

# Salmon price hedging in EUR

Brussels, May 6th 2019

Sebastian Malmstein

DNB Markets



## THE DNB SALMON SOLUTION



## TRADING SALMON IN EUR



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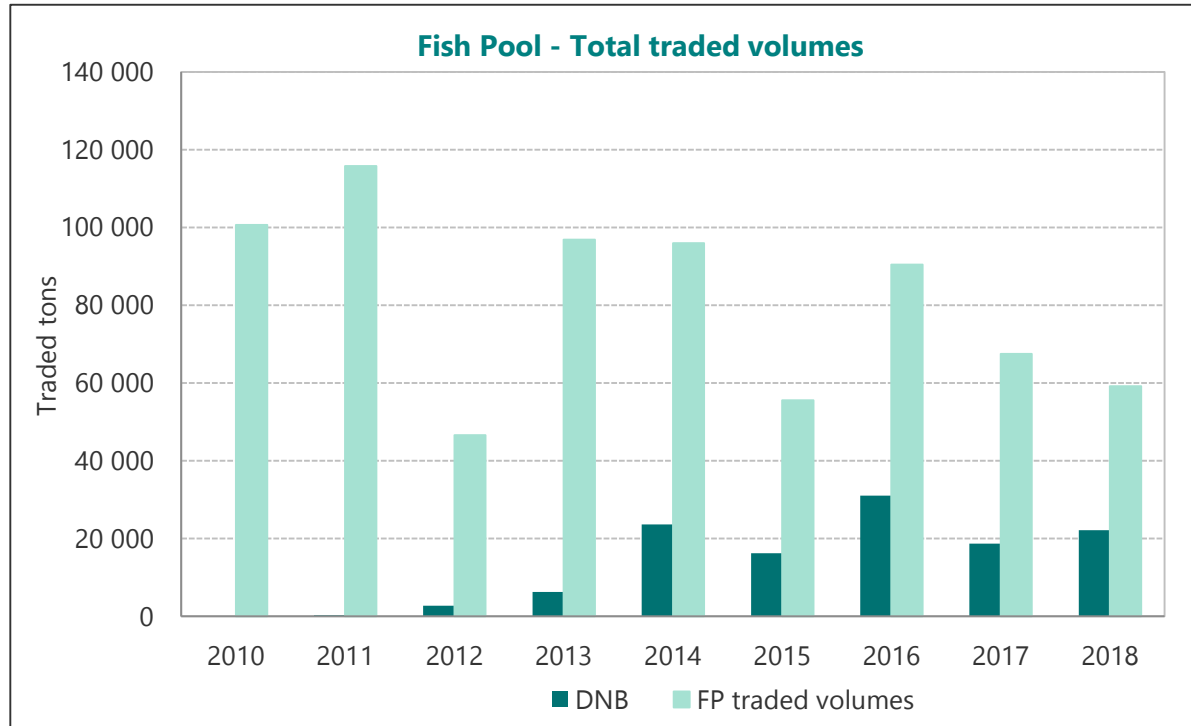
# DNB Markets Commodities

- Experienced dealers, traders and analysts with industry background offering **24/7 markets coverage** with wide market access. Commodity teams in Oslo, London, New York, and Singapore.
- DNB Markets Commodities serves corporate clients of DNB Bank ASA globally with **advisory, market analysis, hedging, and origination** within commodities.

## Global presence



# DNB @ Fish Pool



## **7-year track record.**

DNB has traded salmon swaps on Fish Pool on behalf of clients since 2012.

## **> 1/3 market share in 2018**

More than a third of trading volumes on Fish Pool in 2018 were traded through DNB. 21 unique clients contributed to our trading flow.

# DNB Markets Commodities

- Cost-efficient and flexible trading in risk management instruments with tailor-made collateral solutions. **Transacting derivatives on credit lines** thereby reducing capital constraints.
- The advantage of DNB's solution is that the client only needs to put up initial collateral against the contracts. **There is no further margining** during the lifetime of the contract. Moreover, the client can choose from a **wider array of collateral than on Nasdaq**, as we accept cash, bank guarantees, asset pledges etc.

