

**COMMERZBANK**

The bank at your side



Corporate Clients

# Commodity price risks under control

Hedging solutions tailored to your requirements

# Despite volatile commodity prices, stabilise your cash flows

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Whether they serve as the raw material for your production, the fuel for your fleet, your merchandise or the source of your power supply: commodities are at the core of your business. The greater their part in the value chain, the more fluctuations in commodity prices will impact your commercial success. Commodity price hedging with Commerzbank assists you to plan ahead with certainty.

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# Your reliable partner

With its comprehensive spectrum of products, services and respected research, Commerzbank is a powerful and competent partner when it comes to hedging against commodity price risks.

## Research

Our respected commodities research keeps you up-to-date with the latest developments in the commodity markets with the daily publication "Commodities Daily".

The regular publication "Commodity Spotlight" further gives you our analysts' detailed assessment of energy and emissions trading, agricultural commodities, industrial and precious metals, according to your requirements.

Further information can be found at [research.commerzbank.com](http://research.commerzbank.com)

Commerzbank is one of the top names in retail and corporate banking in Germany, serving 15 million retail customers and one million business and corporate customers worldwide. We offer companies and institutions a wide range of risk management and investment products, along with individual financing solutions for their operations in Germany, Europe and worldwide.

On the commodity front, our local specialists can inform you about all the challenges involved in managing price risks in industrial and precious metals, the energy markets, emissions trading and agricultural products. They can work with you to identify the optimum hedging strategy for your requirements.

We can also assist with maturity-matched financing of your commodity assets or liabilities – with tailored, flexible solutions for producers and traders. Structured trade finance can be used at different points in the sales chain. We also cover all aspects of commodity asset based financing, including inventory and account receivables.

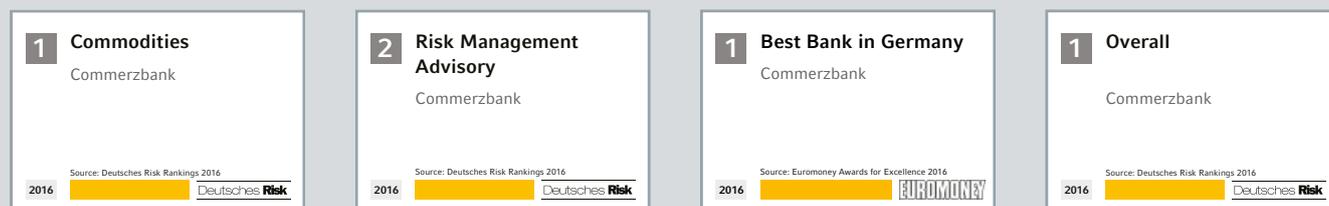
### Discover our range of products and services

As an established supplier in the commodity segment, Commerzbank is your one-stop shop for a broad spectrum of hedging and financing solutions.

The following pages provide an overview of our products and services for commodity hedging. Please contact your personal advisor for a full consultation.

