



Commodity Price Risk Management

Istanbul: 22.11.2019

Hedging Gas Price Formulas



Introducing Tallon Commodities Ltd



TALLON



Commodity Price Risk Management Service (Hedging)



Price Risk Management

Risk Management Solutions :

❖ Crude Oil & Products

❖ Natural Gas & Gas Formulas

❖ Carbon Emissions

❖ Power & Coal

❖ Freight Markets

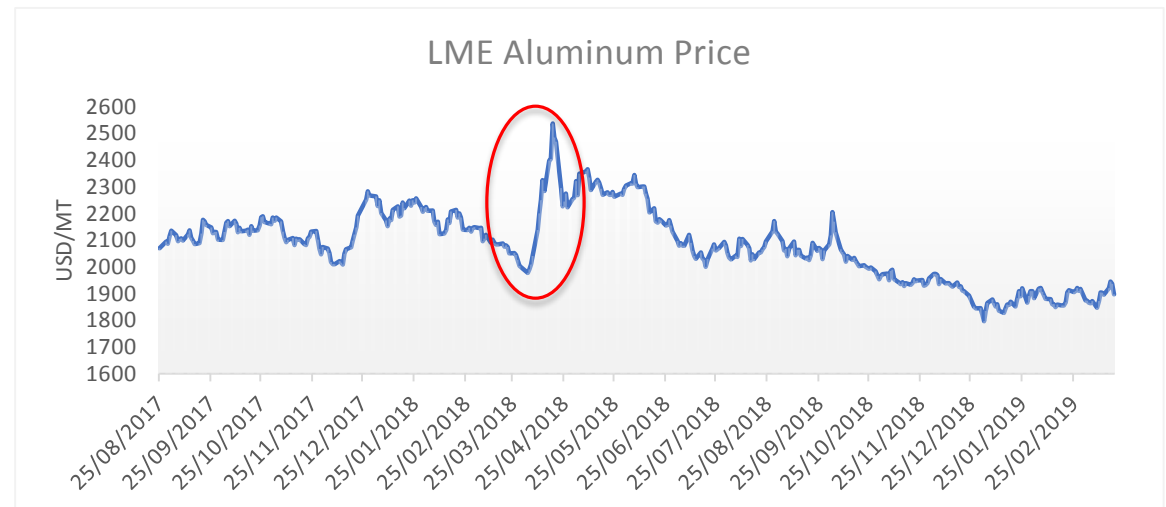
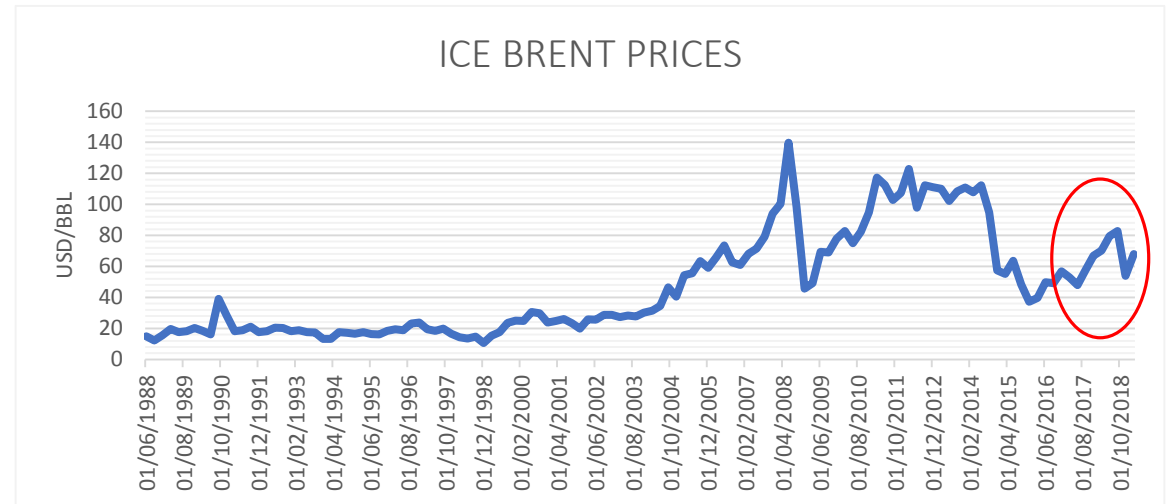


Price Moving Factors (a)

