

2-DAYS ESSENTIALS OF METALS, METAL MARKETS & TRADING – LEVEL 2

Learning objectives

Acquiring insight and knowledge of:

- Metals swaps
- Metals options
- Hedging strategies with metals options & swaps
- Sophisticated strategies with metals derivatives
- Time spreads, location spreads & cross-metals spreads
- Spread trading in metal markets
- Arbitrage & proprietary trading in the metals markets
- Portfolio management of metals positions
- Risk management of metals portfolio
- Value at Risk
- Stress testing
- Conditional value at Risk & Expected shortfall
- Reporting
- Scenario analysis of metals portfolio
- Sensitivity analysis of metals portfolio

Target group

This program is in general suitable for all people that support commodity trading-(related) organizations or traders in general; more in particular the course is suitable for:

- Traders
- Risk managers
- Back Office staff
- ICT staff
- Project managers
- Legal staff
- Compliance officers
- Accountants
- Controllers
- Finance & control staff
- Asset & portfolio managers
- Employees of exchanges
- Staff of transportation organisations
- Staff of clearing organizations

DAY 1 & 2

Session 1 + 2

Risk management – Value at Risk of metal portfolios

- Scenario analysis versus sensitivity analysis
 - Confidence level
 - Time horizon
- Addition to VaR methodology
 - Stress tests
- Correlation coefficients
- The value at risk of a metals portfolio
 - VaR of metals position
 - VaR of related USD vs EUR position
- Normal distribution pattern
 - Skew & Kurtosis
 - Volatility curve

Session 3

Risk management – Greeks variables for metal position

- Sensitivity analysis for metals portfolio
 - Sensitivity with respect to a change in:
 - Price of the underlying forward price of metals
 - Volatility of the underlying forward price of metals
 - Remaining lifetime of the metal contracts
 - Interest rates
 - Greeks
 - Delta
 - Vega
 - Theta
 - Rho
 - Gamma

Session 4

Weather impact on metals production & transport

- Weather impact on metal production
- Weather impact on metal transport
- Weather events

- Insurance against negative financial impact of weather circumstances
 - Weather derivatives
 - Weather futures
 - Weather options
 - Other weather contracts
- Weather trading
 - Weather derivatives
 - Hedging an metals portfolio against negative weather influences
 - Setting up prop positions in the weather markets

Session 5

Freight trading

- Location differentials
 - Buying at location A
 - Selling at location B
 - Buying (booking/reservation) of transport (capacity)
 - Physical
 - Time charter
 - Voyage charter
 - Freight derivatives
 - Forward freight agreements (FFAs)

Session 6

Forward curves for metals

- Forward curves
 - Theory versus practice
 - Shape of the curve
 - Metal market in contango
 - Metal market in backwardation
 - Normal backwardation
 - Convenience yield
 - Level of the curve
 - Shifts in height
 - Nearby prices versus far-out prices
 - Volatility of spot prices vs. volatility of forward prices

Session 7

Swap contracts for metals

- Swaps
 - Cash-and-Carry principle
 - Types of metal swaps
 - Fixed-for-Floating metal swaps
 - Fixed-for-Fixed metal swaps
 - Floating-for-Floating metal swaps
 - Examples of metal swaps
 - Location (basis) swaps
 - Cross-product swap
 - Quality swaps
- Settlement of a metals swap contract
 - Periodic; yearly, half yearly
 - Floating price calculation at the end of periods

Session 8

Proxy hedge

- Introduction
- Correlation trading for hedging purposes
 - Imperfect 'substitute' as hedge
 - Dirty hedge
 - Imperfectness described as proxy
- Proxy hedge in metal markets
 - Copper as proxy for zinc
- Criteria for the use of a proxy:
 - Most liquid product
 - Liquidity of zinc contracts
 - Liquidity of copper contracts
 - Comparison to traded volumes for copper and others
 - Most related (and correlated) product