## Global presence



# Regular cleared hedging vs DNB solution

## EXAMPLE

- **July 2017:** Salmon importer **buys** swap for July 2018 @ 59.50 NOK/kg, 100 tons
- Final settlement price: 54.38 NOK/kg (NOK 512,000 settlement)

Price history forward contract July-18

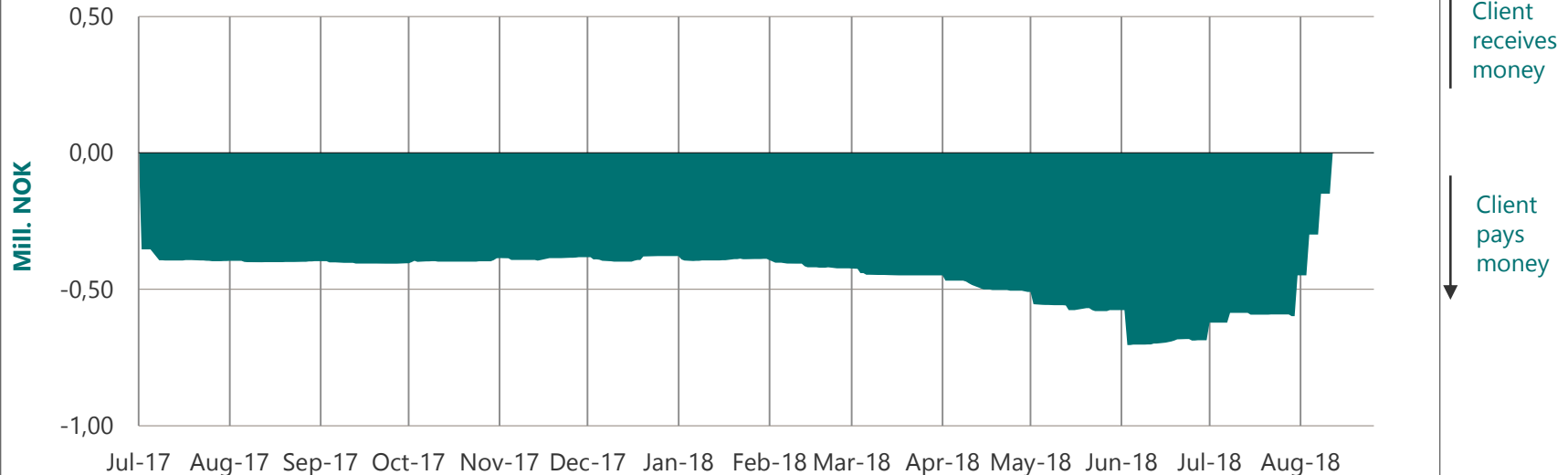


# Regular cleared hedging vs DNB solution

## EXAMPLE

- **July 2017:** Salmon importer **buys** swap for July 2018 @ 59.50 NOK/kg, 100 tons
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Nasdaq - Initial margin/cash collateral