Geopolitical

OPEC/ Iran Sanctions/ Venezuela
90% increase within 14 months

US Sanctions on Rusal
>28% increase within 10 days

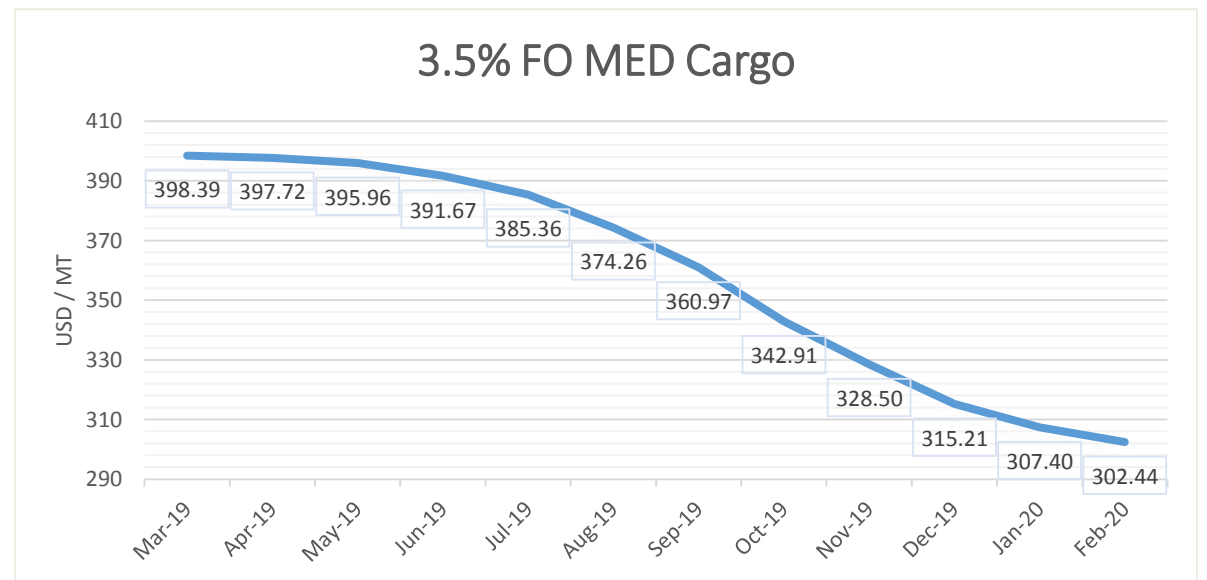
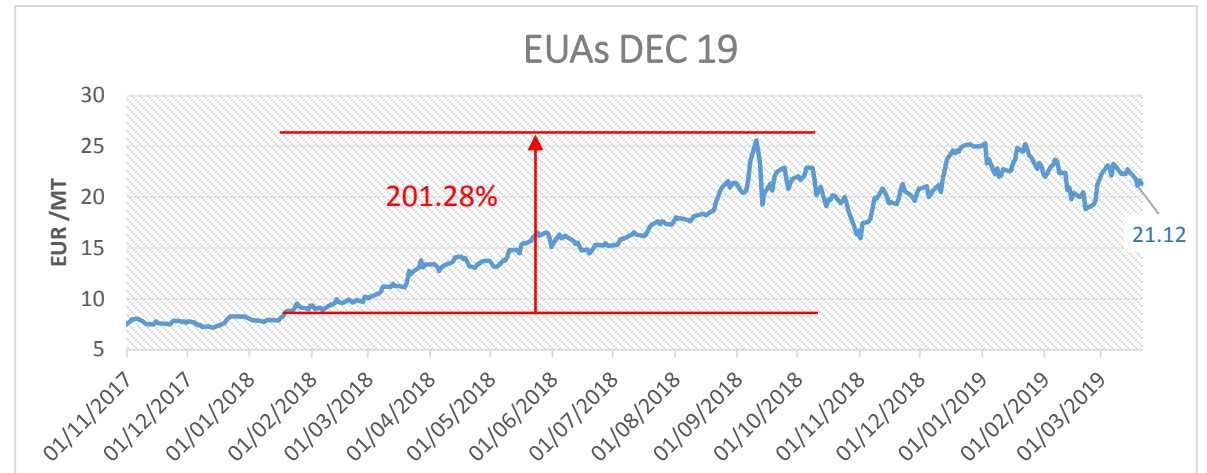


Price Moving Factors (b)

