Actual market / Index

- 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)
Risk

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)
Terminology

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**

<table>
<thead>
<tr>
<th>Period</th>
<th>Rate</th>
<th><em><strong>Spread</strong></em></th>
<th>Rate</th>
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</thead>
<tbody>
<tr>
<td>Feb-13</td>
<td>2,280.00</td>
<td>2,500.00</td>
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<tr>
<td>Mar-13</td>
<td>2,325.00</td>
<td>/</td>
<td>2,525.00</td>
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<tr>
<td>Apr-13</td>
<td>2,500.00</td>
<td>/</td>
<td>2,665.00</td>
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<tr>
<td>Q2 13</td>
<td>2,500.00</td>
<td>/</td>
<td>2,700.00</td>
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<td>Q3 13</td>
<td>2,475.00</td>
<td>/</td>
<td>2,775.00</td>
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<tr>
<td>Feb-Dec</td>
<td>2,375.00</td>
<td>/</td>
<td>2,600.00</td>
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<tr>
<td>Cal 14</td>
<td>2,300.00</td>
<td>/</td>
<td>2,600.00</td>
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</tbody>
</table>

- 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)

3PL $2,500 → Carrier

FFA bought at $2,200 per TEU *(Net cost $2,200)*

3PL → FFA Market

-$300

**Low market** (contract month averages @2.000)

3PL $2,000 → Carrier

FFA bought at $2,200 per TEU *(Net cost $2,200)*

3PL → FFA Market

+$200
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.
- 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
Research tools

- 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
Business cases

- 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 correspondence:
- Procurement – FFA – Cargostream
- Use the index / discounts
- Manage the Price using the FFA
Stage of the FFA market

- 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
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