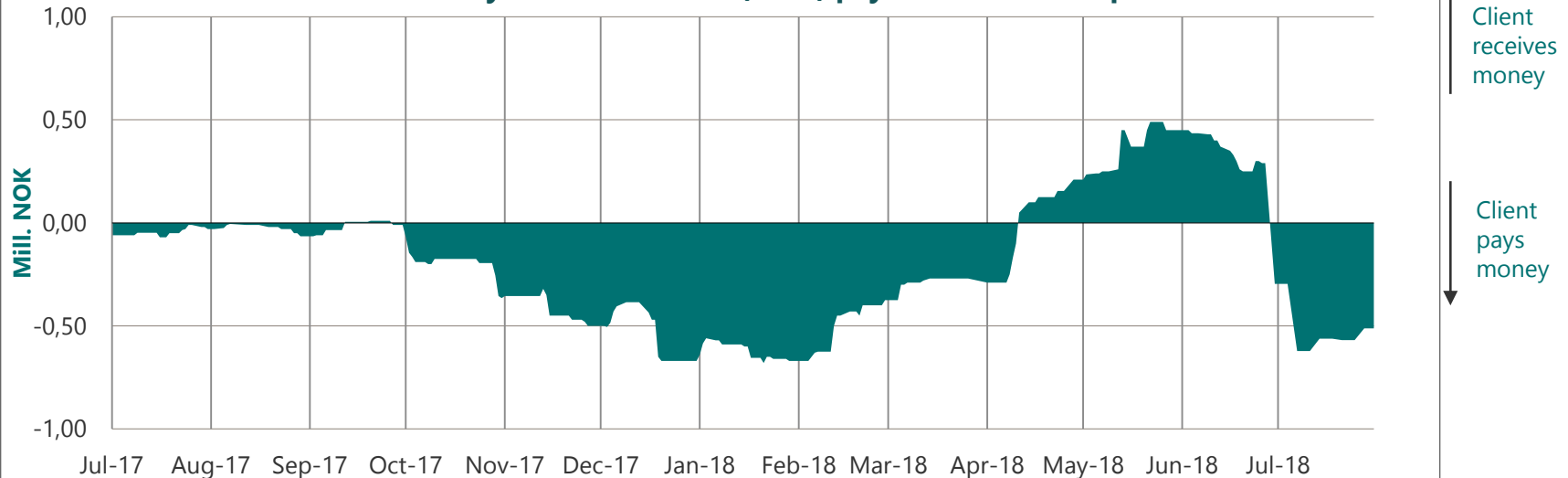


# Regular cleared hedging vs DNB solution

## EXAMPLE

- **July 2017:** Salmon importer **buys** swap for July 2018 @ 59.50 NOK/kg, 100 tons
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Daily mark-to-market (MtM) payments to Nasdaq



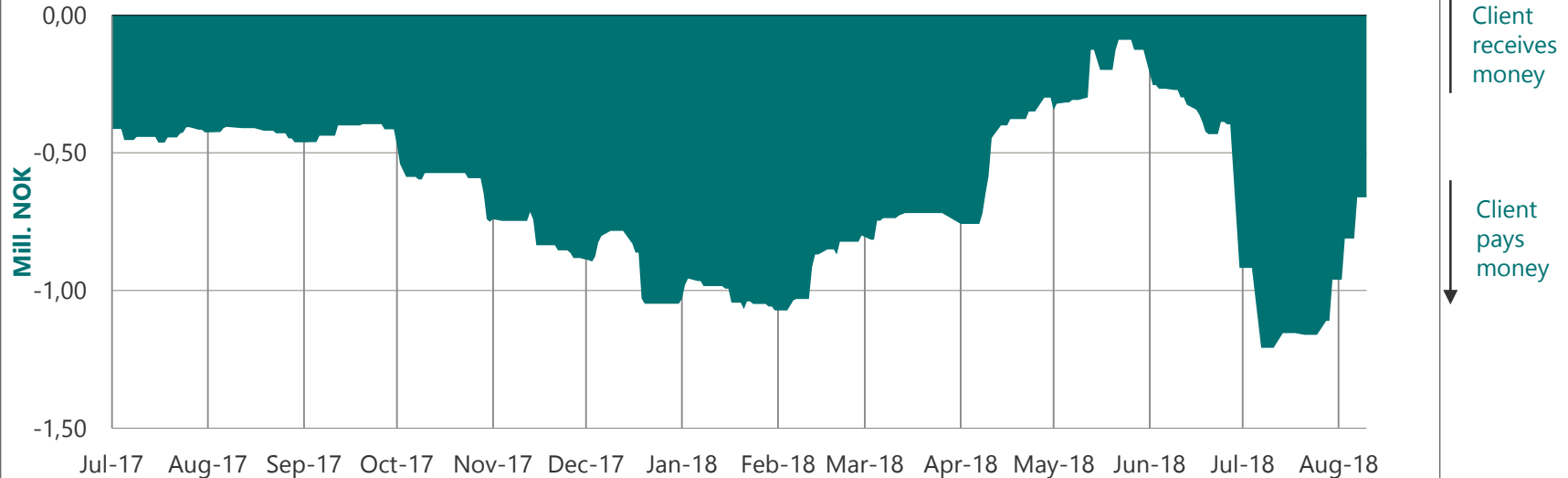


# Regular cleared hedging vs DNB solution

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Initial margin and MtM payments to Nasdaq

