

UNDERSTANDING FORWARD FREIGHT AGREEMENTS

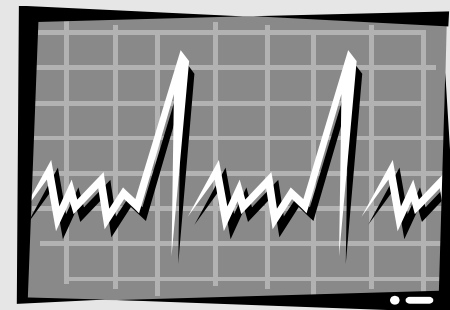
**Workshop at the Journal of Commerce TPM Conference
Long Beach CA, 6th March 2013**





- Snapshot of today's market environment
- Independent and trusted
- Reflecting **ALL IN** prices including all surcharges;
no Terminal Handling Charge (THC)

- Shanghai Shipping Exchange (SSE)
- Shanghai Containerized Freight Index (SCFI)
- Balanced panel (15 Carriers, 17 Forwarders)
- SCFI Index published weekly (Friday; 15:00 Beijing Time)





Exposure in the future brings uncertainty:

- Macro economical effects
- Tonnage availability
- Bunker price
- Strikes / walk outs
- Severe weather
- Disasters
- War / Crisis
- Political or technical blockades of shipping routes

Long: underlying is owned / risk of falling price (Seller)

Short: underlying to be purchased / risk of rising prices (Buyer)





Hedging: Protection; counterbalancing contract

Forward Freight Agreements (FFA), Paper, Swap, Forward, Container Freight Swap Agreement (CFSA), CFD, Derivative

Bid:

Buyer

Ask / Offer:

Seller

Settlement:

Comparison with market / index at specific date

In the money:

receiving cash

Out of the money:

owing cash

A FFA is a separated, abstract contract.
Entered now, cash is paid in the future

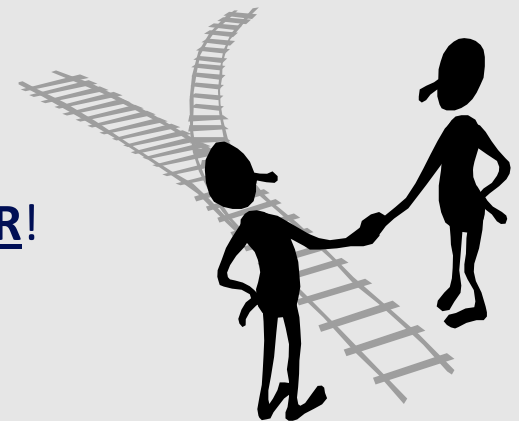


Forward Curve



	USWC USD/FEU		
Feb-13	2,280.00	***Spread***	2,500.00
Mar-13	2,325.00	/	2,525.00
Apr-13	2,500.00	/	2,665.00
Q2 13	2,500.00	/	2,700.00
Q3 13	2,475.00	/	2,775.00
Feb-Dec	2,375.00	/	2,600.00
Cal 14	2,300.00	/	2,600.00

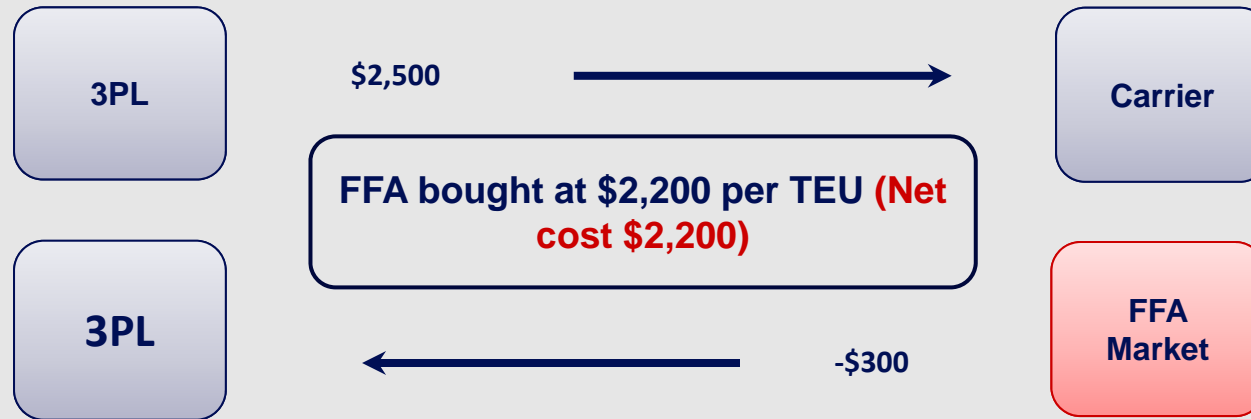
- Several financial instruments available
- Simply pick and choose
- Interest matched => FFA contract price = ONE NUMBER!