Regulatory

Market Stability Reserve
200% increase within 10 months

IMO on Fuel Sulphur Content
>\$80-\$100 2020 Value drop YoY





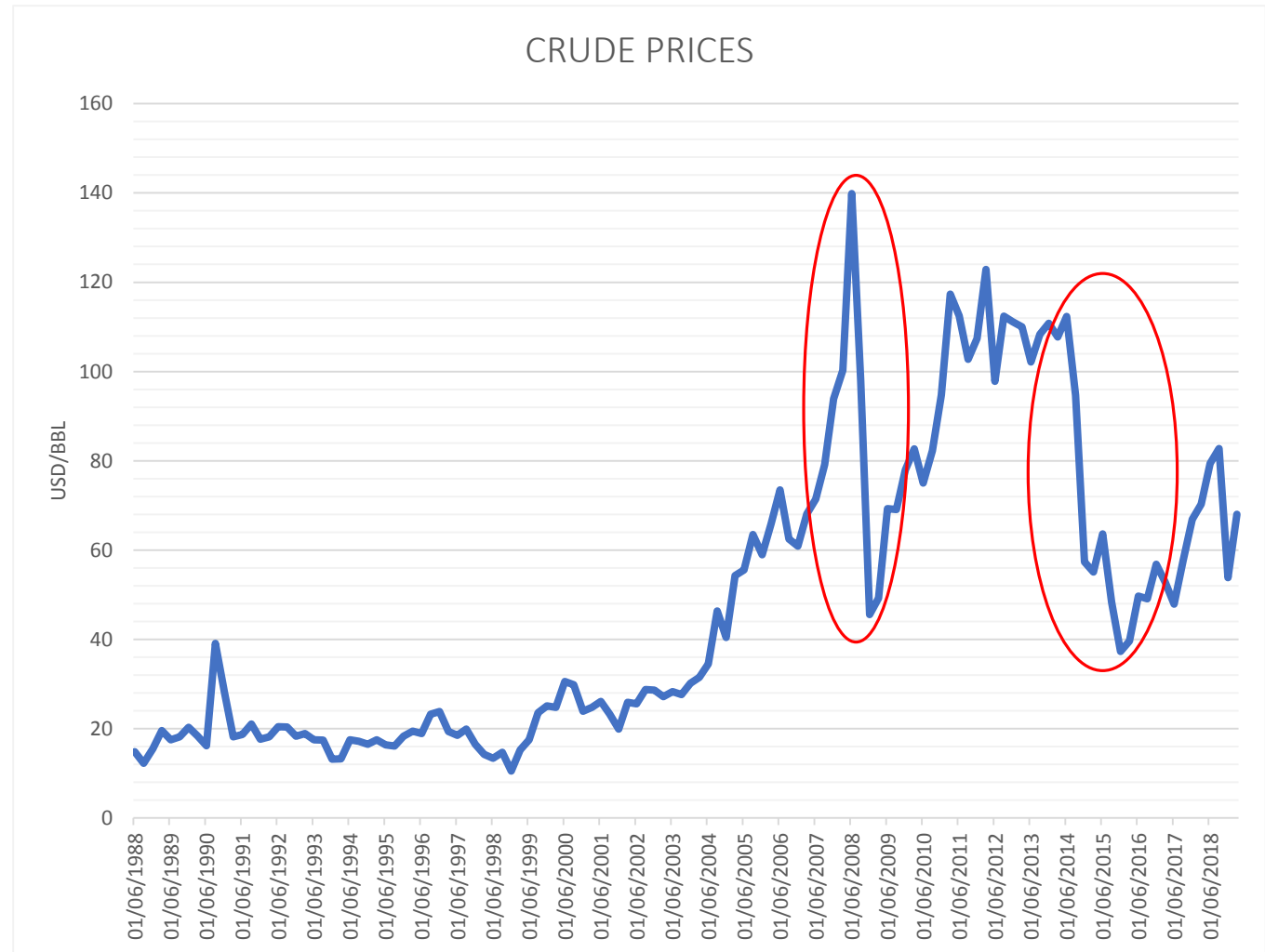
Price Moving Factors (c)

Economy Related

Lehman Brothers Domino
-70% drop in 5 months

Technology

Shale Production
-66% drop in 6 months





Price Moving Factors (d)

Weather

Hurricane Seasons affecting oil / Warm winters affecting Gas

Accidents

EDF Nuclear Shutdowns in 2018

Structural

New Generation Batteries



Result is High Volatility

Increased Entropy (Ongoing Market Disruptions)

