



## OBJECTIVE

Commodities markets are one of the more diverse, difficult markets to regulate and have been growing in contract volume for physical and futures contract types. Over the last five years there has also been an increasing demand from investors who are entering this market space. This course probes current trends in commodities trading across the full spectrum of instruments and the varying dynamics for each party; the banks, speculators, hedgers and industry at large. We will discuss all process layers from order execution to risk management.

## KEY AREAS

- Understand the trade flow for physicals.
- A close look into pricing spot complex and forward OTC markets.
- How to manage volatility on the balance sheet and measure risk in commodities.
- Case studies on hedging and speculation
- What are the latest trends in commodities trading and the shift in market players needs.
- Look at new commodity products

## FOCUS

### UNIQUE MARKETS

Features in energy, oil, gas, plastics, softs and metals will be discussed with sample strategies shown in spreadsheets. A focus on an end-to-end perspective on how commodities affect a firms' bottom line.

### INSTRUMENT FOCUS

In the spot complex world of commodities trading, escalated pricing has affected many firms through the economic supply chain however there are strategies for businesses dependent on raw materials procurement.

## COURSE IDEAL FOR

- Treasury Staff
- Business Managers
- Chief Financial Officers
- Cost & Management Accountants
- Risk Management Staff
- Trade Account Managers
- Procurement Managers
- Compliance and audit staff.

## About your trainer



Martin specializes in designing risk measurement systems with a particular focus on regulatory capital frameworks. He has more than 10 years experience developing bespoke knowledge / workflow and scorecard solutions for financial institutions in both strategic and processing areas of the business. He has a particular interest in lending products and in assisting banks reduce capital arbitrage in their economic capital models. Primarily he is banker with experience in both retail and commercial banking and he is currently working with several banks throughout South East Asia where he assists these organisations build sound and structured frameworks that can quantify exposure. In the capital markets arena Martin has worked closely with a stock exchange in the region assisting the exchange design a new energy instrument and futures contract. In addition to Martin's work within the capital markets and banking sector he is a credited trainer for the American Academy of Financial Management on structured finance, project finance, credit and operational risk.

**Day 1 Agenda****MARKET, TRENDS & PRACTICES****Session 1**

08:30 **Commodity Market Overview**  
A complete study into the various markets from a top level, their growth trends and the unique characteristics of each market operates will be discussed.

09:30 **Market Players**  
Who the different players in commodity markets (hedgers, speculators, banks, clearing houses) and how do they interrelate to each other.

**Case Study** on hedging will be given, from end-to-end from identifying hedge gaps through to execution and settlement. We will also purchase live on a platform oil for hedging purposes.

10:30 **Coffee Break**

10:45 **Cross Linked Commodities**  
Commodities from energy products through to cash equivalents are becoming more interconnected with globalisation.

What are the effects of such commodities markets on adjacent markets such as the money markets?

What are the risks to each participant?

**Case Study** on market overlap and correlation will be delivered.

**Session 2**

13:00 **Products – New and Old**  
In this section we will review the various diverse set of products that are used in commodities taking in :

- OTC Energy contracts with a focus on gas and carbon.
- New ETF commodity linked investment products.
- Some of the developments in ICE for regional based contract development.
- General trends in metals.

14:00 **Challenges**  
Commodities markets have specific challenges which are going to be discussed with a focus on what is lacking in the market.

- Why have businesses been hit by oil prices?
- Quanto linked notes and the problems with commodities and currencies.

15:30 **DAY CLOSE**  
By the close of the first day the class should have a solid understanding of the dynamics of each market, how it operates, the main players and its general trends.

Discussions on regulatory bodies and the best practice approaches for measuring market risk will also be clearly given with examples.

**OBJECTIVE**

The first day is an exciting overview of the commodities landscape explaining how different commodities traders (hedgers, speculators, physical traders) operate.

Different markets are discussed taking in both OTC and Exchange traded products.

Gain insight into the challenges for commodities traders.

**KEY LEARNING**

- Review different commodities instruments.
- Case study on hedging end-to-end
- Actually trade commodities on a platform.

**Day 2 Agenda** • • • • •**TRADING STRATEGIES SETTLEMENT, RISK MANAGEMENT & PHYSICALS****OBJECTIVE**

In the second day the course moves to the middle and back office areas of the commodities desks. Look at a complete model for measuring exposure in commodities, understand the accounting principles for IAS 39 and Mark-To-Market.

How can commodities contracts be priced?

**KEY LEARNING**

- Complete Value at Risk Model
- How to price contracts using binomial models or black and scholes
- Gain insight into technical analysis of markets.
- What are the Greeks doing for us in commodities?

**Session 1**

08:30 **Dimensions of risks**  
A look at the various risks in commodities trading including:

- OTC Counter party failures
- Basis risk when hedging
- Market risk and how measure this across a position or set of positions using Value at Risk

09:30 **Value at Risk in Detail**  
Build a value at risk model from the ground up taking both expected and unexpected loss into account and use scenario analysis to improve the risk measurement.

10:30 Coffee Break

10:45 **Performance & Trading**  
Look at the latest performance measures for commodities speculators how are the benchmarked?

- From Sharpe Ratios to portable alpha what about commodities & Treynor Ratios?
- Review price signals and technical analysis around Fibonacci series.
- How to use the various measures for different instruments

12:00 **Pricing Commodity Contracts**  
How are commodities contracts priced?

- Look at the fundamental pricing models?
- How to setup multiple contracts to reduce risk and/or fees

**Session 2**

13:00 **Market Risk and Greeks**  
What are and how to use the Delta, Gamma, Theta, Vega to measure the risk in commodities contracts.

- Full explanation give with examples
- Spreadsheets of the calculations

14:00 **International Account Standards IAS 39**

The use of derivatives have potential upside for risk managers but require specific reporting requirements to be in place.

- Recognition measurement
- Forwards / Futures
- Reporting Requirements
- Hedge Accounting Rules
- Market to market rules explained
- Example reports given.

15:30 **DAY CLOSE**

The second day will take the class through each aspect of the commodity traders internal environment from risk management, pricing through to accounting and responding to risk signals.