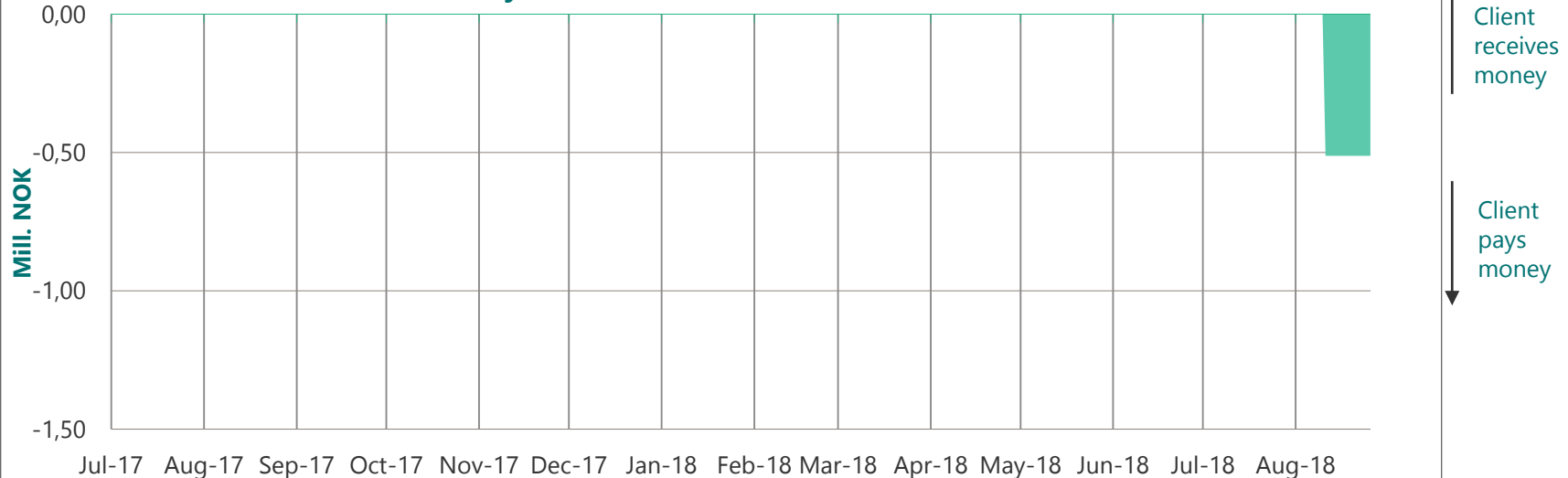


# Regular cleared hedging vs DNB solution

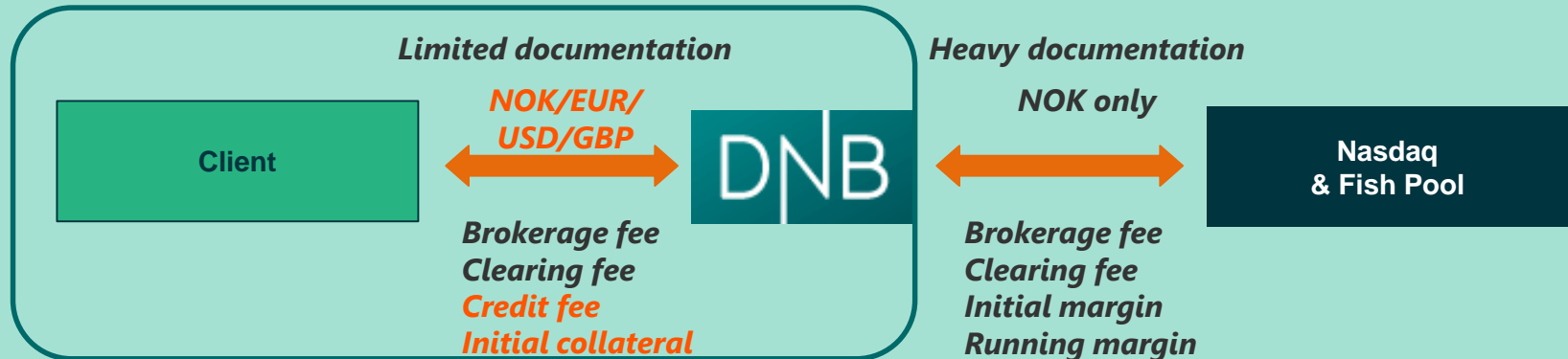
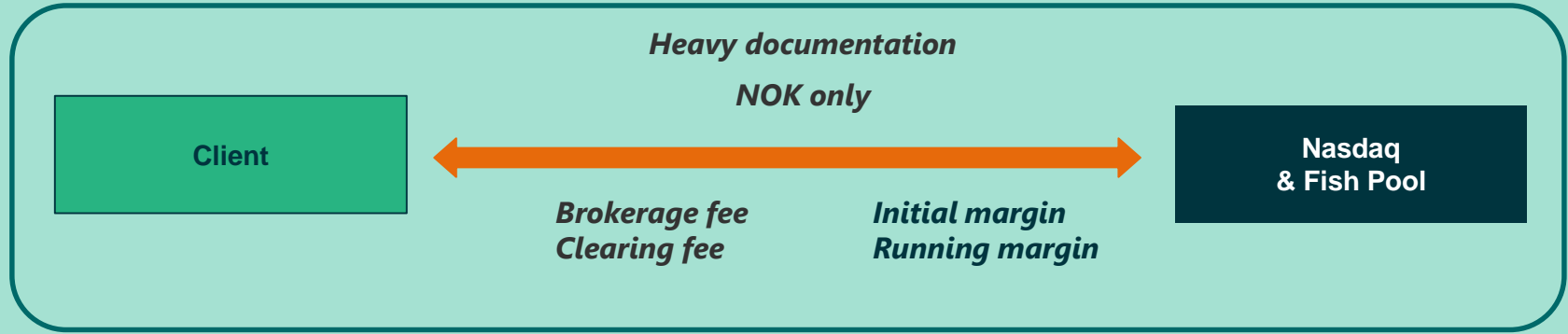
## EXAMPLE

- **July 2017:** Salmon importer **buys** swap for July 2018 @ 59.50 NOK/kg, 100 tons
- Final settlement price: 54.38 NOK/kg (NOK 512,000 settlement)