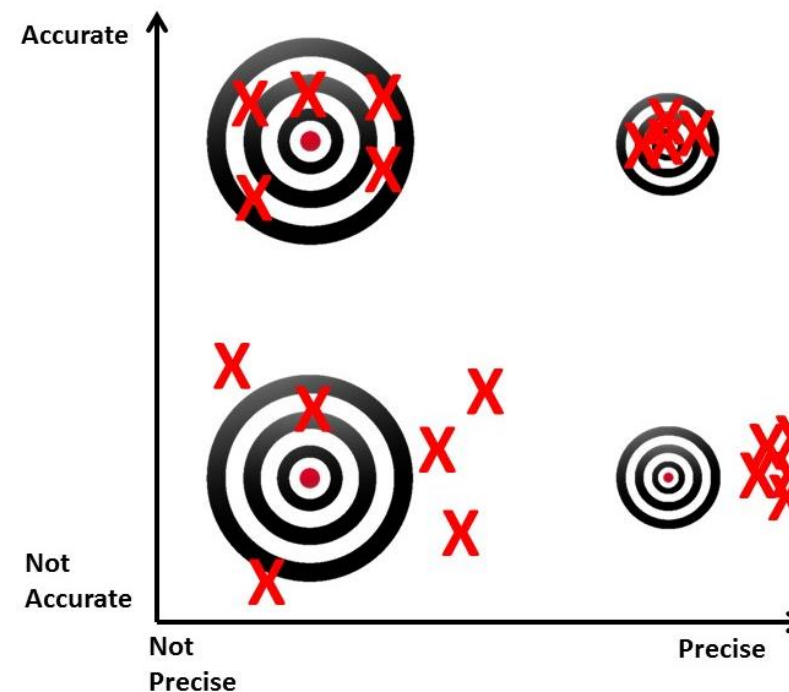




Results of the Effects of such Price Risk

Despite the organized and well governed operations of your company:

- ❖ Forecasted EBITDAs / Budgets are NOT accurate
- ❖ Projected IRRs or ROCE on Investments are NOT accurate
- ❖ Expected Profit Margins are NOT accurate
- ❖ Expected Operating Costs are NOT accurate

