



Energy Prices & Market Risk Management

Bucharest: 15-16 June 2022

Introducing Tallon Commodities Ltd



TALLON



Commodity Price Risk Management Services (Hedging)



Price Risk Management

Risk Management Solutions :

❖ Crude Oil & Products

❖ Natural Gas & Gas Formulas

❖ Power & Carbon Emissions

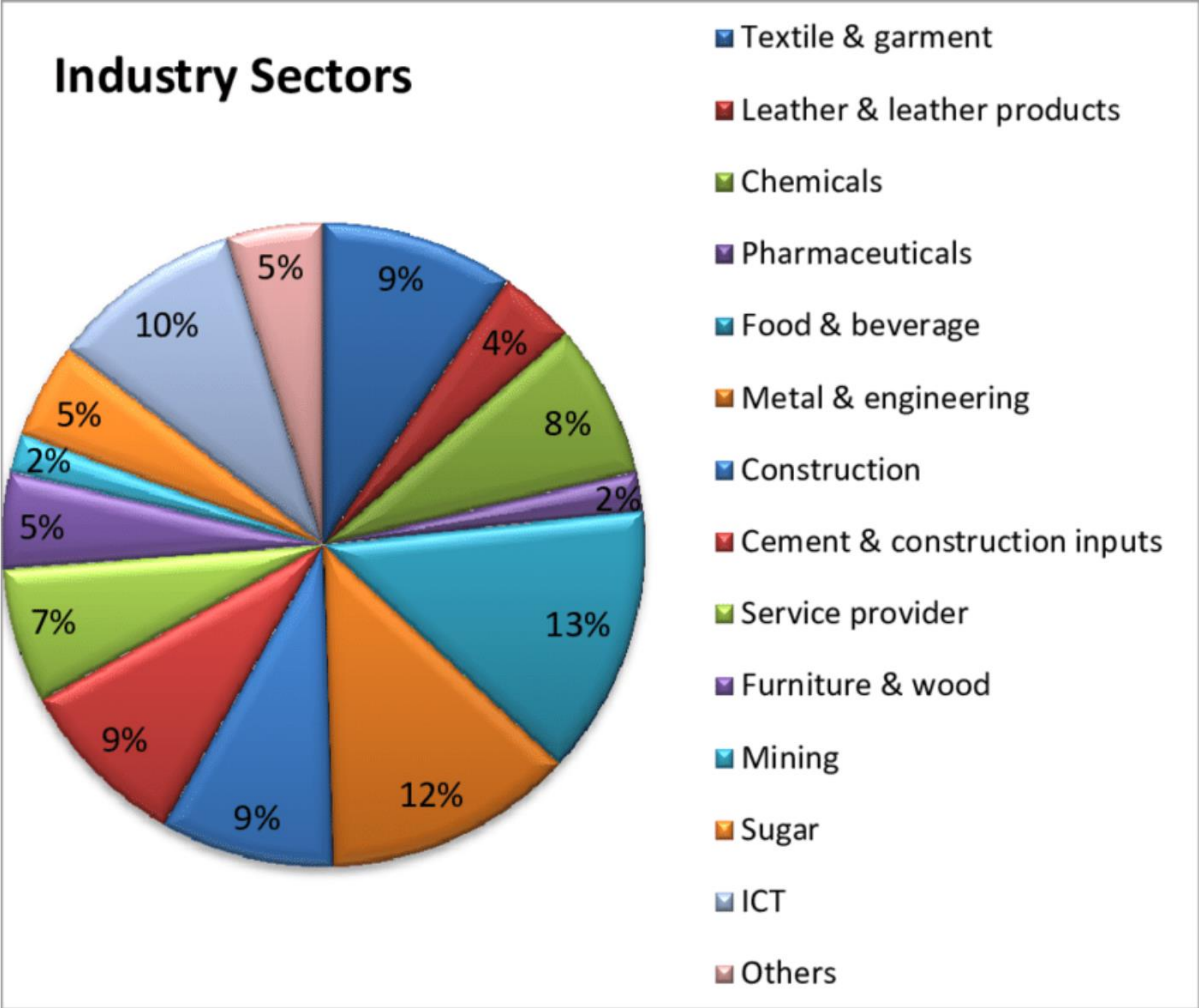
❖ Petrochemicals

❖ Coal & Freight

❖ Base Metals

Affected Sectors

Industry Sectors



- ❖ Profit Margins Shrinking

- i. Cost increasing
 - ii. Revenue side decreasing

- ❖ Inability to budget and pre-order

- i. Logistics delays
 - ii. Volatile prices



