



# Global Risk Management

Investment Firm

## disruption

/dɪsˈrʌpʃn/ 

*noun*

disturbance or problems which interrupt an event, activity, or process.

"the scheme was planned to minimize disruption"

*synonyms:* [disturbance](#), disordering, disarrangement, disarranging, [interference](#), [upset](#), [upsetting](#), [unsettling](#), [confusion](#), [confusing](#); [More](#)



## What's Next: a glance into the future of shipping

## The message in my presentation:

- How the oil market consist of not only physical oil trading but increasingly of financial & computer generated trading.
- How the legislative changes in 2020 is making decision making in the shipping/bunker market difficult
- How companies can apply risk management to offset these risks and uncertainties in due time

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## Our Group



### A/S United Shipping & Trading Company

United Shipping & Trading Company is a global group of companies with more than 1,375 employees and a turnover of some USD 8.6 billion.

Based in Middelfart in Denmark, United Shipping & Trading Company is active in the following areas:

- Supply of fuel to the shipping market
- Oil Risk Management
- Door-to-door logistics solutions
- Tanker shipping
- IT
- Advertising

## What are we facing...?

### “Known knowns”:

- Oil prices today, Freight rates today

### “Known unknowns”:

- 2020 ... impact on supply, demand and prices...

### “Unknown unknowns”

- - ?
- – maybe unpredictable market movements from algorithm trading?



There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also **unknown unknowns** — the ones we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tend to be the difficult ones.

## Determining the oil price: The traditional factors...

### 🔥 Fundamentals: Oil supply vs oil demand

#### 🔥 Supply:

- OPEC + Russian quotas, policies, compliance
- US Shale oil production
- Geopolitics (supply restrictions, sanctions)
- Global oil inventories

#### 🔥 Demand:

- Global oil demand 98mbpd
- Expected annual growth 1.4mbpd
- Changes in legislation
- Political stability / turmoil

KAL  
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ENGLAND

Sheikhs  
versus  
Shale

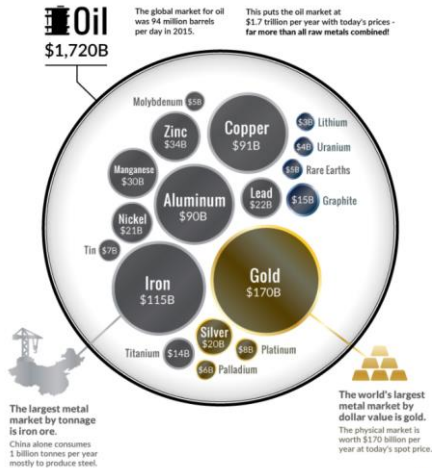


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# The size of the oil market(s)

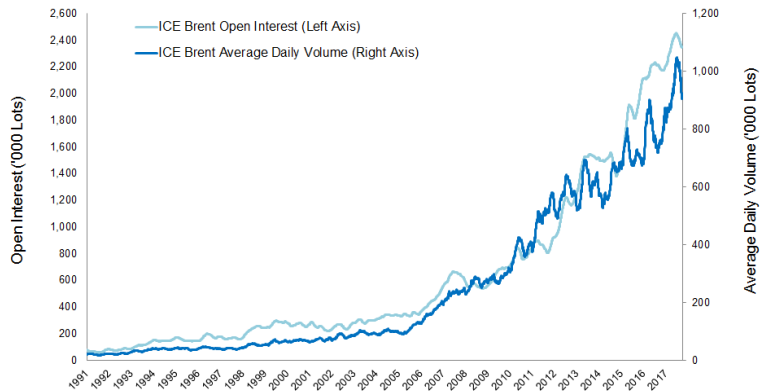
## BIG OIL

The oil market is bigger than all raw metal markets combined



SOURCES: Infowave, EIA, World Gold Council, Johnson Matthey, Cameco, Benchmark Minerals [visualcapitalist.com](http://visualcapitalist.com)

## LONG TERM SUCCESS OF ICE BRENT FUTURES (3 MONTH ROLLING AVERAGE)



Daily trading: 1000 x 1000 lots = 1,000,000,000 barrels (1bn) – of Brent alone...

## Financial markets can change, or support the price trend

- 💧 Money managers' positions
- 💧 USD strength
- 💧 Commodities as investment
- 💧 Positive or negative market sentiment
- 💧 Technical trading
- 💧 Algorithm trading



# ”Unknown unknowns”: Algorithm trading?

MARKETS | OIL MARKETS

## Oil Up? Oil Down? Blame the Algorithms

As market moves confound analysts and longtime investors, many are pointing fingers at the rise of automated trading and algorithms

THE WALL STREET JOURNAL.  
Europe/Editor • May 12/2018 • Total 1 Page • 1/06

HEDGE FUNDS - AMERICAS FEBRUARY 12, 2018 / 9:37 AM / 3 MONTHS AGO

## Data overload: commodity hedge funds close as computers dominate



HEDGE FUNDS

FINANCE | BANKS | INVESTING | WALL STREET | HEDGE FUNDS | M&A | INSURANCE | VENTURE CAPITAL

### Oil trading 'god' Andy Hall says he's met his match in robots

- Oil "god" Andy Hall told investors that automated trading is making it difficult to produce returns in the oil market, according to Bloomberg News.
- The Astenbeck Capital Management founder is known for fundamental analysis.
- Hall closed down his flagship hedge fund after it reportedly tanked nearly 30 percent as oil prices fell.