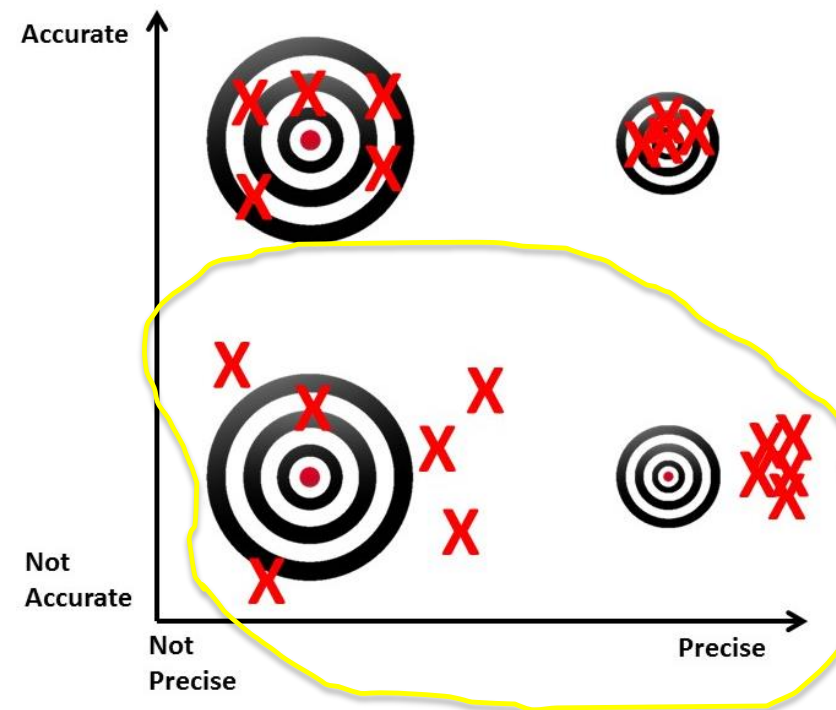




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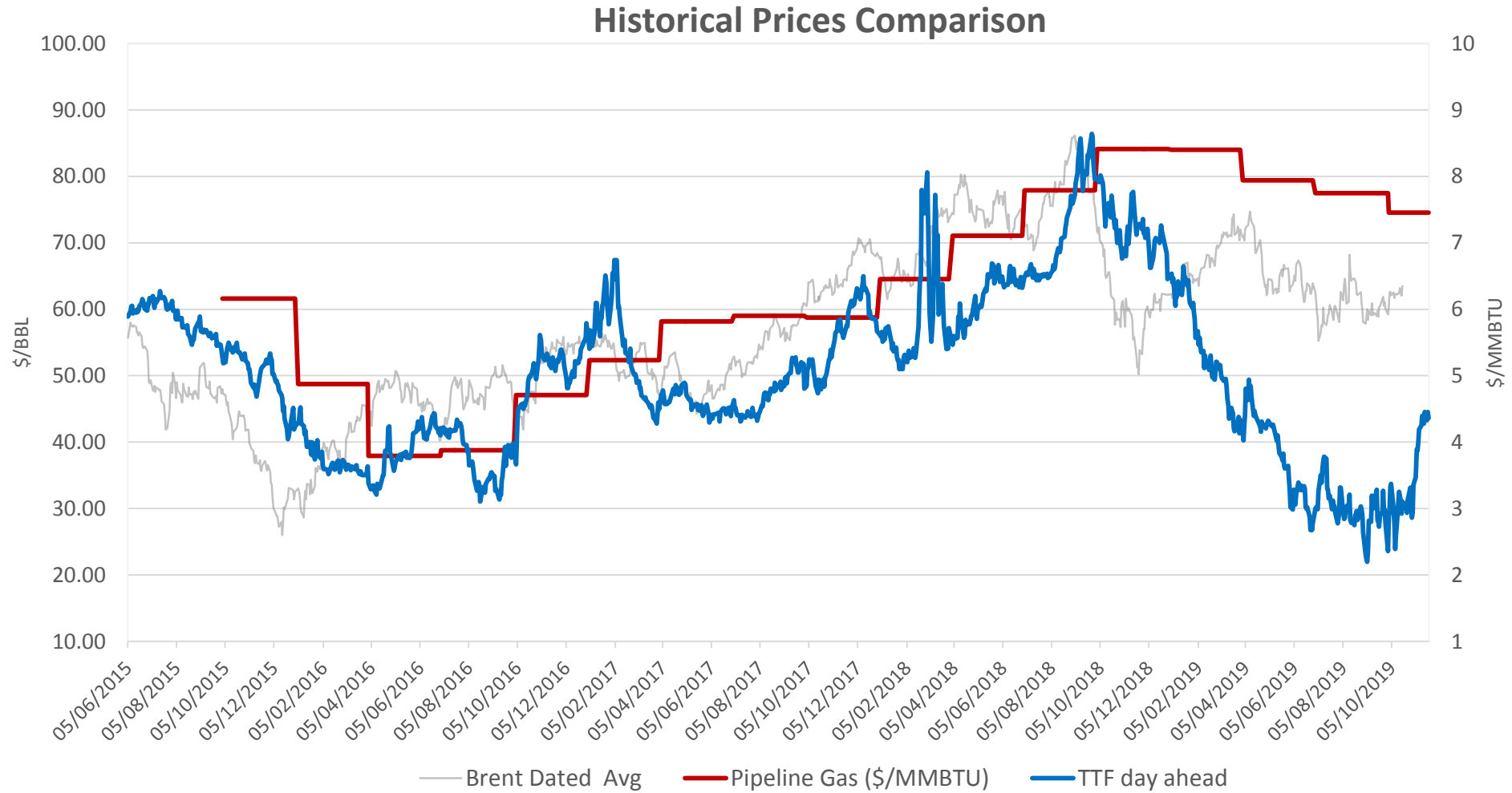
The Case of Natural Gas

Natural Gas can be bought in a number of ways but usually we observe:

- ❖ Pipeline Gas basis the oil formula
- ❖ LNG Spot (TTF ICIS Heren Index)
- ❖ LNG Term (Basis Brent Slope)