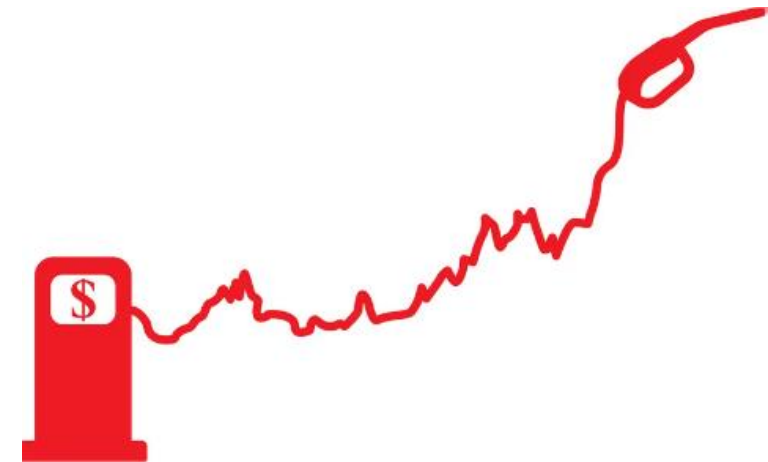
Companies Concerns

❖ General Concerns

1. What will our **energy and raw material costs** be in 2022?
2. Can we budget our **profit margins**?
3. How do we handle our **inventory replacement** cost at such volatility?
4. **Cash flow** constraints?

❖ Other Concerns:

- a. How will **CO2** cost affect our operations
- b. How can we react to the **EU Green Agenda**?
- c. What is **competition** doing?
- d. How can we have a **competitive advantage**?

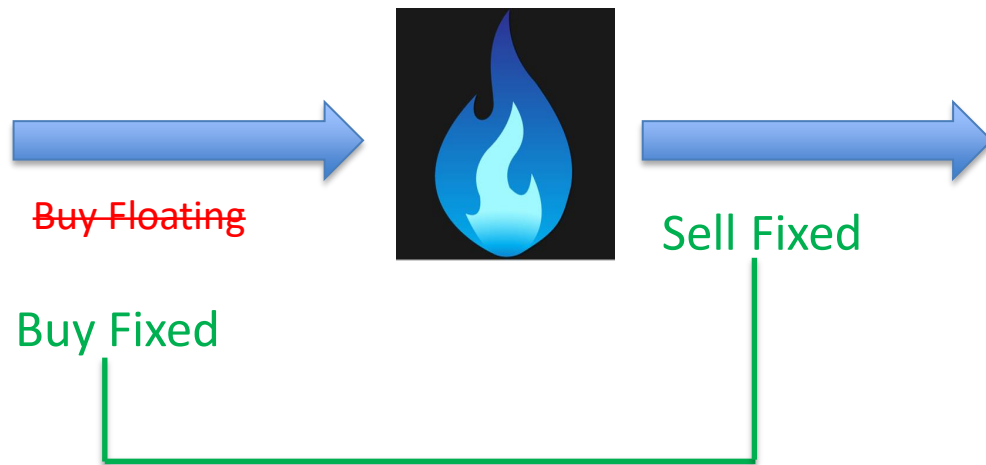




Suppliers Profit Margin Management

EXPOSURE:

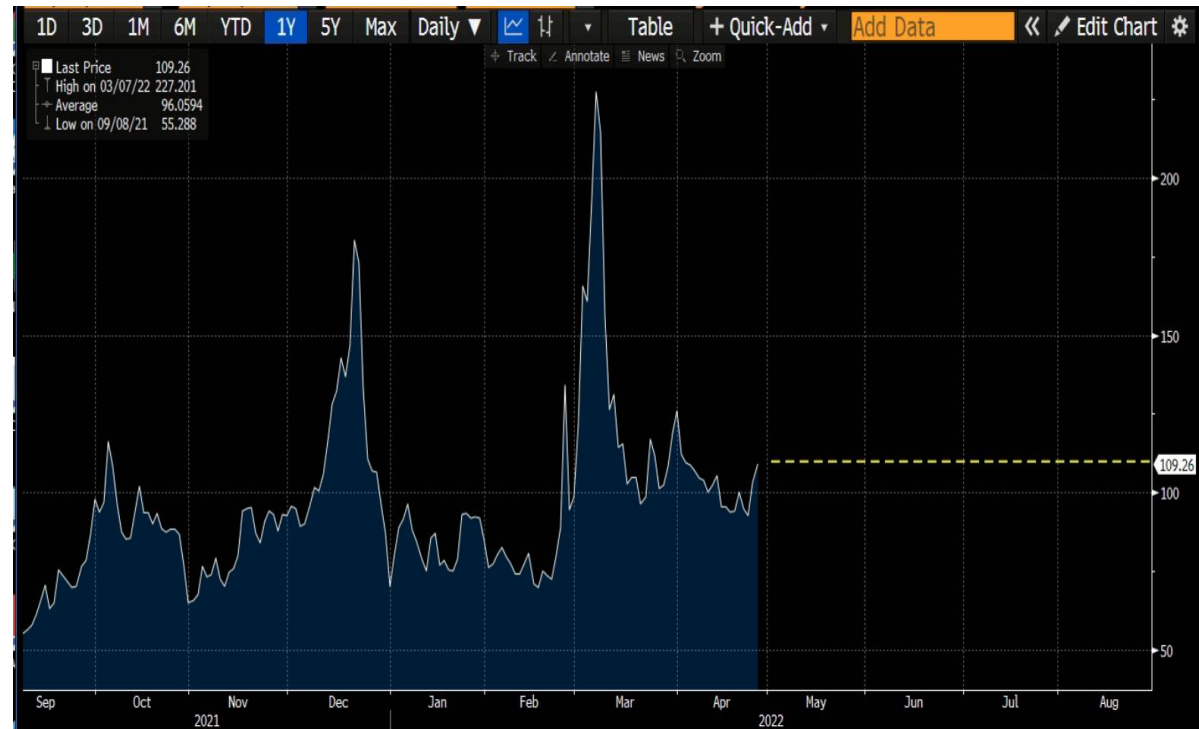
- Suppliers may buy on a floating cost basis.
- Usually sell fixed quarterly/semi-annual or annual contracts



HEDGE

- Fix the Floating part against a price rise
- For the period and quantity of the term contracts

Nat. Gas TTF Historical Price Graph

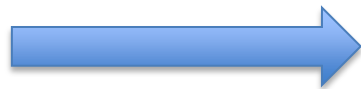




Consumers Cost Management

EXPOSURE:

- Consumers may buy on a floating cost basis.



