

### Learning objectives

Acquiring insight and knowledge of:

- The working of the commodity industry
- Production & consumption
- The working of processes
- Market participants & their roles
- International commodity markets
- Recent developments (emerging markets)
- Future perspective of the commodity markets
- Availability, geo-politics, transport & environment
- Political developments
- Shipping, rail, road, pipelines & grids
- Products traded in the commodity markets
- Pricing, benchmarks & indices
- Risks, correlation & skew in distributions
- Usual trading techniques & methods

### Target group

Mercurious' training course Commodity Trading is particularly suitable for compliant financial and commodity community including:

- Commodity executives in banking & finance
- Commodity traders
- Risk managers
- Commodity credit & equity analysts
- Treasury staff
- Fund, investment & portfolio managers
- IT personnel & Back office employees
- Legal staff
- Financial consultants to the commodity sector

### Training

The training course Commodities Trading is designed to provide participants with an introduction to commodity products, pricing, trading, market participants and fundamentals such as production and consumption. Additionally, a broad practical insight regarding risk management and trading strategies with derivatives is provided.

The training sessions have a strong interactive character whereby the contribution of participants is of utmost importance. A picture of the working of oil markets, relevant developments, risks and other relevant issues are given during the training sessions by means of questions, theory and these.

### Contents

The training course Commodity Trading covers four full days. The course can, of course, be adapted to specific sections, and we can tailor the course to your specific requirements. While dealing with each subject, attention is given to the various characteristics, aspects, opportunities and risks attached to that subject.

# 4-DAYS COMMODITY TRADING

## DAY 1

### Session 1

#### Introduction

- Asset classes
  - Different categories
  - The role of commodities
- Classification
  - Categories (Metals, Fibres, Basic materials, Agriculture, Live stock, Energy, Emissions, Freight)
  - Types per category
- Latest developments
  - China
  - India
- Commodity trading
  - Spot vs. Future
  - Players in the markets

### Session 2

#### Bottlenecks

- Availability
  - Reserves
    - Peak oil-theory
  - Growth of crops, harvest
  - Knowledge
  - Technique
    - Genetic modification
- Geo-politics
  - Net-importers
  - Net-exporters
  - Cartels (OPEC, Gaspec, OREC)
- Transport
  - Shipping / Freight
    - Vessels
    - Transport routes
    - Harbours
  - Infrastructure
    - Power grids
    - Oil & gas pipelines
- Environmental issues
  - Pollution
  - Weather events
  - Global warming
  - Emissions
  - Kyoto
  - Food-Feed-Fuel

- Investments
  - Required investment levels
  - Regulatory uncertainty

## DAY 2

### Session 3

#### Energy products

- Products
  - Oil
  - Gas
  - Coal
  - Electricity
- Demand & Supply
- Price drivers
  - Macro-ec. issues
  - Supply chain considerations
  - Vertical integr.
  - Geo-politics
  - Forward curves
- Prices
  - Benchmarks & indices
  - Pricing methods
  - Term structure
- Trading
  - Quality
  - Geographical differentials
  - Exchanges
- Managing price risk
  - Producer, refiner & consumer hedges

#### Case Study

Dubai Mercantile Exchange (DME); The development of a new benchmark

#### Case Study

Quality of coal; Different applications

# 4-DAYS COMMODITY TRADING

## Session 4

### Precious Metals & Diamond

- Market for precious metals
  - Financial institutions
  - London Gold market
  - Prices of precious metals
  - Price fixing
- Price drivers
  - Supply & Demand
  - Role of India & China
- Leasing market
- Derivative applications
  - Producer strategies
  - Central Bank strategies

### Case Study

Share price Bre-X; A mine is a hole in the ground with a liar next to it

## DAY 3

## Session 5

### Base Metals

- Base metal production
  - Aluminium&Copper
- London Metal Exchange (LME)
  - Futures & Options
  - Contract specs
  - Trading
  - Clearing
  - Delivery
- Price drivers
- Price structure
  - Forward curve
- Derivatives Application
  - Aluminium Hedge auto industry
- Forward purchases
  - Borrowing & Lending
- Vanilla Option Strategies
  - Synthetic Long Put
  - Selling Options
  - Bull Spread
  - Collar
- Structured Options solutions

### Case Study

London Metal Exchange; Contract specs

## Session 6

### Agricultural Commodities & Biofuels

- Markets
  - Wheat
  - Corn
  - Soy beans
  - Rapeseed
  - Palm oil
  - Jarathroba
  - Sugar (cane)
- Bio-fuels
  - Bio-ethanol
  - Biodiesel
- Price Drivers
  - Weather
  - Investor activity
  - Genetic modification
  - Inventory Levels
- Exchange traded agri derivatives
- OTC traded agri derivatives

### Case Study

The Mexican tortilla crisis

## DAY 4

## Session 7

### Commodities within Investment Portfolios

- Benefits for portfolio
  - Diversification
  - Inflation hedge
  - Hedge against US Dollar
- Methods of investing
- Forward curves
  - Contango
  - Backwardation
  - Convenience yield
- Commodity Indices
  - The roll yield
  - Economical viability & sceptis
  - Developments of new indices

## Session 8

### Commodities Trading

- Risk management
- Hedging customer exposures
  - Forward / Future
  - Swap
  - Option
- Spread trading
  - Equivalents: Pairs
    - WTI vs. Brent
    - Brent vs. DME
    - Cross margins
  - Refinery spreads
    - Crack spread
    - Spark spread
    - Dark spread
    - Crush spread
- Spot & Forward trading strategies
- Swaps trading strategies
  - Single & multiple periods
  - Physical & financially settled
- Option based trades
- Trading volatility
  - Skew
  - Kurtosis