## If that wasn't enough, "influencers" make it worse....:

Bloomberg

Technology

### In One Tweet, Kylie Jenner Wiped Out \$1.3 Billion of Snap's Market Value

By [Justina Vasquez](#)

22 February 2018, 17:49 CET Updated on 22 February 2018, 23:33 CET

FINANCE • AMAZON

## President Trump Is Tweeting About Amazon Again — and its Stock Price Is Falling

HOME / COMMODITIES / FOREX NEWS ROUND UP / USD

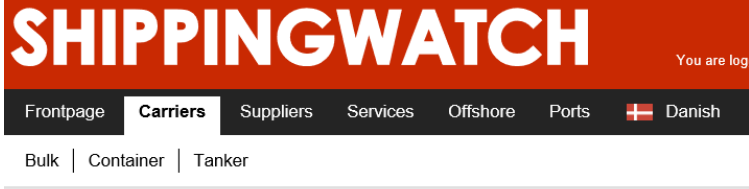
Oil Volatile Ahead of OPEC Meeting in Vienna

🕒 November 28, 2016


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## Concerns amongst fuel buyers & top execs



**SHIPPINGWATCH** You are logged in

Frontpage **Carriers** Suppliers Services Offshore Ports  Danish

Bulk | Container | Tanker

### Future shipping top executives worry about one thing in particular **CHANGE**

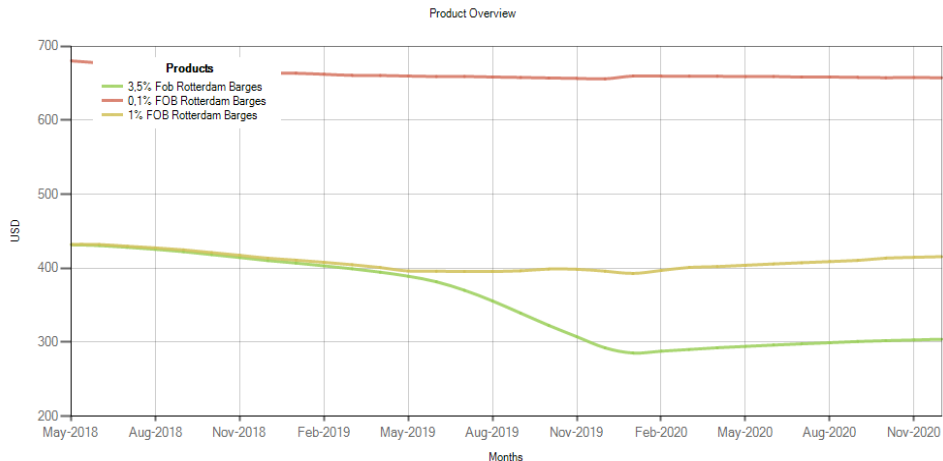
BY TOMAS KRISTIANSEN  
Published 08.05.18 at 09:52

**Five potential top executives from widely different branches of the shipping sphere point to virtually the same element when asked to boil the challenge of the future down to a single word. Follow them here on ShippingWatch.**

## ”Known unknowns”: 2020 sulphur regulation changes



## Forward price curves reflect the lack of demand for HSFO



Source:  
 Global  
 Update  
 21/05-18

- VLSFO (0.5%) does not have a forward curve
- Platts will start to assess the VLSFO prices in mid-2019 but need input from the physical trades
- Market makers (hedgers) depending on Platts in order to build forward curves.
- Proxy hedging, using Brent Crude or mix of Distillates and LSFO

## Some of the challenges and considerations of VLSFO

### 💧 Buyers (shipowners)

- Costs for fuel goes up, but can they cover these costs through higher freight rates?
- Suppliers promoting VLSFO, but what about availability, spec/compatibility, prices?

### 💧 Sellers (refiners, suppliers, traders)

- Change of requirements by their clients: little HSFO, more MGO and potentially VLSFO.
- Will refiners be willing and able to produce 0.5% VLSFO without firm commitment from buyers?

💧 The missing piece of the puzzle is .... Price...

## So how to manage fuel price changes? “Simple” ...:

Make sure you pay in the same manner as you get paid



## How to manage price risks

Problem?

Changing fuel costs

Solution:

Charge Customers

Hedge

Instrument:

Surcharges / BAF etc

Physical Agreement

Financial Agreement

Outcome:

Customers have the risk

Supplier covers risk

Hedger covers risk









## Conclusions

- ◆ The oil market is unpredictable and too big to be controlled
- ◆ There is no “natural” price for the barrel – it is what it is....
- ◆ Prepare for more volatility ahead
- ◆ 2020 will shake the oil complex further
- ◆ Understand your company’s exposures, and implement suitable risk management strategies.

## Further Information

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