Commodity Investment Structures

Course description

Aim

To analyse a variety of OTC commodity structures; how they are engineered and how the associated risks are hedged

Topics

Review of commodities pricing principles	• Why are commodities different? • Contango • Backwardation • Convenience yield
Delta one structures	• Delta one referenced to Barclays European Carbon Index
Capital protected structures	• Capital guaranteed products o Changing the participation rate by altering the structural parameters

Introducing exotic optionality	• Capital protected Baltic Dry Index Asian Note
	  o Delta hedging Asian exposures
	• Reverse convertibles
	  o Managing the barrier risk
	• Autocallable gold note
	• Collateralised Commodity Obligations
	  o Hedging digital options

Correlation and dispersion	• Basket options
	• Outperformance notes
	  o Oil vs. Gold
	• Best of / worst of structures
	• Dispersion trading
	  o Hedging correlation risk

Objectives

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

- Explain the main pricing principles for commodities
- Analyse a delta one structure and identify the associated risks
- Increase the participation rate on a capital protected note by changing the structural parameters
- Explain the impact of including an Asian – style option in a capital protected note
- Describe the main market risks of managing an Asian option
- Outline the main features and risks associated with a reverse convertible
- Reverse engineer an autocallable structure
- Describe the structure of a collateralised commodity obligation
- Outline how the risk of a digital option position is hedged
- Evaluate the correlation risk of a variety of option positions
- Explain the rationale for a dispersion trade