Payments to DNB - deferred settlement



# Regular cleared hedging vs DNB solution





## THE DNB SALMON SOLUTION



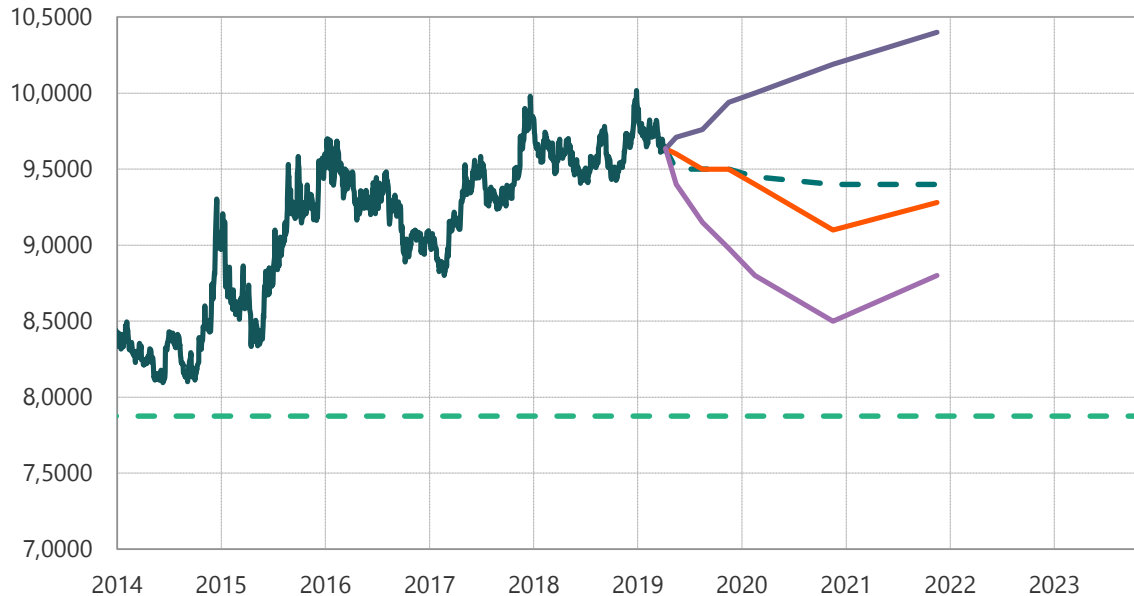
## TRADING SALMON IN EUR



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# What's the deal with EUR contracts?

EURNOK – Historic levels & forecasts



- For a EUR company, a salmon contract in NOK introduces **unwanted NOK risk**.
- **Hedging this NOK risk is complicated**; a 12-month contract needs 12 FX outrights *and* daily spot rebalancing (>250 trades in total).
- **DNB offers a purely EUR-based contract, where all the FX hedging and rebalancing is taken care of.**

# How to trade at Fish Pool in EUR

- Clients could have dialogue with DNB/Fish Pool. Fish Pool only accepts firm orders depending on confirmation from DNB.
- Example: you want to buy Y2020 – valued at 61 NOK/kg
- When you have decided a price level in NOK where you want to place an order at Fish Pool, DNB will be contacted to find **an average EURNOK forward price** and hence a contract price in EUR ~ 6.160 EUR/kg
- Note, however, that there is a **EURNOK spot risk** on the whole volume. Therefore, the price in EUR has to be updated several times even though the price in NOK hasn't changed.
- When the trade is done a fee will be **added to the traded price**. The fee covers broker fee to Fish Pool, clearing fee to Nasdaq and a trade specific credit fee which depends on the trade's tenor, volume and effect on net position.

# Salmon @ DNB: Many advantages

## Simple

- **No need for exchange membership.**  
DNB is your counterparty in each transaction.
- **Easy documentation.**  
After the onboarding process is complete, DNB Markets will handle all documentation and reporting, and provide you with monthly position reports and MTMs.
- **Deferred settlement.**  
Coincides better with physical settlement

## Flexible

- **Flexible collateral.**  
Cash, guarantees or assets.
- **No liquidity risk.**  
No margin requirements during lifetime of contracts.
- **Currency choice.**  
Choose between NOK, EUR, USD or GBP contracts.
- **Trading flexibility.**  
Place firm orders with DNB or directly with Fish Pool.

## Transparent

- **Transparent costs.**  
DNB charges a credit fee for each transaction, depending on volum, tenor and marginal contribution to portfolio risk.
- **Transparent settlement**  
Each salmon swap (fixed-price contract) settles against the Fish Pool Index (FPI). If your contract is in a currency other than NOK, the FPI is converted using the public Bloomberg currency fix.

