



## **Commodities Awareness Programme**

### **Asia**



## Training objectives

The target audience for this training are the marketing or sales people of the bank. These people have direct contact with (potential) customers but currently lack knowledge of the commodity markets: electricity, natural gas, oil, coal, carbon, metals and plastics. Kasper Walet of Maycroft Consulting will conduct an intensive Commodities Awareness Programme fundamentals training program. This training program should enhance the knowledge of the marketing/sales representatives and make them familiar with the different commodity market concepts. The goal of the training is that armed with the necessary basic knowledge about commodity markets these people will be able to identify and better understand the commodity needs of their customers and the offerings that could be made by the bank to fulfill their requirements.

## Approach

The training will offer a good balance between theory and practice. Kasper Walet will explain all the topics in-depth with the use of practical examples. The theory will be put in practice with the use of several real-life case studies. This approach will assure that the participants can immediately apply the learned into their day-to-day work. All participants will have the read a pre course workbook to ensure that each of them will start at the same level.

## Expertise

Kasper Walet Partner of Maycroft Consulting will provide the training. Kasper has more than 20 years of unique knowledge and experience on all the aspects related to trading and risk management in the commodity industry including carbon. He has given numerous successful seminars, workshops and (in-house) training sessions about both the physical and financial trading of commodity products. The courses have been given to companies all over the world, in countries like Japan, Singapore, Thailand, United Kingdom, Germany, Poland, Czech Republic, Belgium and the Netherlands.

Kasper Walet  
Partner, Maycroft Consulting  
Tel: + 31 20 5315644  
Mobile: + 31 6 53818191  
Email: [walet@maycroft.com](mailto:walet@maycroft.com)



## Profile Kasper Walet



Kasper Walet has more than 20 years of experience and extensive knowledge on a theoretical and practical level about all the aspects related to trading, derivatives and risk management in the commodity industry.

Kasper received a Masters degree in Law from the University of Utrecht in 1987. He started his career at the NLKKAS, the Clearing House of the Commodity Futures Exchange in Amsterdam. After working for the NLKKAS for five years, Kasper was appointed as Member of the Management Board of the Agricultural Futures Exchange (ATA) in Amsterdam at the age of 31. While working for the Clearing House and exchange, Kasper became an expert in all the aspects of trading and risk management of commodities.

In 1997 he founded his own specialist-consulting firm that provides strategic advice about (energy) commodity trading and risk management.

Kasper has advised government agencies such as the European Commission, investment banks, major utilities and commodity trading companies and various exchanges in Europe, CEE countries, North America and Asia. Some of the issues he has advised on are the development and implementation of a Risk Management Framework, investment strategies, trading and hedging strategies, initiation of Power Exchanges (APX) and other trading platforms, the set-up of (OTC) Clearing facilities, and feasibility and market studies like for the LNG Market.

Kasper has given numerous seminars, workshops and (in-house) training sessions about both the physical and financial trading of commodity products. The courses have been given to companies all over the world, in countries like Japan, Singapore, Thailand, United Kingdom, Germany, Poland, Slovenia, Czech Republic, Malaysia, China, India, Belgium and the Netherlands.

Kasper has published several articles in specialist magazines such as *Commodities Now* and *Energy Risk* and he is the co-author of a book called *A Guide to Emissions Trading: Risk Management and Business Implications* published by Risk Books in 2004.



## Draft Training Program

### Day 1

**09:00 – 10:00**

#### **Introduction to Commodity Markets**

- Difference between commodities and equities and Forex
- Latest developments in the commodity markets
- Understanding the marketplace
- Current commodity exchanges in Asia
  - China, India, Dubai and Japan
- The new commodity exchanges in Asia:
  - Hong Kong Mercantile Exchange
  - Singapore Mercantile Exchange
- Players in the markets
- Role of shipping and freight
- Impact Demand China and India
- Role speculators after the credit crunch
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**10:00 – 11:00**

#### **Commodity Derivatives: Understanding the characteristics**

- Trading in commodity Forwards and Futures
- The commodity forward curve: Backwardation and Contango
- Pricing Commodities
  - Seasonality
  - Price Volatility
  - Mean reversion
- Fixed-for-floating swaps: who trades them and why?
- Comparing Swaps, Forwards and Futures
- The use of options in commodity trading: Caps, floors and collars
- Structured deals
  - Spark,Dark, Crack spreads
  - Locational spreads
  - Quality Spreads

