farmer may use an options contract to protect against the milk price falling but retain the benefit of potentially higher milk prices.

How do futures or options contracts differ from fixed price schemes offered by milk processors?

Fixed milk price schemes generally allow parties to lock in a price for a percentage of their milk production. NZX's futures and options contracts operate very differently. Trading parties buy and sell futures contracts to hedge their exposure to movements in the milk price. For example, if the Farmgate Milk Price declines, the drop in the price a farmer receives from a processor for milk supplied will be offset by a gain on the futures contract.

Parties that trade futures contracts are also subject to obligations relating to holding a margin account, as well as 'basis risk' (where the futures contract price differs from the underlying physical market price).



How can I learn more about the futures or options contract specifications?

Contract specifications and an introductory guide to the products are available to view and download from: nzx.com/derivatives

NZX and participating brokers will be holding educational seminars throughout the NZ National Agricultural Fieldays to be held 15-18 June 2016. You can also register your interest with NZX to receive updates on the seminars by clicking the link above.

Why does the NZ milk price futures contract settle to Fonterra's announced Farmgate Milk Price?

When cash settling futures contracts, the reference price for settlement should be a recognised benchmark on which the majority of the industry either directly depends on or has a link to.

NZX reviewed alternative reference prices and consulted with expected trading parties and industry participants. Fonterra's Farmgate Milk Price best fulfilled the requirements for a reference price used to settle futures from a benchmark and governance perspective.

NZX considers that the governance arrangements that apply to the calculation of Fonterra's Farmgate Milk Price (including oversight by the Commerce Commission) are adequate to ensure the integrity of the new contracts.

To learn more about how Fonterra calculates the Farmgate Milk Price, visit: <http://www2.fonterra.com/our-financials/milk-price-methodology>

When is the last trading day and the final settlement date?

The last trading day each year will be the second Thursday of September and the NZ milk price futures contracts will settle on or about 1 October (being the business day after the date by which Fonterra is required to announce its final Farmgate Milk Price). The same timetable will apply to NZ milk price options.

Trading of NZ milk price futures and options is expected to decrease towards the end of the season as the milk price becomes more certain. Setting the final trading day in early September provides an opportunity for market participants to exit positions up until several weeks prior to Fonterra announcing its final Farmgate Milk Price.

How can I trade?

All parties must trade through an NZX Derivatives Participant (a broker). To view a list of accredited NZX Derivatives Participants, please visit: www.nzxfutures.com/access