## Smart solutions, award-winning results

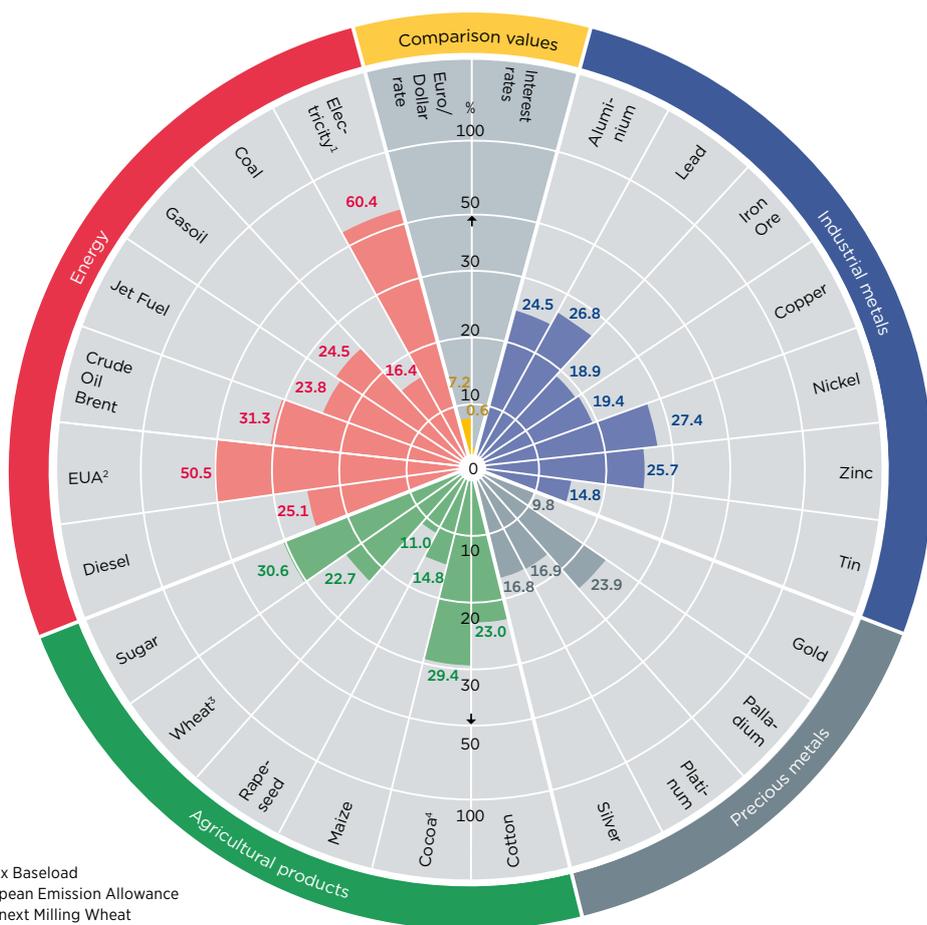
Commerzbank's award-winning commodity specialists and structuring teams are available to support and design customised solutions.



# The Commodities Radar: volatilities at a glance

The Commerzbank Commodities Radar visualises the volatility of key commodities including industrial metals, precious metals, energy and agricultural products on a quarterly basis, enabling you to see the current degree of price fluctuation for each of the commodities at a glance.

For the latest version, and to subscribe to the Commodities Radar Newsletter free of charge, please go to [www.corporates.commerzbank.com](http://www.corporates.commerzbank.com)



<sup>1</sup> Phelix Baseload  
<sup>2</sup> European Emission Allowance  
<sup>3</sup> Euronext Milling Wheat  
<sup>4</sup> Liffe Cocoa Euronext

From the point of view of German companies, the commodities listed are generally quoted in a foreign currency. This means there are foreign exchange risks to take into consideration in addition to the commodity price risks.

Volatilities between: 18.01.2018 - 17.01.2019  
 Source: Commerzbank

# Why risk management is essential with commodities

Enormous price fluctuations, even on an intraday basis, are not uncommon for commodities. This makes it impossible to predict future prices accurately – meaning action is required if you want to be able to reliably forecast your company’s future cash flows.

## **Interest rate and currency hedging are not enough on their own**

Currency hedging of underlying commodity transactions is a matter of routine for many market players – and the same goes for the hedging of interest rate risks resulting from the financing of commodity transactions. This is sensible, but it is not enough on its own if the commodity price itself is not hedged, as commodity price volatility can be several times higher than interest rate and exchange rate volatility.

## **Price fluctuations are due to many factors**

There are all sorts of reasons for the high commodity volatilities: supply or demand components; the market balance; reports on future supply and demand; the performance of the global economy; innovative production processes using alternative commodities, disruptions to production processes; the weather and natural disasters; not to mention political factors, conflicts, strikes and investment or speculative activity in commodities.

## **Futures curves show market expectations**

Futures curves show prices for the future delivery of the commodity. Not only do they reflect market players’ expectations regarding future commodity price trends, they also represent the point at which supply and demand meet – in other words they are actual traded prices.

Many future events cannot be foreseen today, which is why futures curves are in fact only a weak indicator of future price performance. The futures curve is always a snapshot of market players’ current expectations and a representation of the information currently available. The fact that this very rarely tallies exactly with the actual subsequent price movement highlights once again that commodity prices are hard to anticipate and hedging can therefore be useful.