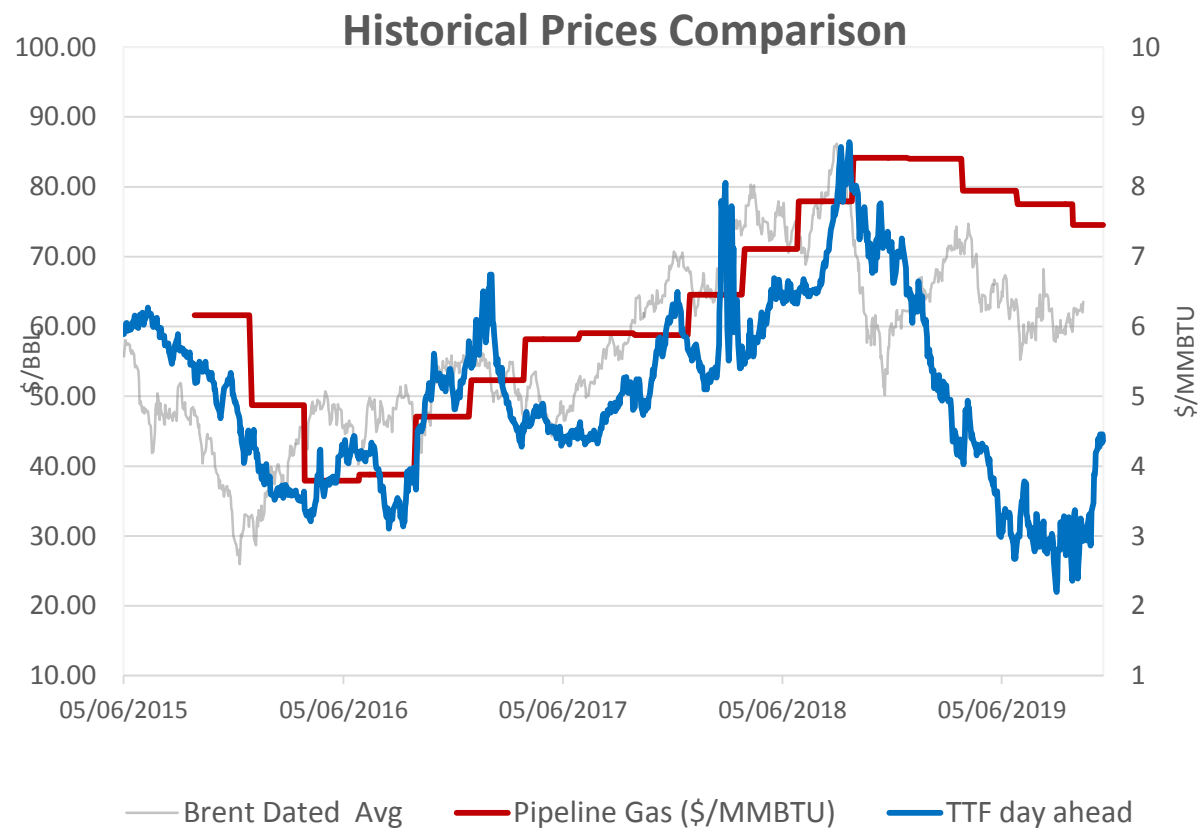


Historical Comparison





Question 1: Pipeline or LNG?



Short Term Considerations:

- Existing contracts / volume / operational issues

Long Term Considerations:

- Is this a permanent change?
- Is this something that strategically changes my purchasing policy for the future?

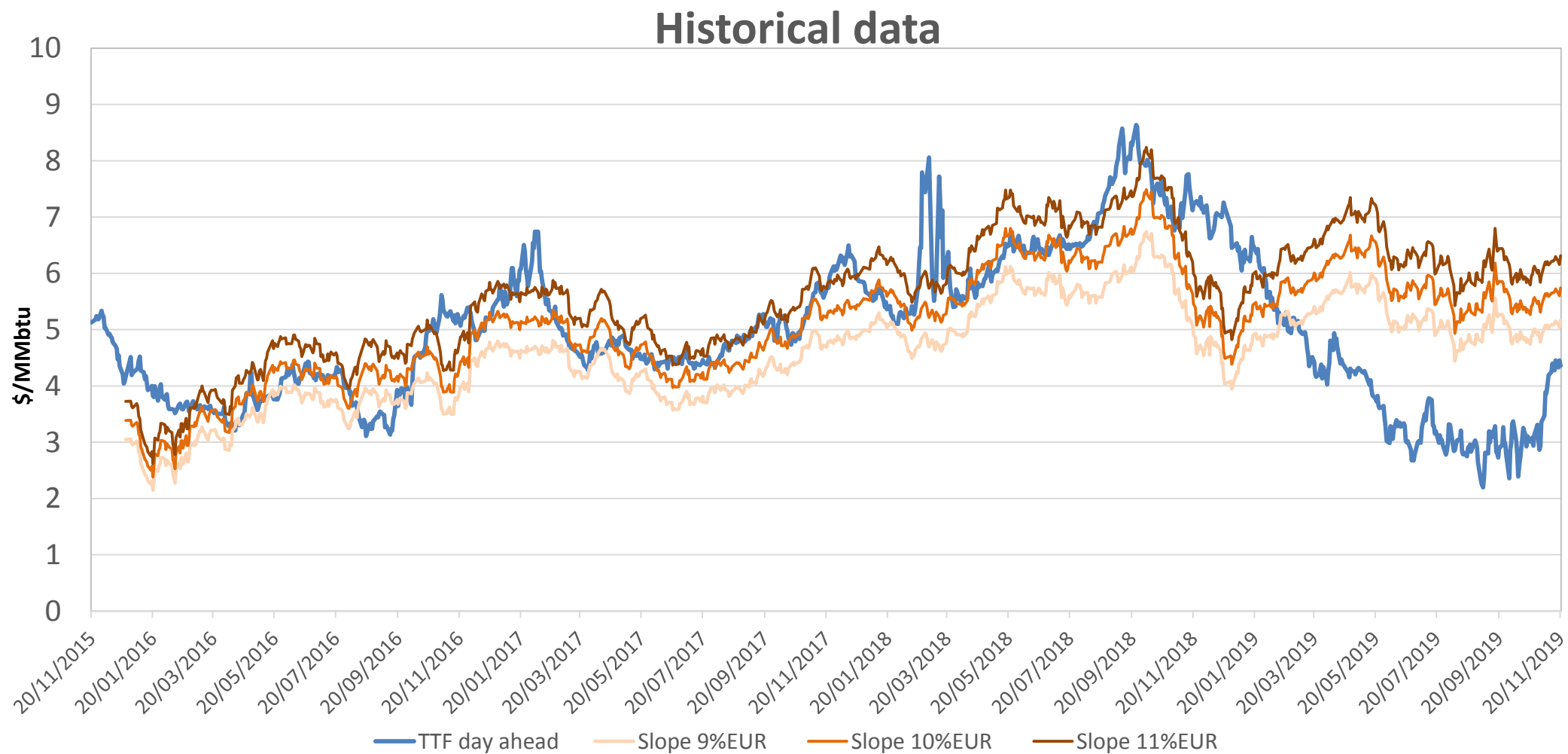


Permanent (Structural) Change?