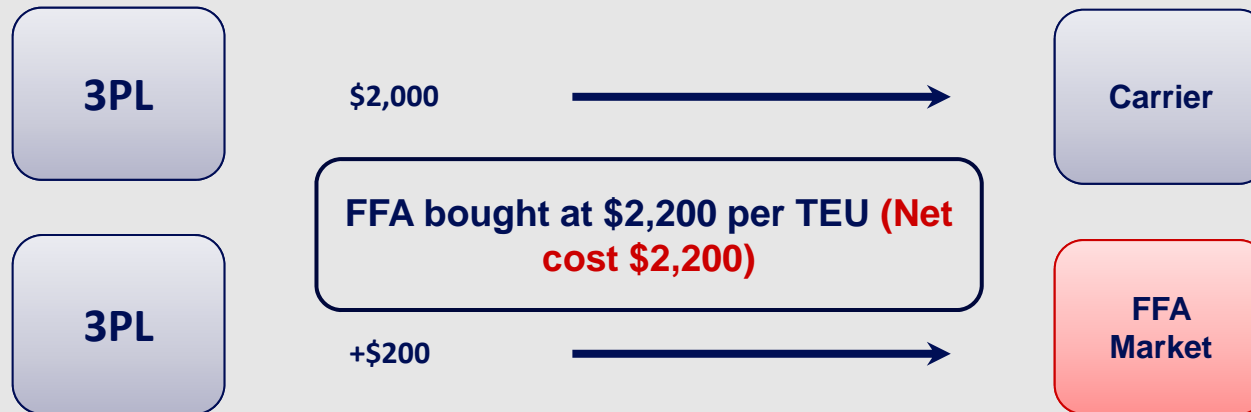
Functionality of a FFA / 3PL perspective



High market (contract month averages @2.500)



Low market (contract month averages @2.000)



Index Linked Freight Contracts



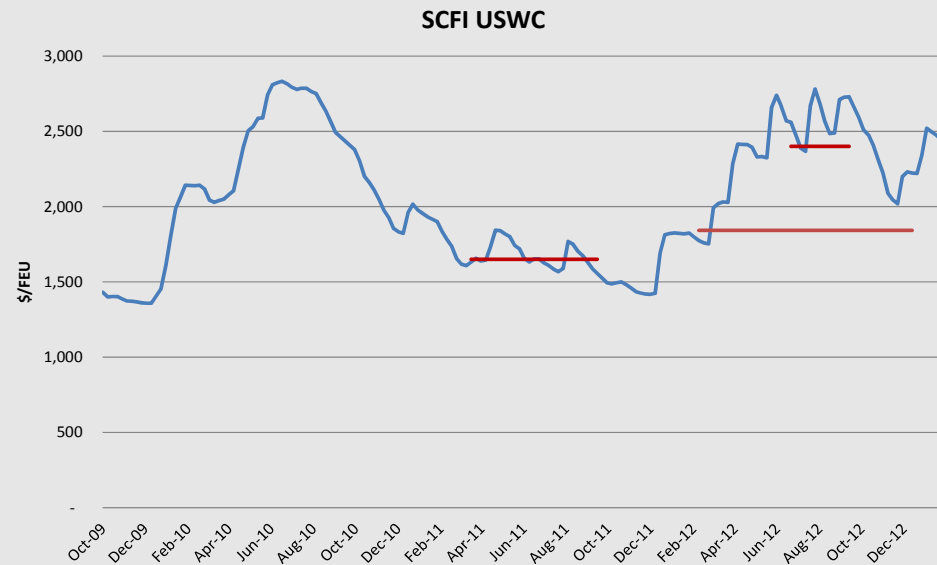
- Physical volumes agreed separately from future prices
- Duration > 1 year
- On procurement or / and selling side
- Freight rate is floating / always spot
- Discounts are possible
- No frills as floors / ceilings, corridors etc.



