



Other OTC Product Conventions

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There are a number of markets that exist outside of the main OTC product categories that are dealt with collectively here, as they are a smaller but developing section of the OTC financial markets in Australia.

1. Commodity Derivatives

Increasing interest in commodity markets as a source of demand for derivative products partly reflects the changing role in a number of commodity marketing boards. As these boards cease to protect producers from fluctuations in commodity prices, financial markets participants are seeking to offer commodity producers and consumers derivative products to manage price risks.

In some cases the interest also reflects deregulation of either the markets themselves or downstream markets, demanding a more flexible approach from commodity markets and producers.

Derivatives used in commodity markets include the basic vanilla products, such as forwards, futures, swaps and options. A small proportion of hedgers use more complex techniques structured from these basic products such as swaptions and ratio options. The products available for hedgers to use vary between various markets. For example, precious and base metals have a greater derivative product depth than agricultural commodities.

2. Equity Derivatives

Exchange traded equity options in their most generic and standard form have been around for decades. In the 1990's there has been a significant growth in development of more sophisticated exchange traded and OTC equity products derivatives. These have emerged as both speculative and hedging products in the wholesale markets. In addition the product has been packaged for retail investors to either produce or improve on a given equity return.

Equity Derivatives available in traded or OTC form include:

- Equity swaps and options on individual shares, indices, stock baskets and dividends.
- Equity linked securities and investments products, ie. securities or deposits with an embedded equity derivative giving the investor an equity related payoff or return.

3. Weather Derivatives

This is an example of how broadly financial markets participants are thinking about risk and risk mitigation. It illustrates that derivative markets can be developed to manage risks in an underlying commodity or market.

Weather Derivatives are also being driven from the United States. They are seen as another avenue for managing energy risk, especially that relating to electricity and gas. They can also be utilised by any

industry or person who will be adversely impacted by certain weather events (eg. tourist resorts, beverage manufacturers, agriculture). Here the demand for the commodities or services is highly dependent on the prevailing weather conditions and especially on weather patterns being consistent with past seasons.

Refer to Weather Risk Management.