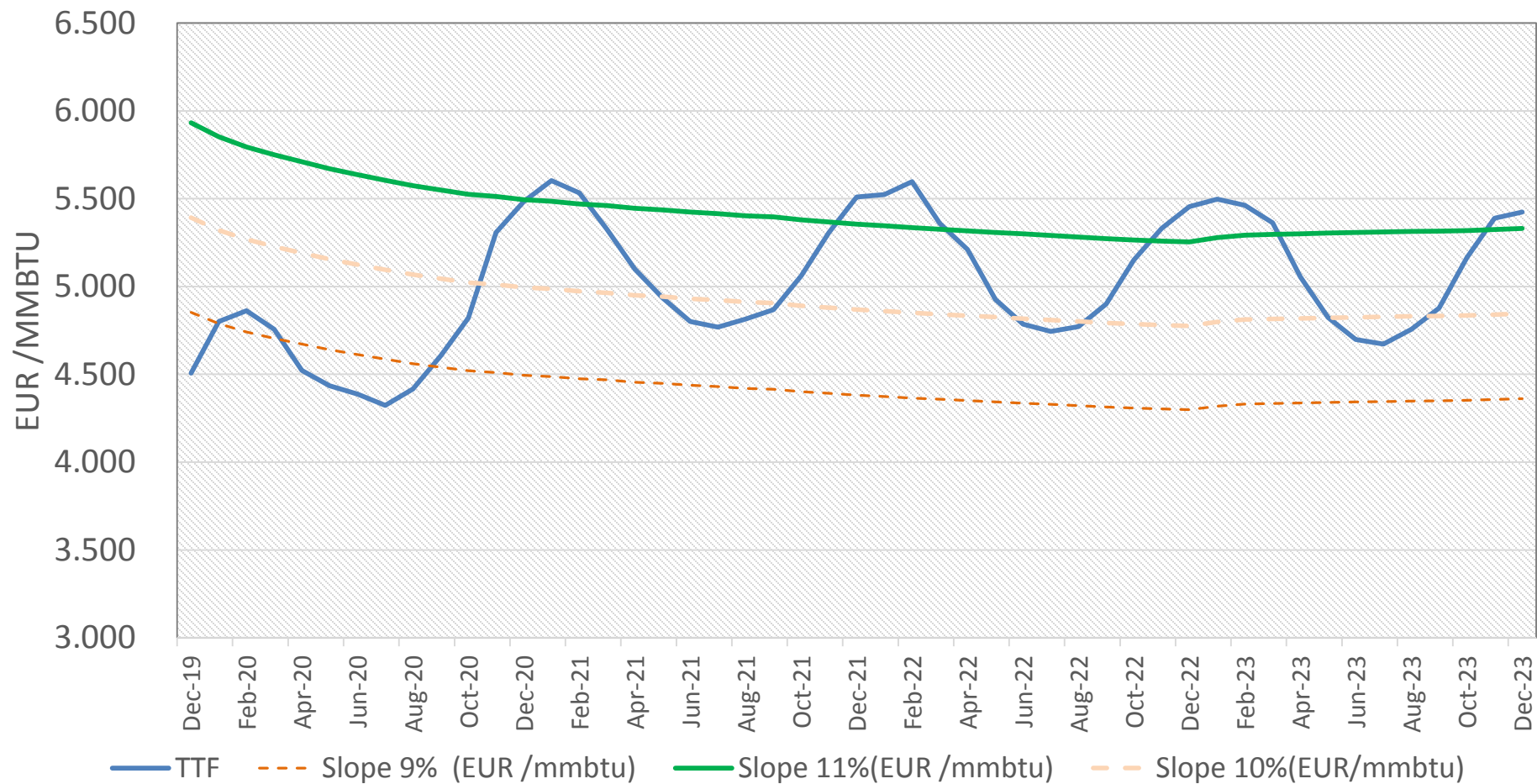
LNG SPOT TTF vs Brent Slope





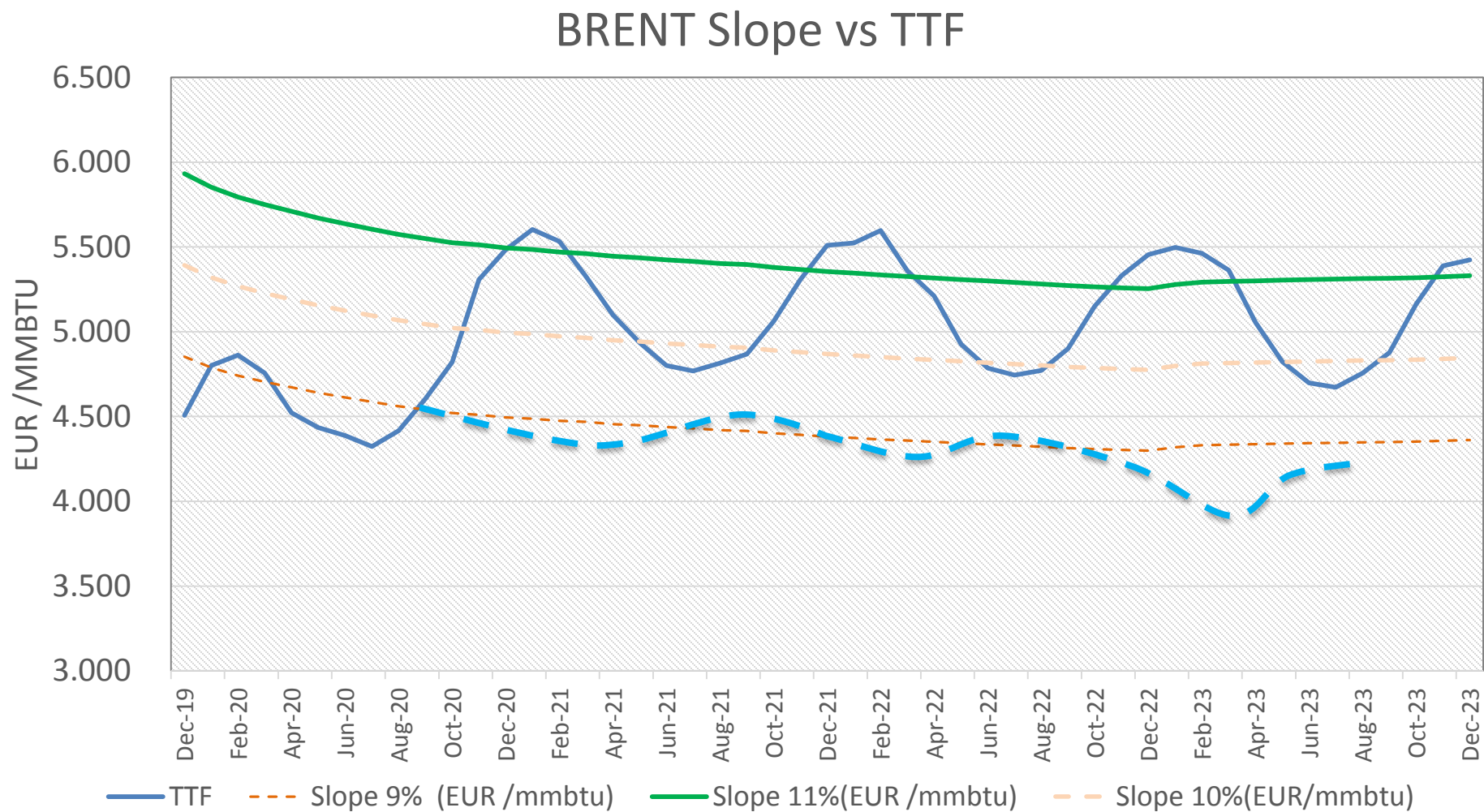
Forward Curves Have a Different Story

BRENT Slope vs TTF













...but what if TTF decouples from Brent?





TTF vs Brent Slope Comparison

	TTF Spot	Brent Slope	Hedge
LNG decouples			Hedge season via TTF ICIS HEREN Index
LNG outlook strong vs Brent outlook weak			Hedge Slope via Brent Swaps or Option Structures
LNG outlook weak vs Brent outlook strong			Hedge season via TTF ICIS HEREN Index
LNG & Brent trading Sideways			Check forward curves and if Brent is in backwardation go to Slope and vice versa



What Can Tallon Do for You

We can assist you choose your pricing formula and:

- Hedge the pipeline gas formula for the next year(s)
- Hedge Brent Slope (and take advantage of backwardation)
- Hedge TTF Heren Index (stay below oil related gas prices)

The above will assist you to:

- Optimise your cost structure
- Produce accurate IRRs or ROCEs on Investments
- Save Crisis Management Time
- Reduce the Effect of Randomness

Thank You!



Tallon Commodities Ltd a company of the **Motor Oil Group**