Floating contract / FFA s'



- To gain business: separate Volumes from Prices
- Pick and choose the right financial instrument
- or stay “unprotected”



- Think 3 Steps ahead
- Think abstract
- Remember your balance sheet



- Macro economical indicators

GDP's, PMI's, Car Sales, House Sales, base interest rates, money volumes, exchange rates, ...

- Media

JOC, PIERS, HANSA, Alphaliner, Bloomberg, Reuters, Equity analysts, bank's publications

- ICAP

Market reports

Slot Capacity Indicator, Cargo Monitor, Container App for BlackBerry's and iPhone.

- Risk simulation

Data can be automated imported in defined risk models



Corporate Implementation



- CFO/Board level decision
- Definition of responsible persons / traders
- Definition of interfaces between finance, research, sales departments etc...
- Sales staff training
- Additional transaction processing (i.e. Invoicing)
- Monitoring
- Maintaining trading account





- Need for a long term, fixed rate?
- Focus on service levels, reliability, sustainability?
- Long term client relationships preferred?
- Tired of losing out in tenders?
- Ever calculated total costs of a quote?
- Attracts "high volume – low value" cargo?
- Need to justify costly IT / set up solutions ?
- Peace of mind approach?

- Assure as high as possible correspondance:
- Procurement – FFA – Cargostream
- Use the index / discounts
- Manage the Price using the FFA



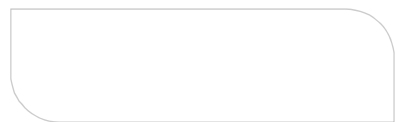
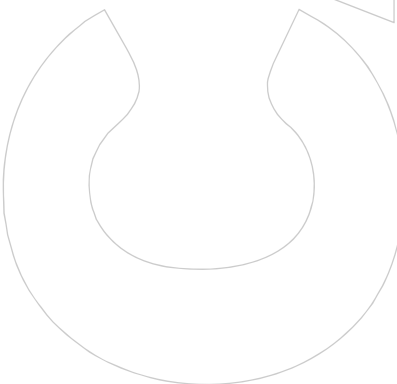
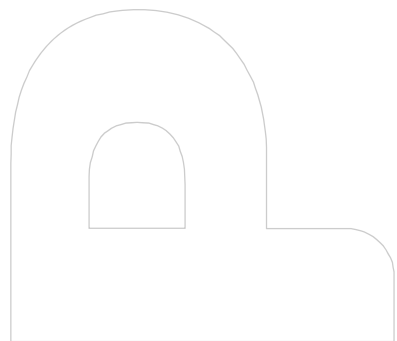


- Constantly rising trading volumes
- Leading banks entering / provide liquidity
- New indices cover additional geographical regions

- Shipowners prepared to fix tonnage based on a freight index
- Electrolux just extended index linked contract
- Several index linked contracts filed with the FMC
- Panalpina, Logfret , SEKO Logistics, Cargill, SDV Geis, committed
- 2 Clearing houses eliminate counterparty risk

ICAP commission:

5-15 USD per Container (TEU or FEU) / month => Cash flow / NOT Cargo



Produced by ICAP Securities Ltd.

Kai Miller

ICAP Securities Limited, 2 Broadgate, London EC2M 7UR United Kingdom +44 20 7459 2000

kai.miller@icap.com

www.icap.com
www.icapshipping.com

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