As a consumer, producer, trading firm or utility company you do not have any material influence over the factors mentioned above – and therefore over prices. But you can prevent them from having a negative impact on your forecast earnings. You can do this thanks to Commerzbank's comprehensive range of hedging products and services for the management of commodity price risk – from the identification and quantification of your commodity price risks to precisely tailored hedges for your commodity risks.

Your commodity price hedging does not affect the actual physical underlying transaction in any way. From the buyer's point of view, the physical commodity is supplied as usual at the current market price by your supplier. As the seller of the commodity, which is either embedded in your manufactured product or consumed in the manufacturing process, the physical process is ring-fenced from the financially settled hedge transactions. Financial price hedging with Commerzbank enables you make accurate forward cash flow calculations.

#### You should note the following risks:

- **Basis risk:** The payment or receipt with respect to a commodity hedge may not precisely match the fluctuation in the physical commodity price due to a basis risk that results from differences between the price movements of the liquid hedge instrument relative to the price movements of the physical exposure.
- **Market value risk:** Financial instruments are subject to market value risk during their lifetime. This is because, all other factors being equal, the market value is determined by movements in parameters relevant to the remaining time to maturity. Parameters that are relevant to commodity prices can, for example, include exchange rate fluctuations, political risks, weather risks or stock levels. In the event that the transaction is terminated early, either the customer or Commerzbank needs to make up the difference versus the current market value and the contract price.
- **Liquidity and trading risk:** Positions cannot be initiated or liquidated, or not at a fair price, if no corresponding counterparty is found or the number of market participants is too small.
- **Risk of incomplete hedging:** No hedging against price changes due to factors such as physical premiums, taxes and levies on commodities.
- **Default risk:** You bear Commerzbank's credit risk when you enter into a hedging transaction with Commerzbank.

#### These are clear benefits to you:

- You markedly reduce your exposure to commodity price movements.
- Your commodity costs remain stable, even if market prices fluctuate greatly.
- You have greater cash flow planning certainty.
- It is easier to forecast your business income in the medium and long term.
- You can give your customers firm price commitments and dispense with price escalator clauses.
- You can concentrate fully on your core competencies.
- Not only do you gain security but, depending on the hedging strategy, you can also participate in favourable price developments.

# Select your individual hedging strategy - we take care of the professional implementation

## At a glance

- You are not tied to standardised futures exchange contracts
- Complete flexibility with respect to hedge quantities (i.e. not limited to exchange lot sizes)
- Free choice of hedging currency
- Free choice of maturities and calculation periods
- Large number of hedging instruments

## Analysis of your individual needs

The starting point when considering your individual risk management is to analyse your specific requirements. What commodities are relevant to you? In what volume do you buy commodities - for a one-off project or on a regular basis? In what currency will the hedging be affected and for what maturities/durations? With this, what maximum price would be acceptable to you? Do you want a fixed price? Or are you just keen to hedge against the worst case scenario and still give yourself the chance to profit from advantageous price movements? Our over-the-counter hedging instruments are so flexible that we can respond precisely to your specifications and customise the implementation of your hedging requirements.

## Solutions tailored to your needs

With its comprehensive experience and wide range of tradable commodities and hedging profiles, Commerzbank brings you attractive risk management solutions. Our specialists are expert in commodities and construct solutions to match your needs.

You can agree maturities, dates, calculation periods and lot sizes individually with Commerzbank, so that everything is exactly in line with your requirements. There is also full flexibility with respect to hedging currency. Aside from the trading currency of the commodity, hedging can be executed in Euros and all other freely traded currencies.

The combination of the above variables gives you the flexibility to implement the ideal hedging strategy.

# Instruments for implementing your hedging strategy

The basic instruments – fixed price agreements and options – form the basis of a toolkit that enables you to individually structure your payment profiles.

For illustration purposes, the hedging instruments in question are explained below from the perspective of a buyer of commodities. The variants described can, of course, be set up for sellers who want to hedge against falling prices.

