Hedging Corporate Commodity Risk

Course description

Aim

The aim of the course is to identify risk management solutions within a commodity supply chain. The course will focus on the risks inherent within the aerospace and airline industries but the principles and products are applicable to other commodity markets

Topics

The market for Aluminium	• Supply and demand dynamics • Pricing considerations • The role of the London Metal Exchange • Trading base metals
Analysing a corporate risk management strategy	• Applying a four step framework to analyse risk management strategies o Defining the exposure o Determining the mandate from stakeholders o Identify the risk metrics and thresholds o Determine the optimal hedging strategy
Hedging producer risk	• Hedging producer risk o Hybrid solutions (two asset barrier options) o Outperformance options
Hedging processing risk	• Calendar spread options
Hedging consumer risk	• Comparison of option strategies o Knock out swap o Extendible swaps o Vanilla and extendible zero premium collars o Vanilla and extendible 'three way' structures
Hedging airline fuel costs	• Hedging volatile fuel prices o Managing basis risk in Jet fuel hedges • Unwinding unprofitable hedges

Objectives

By the end of the seminar the participant will be able to:

- Outline the main features of the aluminium market
- Describe the role of the LME in the base metals market
- Apply a four step approach to analysing a corporate risk management strategy
- Describe how a two asset barrier could be used to add value to a producer's hedging strategy
- Outline the nature of the risk faced by a metal processor and how a calendar spread option could be applied
- Compare and contrast the relative merits of a variety of option strategies to manage consumer price risk
- Calculate the cost of unwinding an unprofitable hedge
- Explain the basis risk of hedging jet fuel exposures