Buy Floating

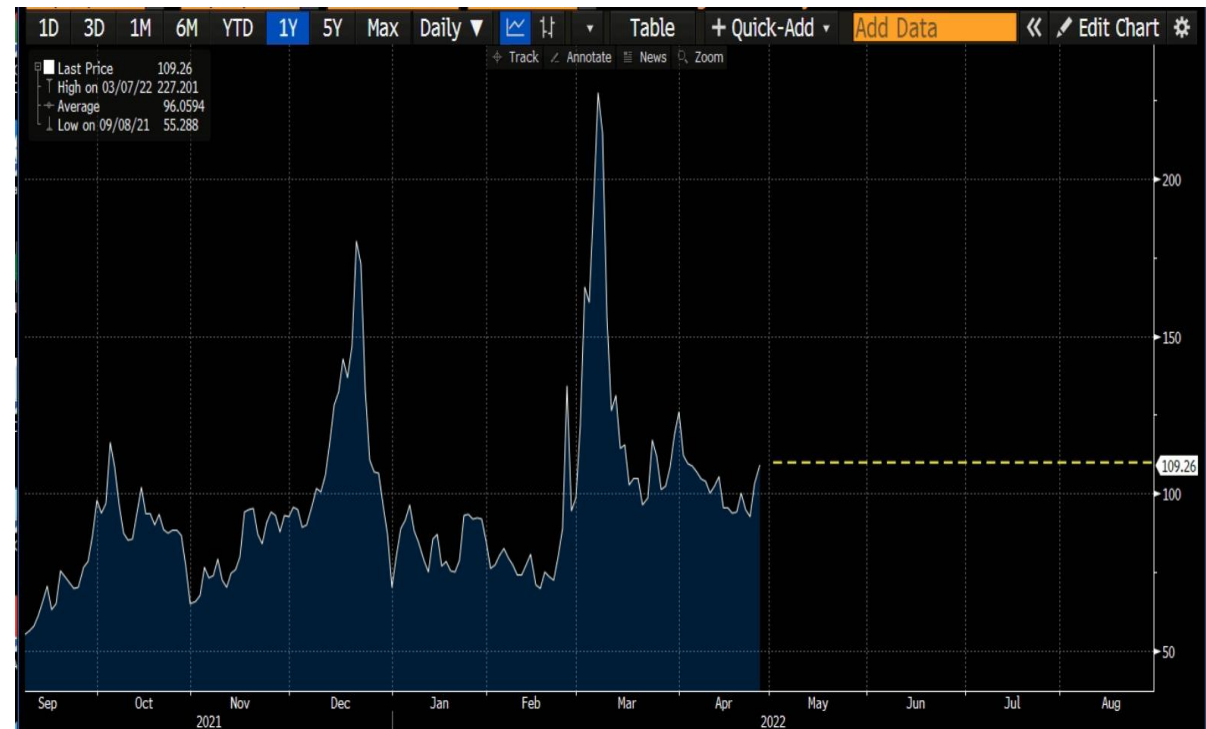
Buy Fixed



HEDGE

- Fix the Floating part against a price rise

Nat. Gas TTF Historical Price Graph





Consumers Hedging Example

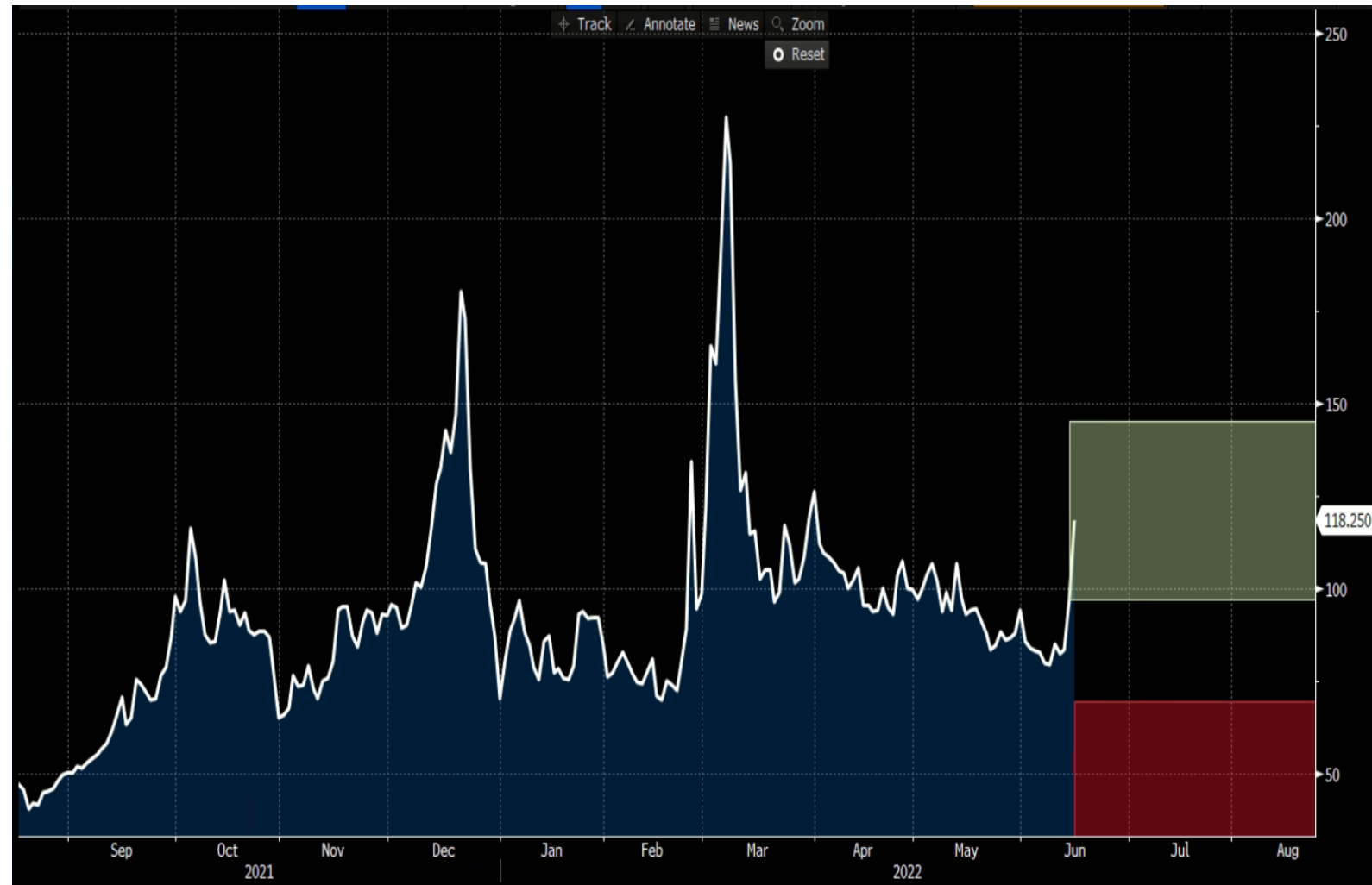
Period:

➤ Q4 2022-Q1 2023

Hedge via 3-Way Option:

1. Buy Call Spread: atm/atm+50
2. Sell Put: atm-25
 - Buy €95/€145
 - Sell €70

Ref q4+q1 swap at €95





The Case of Carbon Emissions

- ❖ A continuing uptrend:
 - Cost Management of Annual Deficit
 - Monetisation of Existing Surplus

EUAs Historical Price Graph





Compliance Buyers Hedging Example

Period:

➤ Calendar 2023

Hedge via 3-Way Option:

1. Buy Call Spread:
atm/atm+20
2. Sell Put: atm-17
 - Buy €85/€105
 - Sell €60

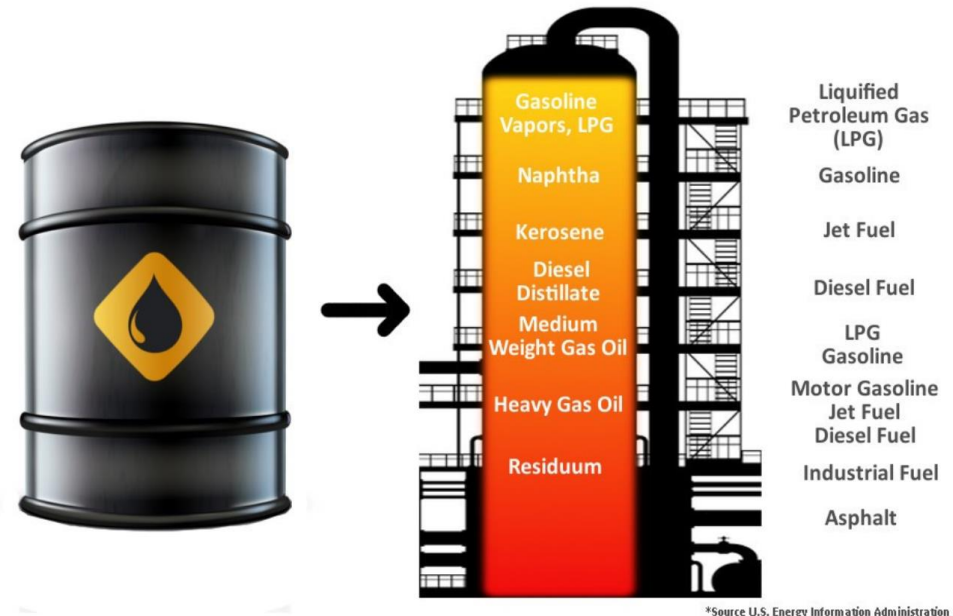
Ref Cal 23 Fwd at €85





The Case of Crude & Products

- ❖ Most Liquid Energy Commodity:
 - Hedge Consumers (Airlines/ Ferries/ Shipping)
 - Hedge Trading Margins
 - Hedge Refining Margins
 - Hedge Inventory Replacement
 - Hedge Industrial Users
 - Gasoil
 - Diesel
 - Gasoline
 - Naphtha



*Source U.S. Energy Information Administration

Products that come from the oil refining process



What Can Tallon Do for You

We can assist you to:

- ❖ Analyse your cost side and revenue side risks
- ❖ Identify time-gaps between cost accumulation and revenue realization
- ❖ Quantify the current cash flow needs and potential future exposures (PFEs)
- ❖ Check accounting practice

The above will enable Tallon to offer the appropriate Hedge Strategy and allow you to:

- ✓ Optimise your cost structure
- ✓ Produce accurate IRRs or ROCEs on Investments
- ✓ Normalise your Cashflow
- ✓ Reduce the Effects of Market Volatility

Thank You!



Tallon Commodities Ltd a company of the **M**otor Oil Group