**Case Study:** China Aviation

**11:00 – 11:15 Coffee Break**



**11:15- 12:15 Carbon**

### **Introduction**

- The Climate Issue and the Climate Problem
- How did Emissions Trading work in 2007 and 2008; future outlook, prices, volumes;
- Carbon trading is primarily policy driven. What are the latest developments in policy
- What is going to happen after 2012 when the Kyoto Protocol ends?
- Kyoto Flexibility Instruments
  - Joint Implementation
  - Clean development Mechanism
  - Emissions trading
- The linkage with the ETS

### **Asia and the Carbon Markets**

- Role of mandatory and voluntary markets
- Opportunities and challenges CDM
- Role of exchanges in the Carbon market: Europe, US and Asia.
- Managing carbon risk: what are the risks in the Carbon market
  - Registration Risk
  - Market Risk
  - Buyer Risk
  - Project/delivery risk

**Exercise:** Develop a sales strategy for the CERs derived from a CDM Project.

**12:15 – 13:15 Lunch Break**

**13:15 – 14.45 Oil and Oil Products**

### **Introduction to the oil markets**

- Working of the oil market
- Market participants
- Physical delivery
- Contract specifications
- Structuring of contracts
- Bilateral transactions
- The Singapore OTC market
- Northeast Asia Oil Hub initiative
- Exchange trade
  - NYMEX and ICE
- Trends & developments
  - Dubai Mercantile Exchange
  - The role of cartels (OPEC)
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## Features of oil pricing

- Pricing
- Benchmarks & indices
- Fundamental price drivers

## Risk Management in the oil industry

- Producer Hedges
- Refiner Hedges
- Consumer Hedges

**Exercises:** 1. Design a Jet Fuel Hedging Strategy for an airline  
2. netback pricing for refinery

## 14:45 – 15:00 Tea Break

## 15:00 – 16:00 The Asian LNG market

- Relationship between natural gas and LNG trading
- LNG Value Chain
- Supply and demand
- LNG Trade Flows
- Competition between markets
  - LNG Supply; Atlantic Basin, Pacific Basin, Middle East and New producers
  - LNG Import; Atlantic Basin, Pacific Basin
- Pricing
  - Contract structures
  - LNG spot price; Netbacks
- Players in LNG market
- Hedging against the unknown
- Arbitrage - local and international t
- Market trends and Future Outlook

**Exercise:** LNG Hedging strategies on the spot market

## 16:00 – 17:00 Coal and Freight

### Trends

- Development trend and regional impact Chinese coal market
- Role of indices and methodology
- Global Coal Newcastle Index
- Other indices

### Basis Trading

- Logistics and basis differentials
- Identifying and hedging basis exposure



- Basis hedging strategies
- Dark spread

### Freight rates

- Role Ocean Freight
- What effects shipping rates
- Forward Freight Agreement Market (FFA)
- Freight Futures Market
- Baltic Freight Index

### Instruments

- Physical Forwards
- Swaps
- Options
- Structured products
- Weather contingent options
- Tolling

### Hedging strategies

- Dealing with FX risk
- Dealing with price risk
- Timing issues; physical vs. financial contracts
- How to benefit from flexibility

**Exercise:** Develop a Coal price hedging strategy for a cement factory



## DAY 2

**09:00 - 10:00**

### **Precious Metals**

#### **Gold**

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

#### **Silver**

- Applications
- Reserves, production & consumption

#### **Platinum**

- Applications & substitution
- Reserves, production & consumption
- Mergers & acquisitions

#### **Palladium**

- Applications & substitution
- Reserves, production & consumption
- Price volatility

### **10:00 – 11:00 Industrial Metals**

- The markets for Copper, Aluminium, Steel, Lead, Nickel, Zinc, Tin
- Base metal production
  - Aluminium & Copper
- London Metal Exchange (LME)
  - Futures & Options
  - Trading & Pricing
  - Contract specs
  - Trading
  - Clearing





- Delivery
- Price Drivers
  - Inventories
  - China
- Price structure
- The Forward curve
- Multiple exchanges and arbitrage opportunities
- Derivatives Application
  - Aluminium Hedge automotive industry

**Exercise:** Recommend a hedging strategy for an aluminum manufacturer

**11:00 – 11: 15 Coffee**

**11:15 - 12:00 Plastics**

- Plastics Fundamentals
- Applications of plastics
  - Polypropylene (PP)
  - Polyethylene Linera Low Density (LL)
- The plastics supply chain
- Price drivers
  - Crude and gas price
  - Environmental concerns
  - Production capacity
  - Economic cycle
  - Inventories
  - US Dollar
  - New technology
  - Demand from emerging markets
- Applications of derivatives
  - PP and LL futures LME
- Hedging strategies
  - Price –fixing hedge
  - Offset Hedge