## Fixed price agreement – hedging at a fixed price

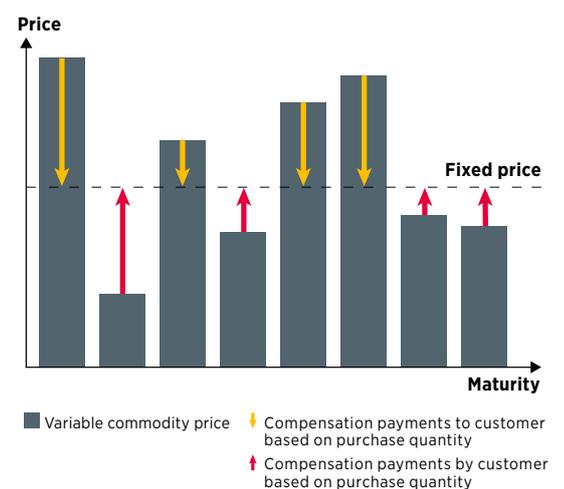
- **Period-based: swap**

The swap, unlike the futures transaction, does not refer to a set date on which the price is determined, but to a calculation period. The arithmetic mean of all reference prices over the agreed calculation period is compared against the fixed price agreed when the swap was entered into. The compensation payment is then made based on this differential. Therefore the swap is most suitable when a commodity is required on a recurring basis.

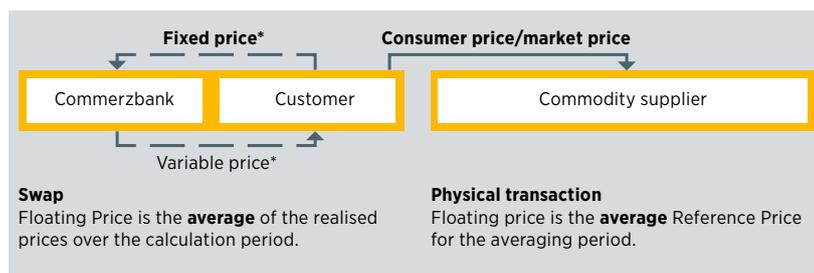
- **Date-based: forward transaction**

For example, you arrange to hedge a certain quantity of the commodity required at a price of EUR 100 per unit in six months' time. On the specified date six months later, this fixed price is compared with the actual market price. If the market price stands at EUR 110, you receive a compensation payment of EUR 10 per unit from Commerzbank. If, on the other hand, the price stands at EUR 90, you have to pay Commerzbank EUR 10 per unit. This means that you can use EUR 100 as the fixed price for your production and sales calculations.

Payment profile for fixed price agreement: swap

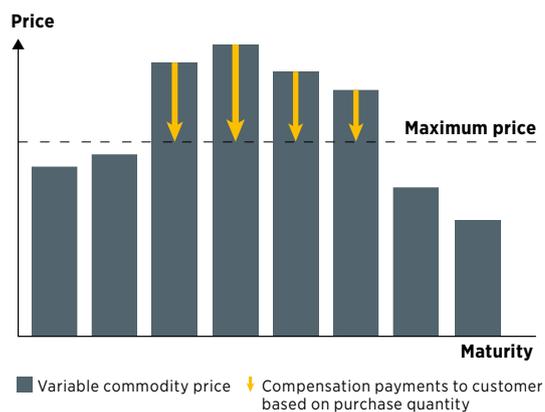


## Hedging against rising prices with the aim of fixing prices



\* Multiplied in each case by the quantity agreed for the calculation period concerned.

### Payment profile: option



### The option - “insurance” for a particular price level with full participation

With a forward transaction or a swap you agree a fixed price, whereas when you buy an option, it is rather like taking out insurance: you pay a premium, which entitles you but does not oblige you to buy at the agreed maximum price (strike price). The option therefore enables you to combine reliable hedging with the opportunity to profit from market trends in your favour; if the price falls, you buy the physical commodity at favourable market terms and the option expires. If the market price rises above the maximum price for the option, you receive a compensation payment from Commerzbank to offset the cost of the physical purchase.

All in all, buying an option gives you a high degree of flexibility, especially as you also get to choose between date-based and period-based hedging.

### The toolkit principle - modelling tailor-made solutions

Commerzbank’s experts will combine these basic instruments for you in a way that best suits your core business and your hedging requirements, to ensure that you select the ideal hedging instrument.

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