# DNB provides position reports and MTMs

02 April 2019

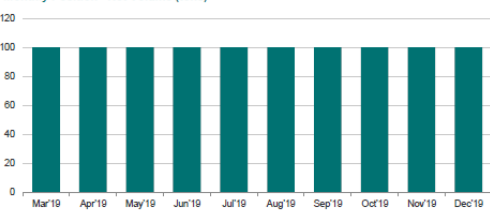
## DNB - Fish Pool Position Report

Salmon A/S

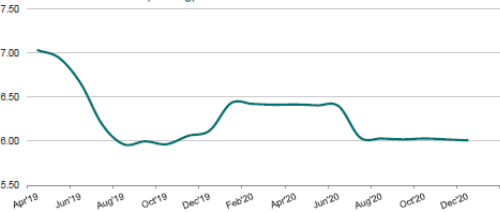
### Monthly Position Summary

Period	Net volume	Avg. Contract Price	Market Price	Outright MtM	Discounted MtM
Mar'19	100,000	6.400	7.140	74,000	74,000
Apr'19	100,000	6.400	7.032	63,166	63,201
May'19	100,000	6.400	6.944	54,365	54,407
Jun'19	100,000	6.400	6.656	25,576	25,604
Jul'19	100,000	6.400	6.190	-21,007	-21,035
Aug'19	100,000	6.400	5.965	-43,503	-43,573
Sep'19	100,000	6.400	5.997	-40,260	-40,336
Oct'19	100,000	6.400	5.966	-43,384	-43,478
Nov'19	100,000	6.400	6.060	-33,964	-34,047
Dec'19	100,000	6.400	6.121	-27,950	-28,025
<b>Total Volume</b>	<b>VWAP</b>	<b>VWMP</b>	<b>Sum</b>	<b>Sum</b>	
1,000,000	6.40	6.41	7,040	6,719	

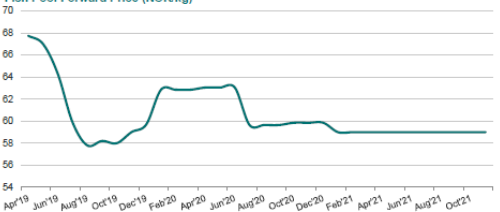
### Monthly Position - Net Volume (tons)



### Fish Pool Forward Price (EUR/kg)



### Fish Pool Forward Price (NOK/kg)



### Contract Summary

Contract ref.	Trade date	Period	Deal. ref.	Quantity	Swap price	Market Price	Outright MtM	Disc. factor	Discounted MtM
123456	01.01.2019	Mar'19	ABC123	100,000	6.400	7.140	74,000	1.0000	74,000
123456	01.01.2019	Apr'19	ABC124	100,000	6.400	7.032	63,166	1.0008	63,201
123456	01.01.2019	May'19	ABC125	100,000	6.400	6.944	54,365	1.0008	54,407
123456	01.01.2019	Jun'19	ABC126	100,000	6.400	6.656	25,576	1.0011	25,604
123456	01.01.2019	Jul'19	ABC127	100,000	6.400	6.190	-21,007	1.0013	-21,035
123456	01.01.2019	Aug'19	ABC128	100,000	6.400	5.965	-43,503	1.0016	-43,573
123456	01.01.2019	Sep'19	ABC129	100,000	6.400	5.997	-40,260	1.0019	-40,336
123456	01.01.2019	Oct'19	ABC130	100,000	6.400	5.966	-43,384	1.0021	-43,478
123456	01.01.2019	Nov'19	ABC131	100,000	6.400	6.060	-33,964	1.0024	-34,047
123456	01.01.2019	Dec'19	ABC132	100,000	6.400	6.121	-27,950	1.0027	-28,025



# Contact information

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# DNB Markets

# The DNB salmon solution in brief

1. DNB is a clearing member on Nasdaq, and acts as **intermediary** between the clearing house and clients who want to trade salmon contracts on Fish Pool. Thus, **clients do not need to be clearing members** in their own right.
2. We offer the opportunity to buy or sell fixed-price salmon swaps, which settle on a deferred monthly basis against the Fish Pool Index. The **client may choose between different contract currencies (NOK/EUR/USD/GBP)**; DNB handles all FX hedging in-house, and the client only sees cash flow in the chosen currency.
3. The advantage of DNB's solution is that the client only needs to put up initial collateral against the contracts. **There is no further margining** during the lifetime of the contract. Moreover, the client can choose from a **wider array of collateral than on Nasdaq**, as we accept cash, bank guarantees, asset pledges etc.