



international b.v.



INSIGHTS

Tank Terminal Week Report

WEBINAR MARCH 2019

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Introduction: PJK International

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Marketing and Sales Manager

Market research company

Create better functioning energy markets by enabling intelligent decisions

- *Provide insights to support our clients*
- *Scientific approach: data driven combined with on-the-ground intelligence*
- *Sophisticated & creative solutions*

Well known products:

- Rhine/ARA barge freight rates
- ARA oil product stocks
- TankTerminals.com

New product launch:

- **TT Week report**
- **Rhine flow service**

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1. Profit drivers for physical traders
2. What to watch.... and how to interpret.



Profit drivers for physical traders

How do traders make money?

Take physical (& paper) positions and 'buy low / sell high'.

Strategies to profit from trading physical commodities:

- Arbitrage
 - Geographical arbitrage
 - Time arbitrage
 - Technical arbitrage (blending)

- Speculation → take position in anticipation of move in prices/spreads

- Optionality → build in flexibility to:
 - ✓ Profit from market opportunities
 - ✓ Limit losses if market turns against position

Arbitrage

Definition:

the practice of taking advantage of a price difference between two or more markets.

→ striking a combination of matching deals that capitalize upon the imbalance, the (gross) profit being the difference between the market prices.

Main types of arbitrage for commodity traders:

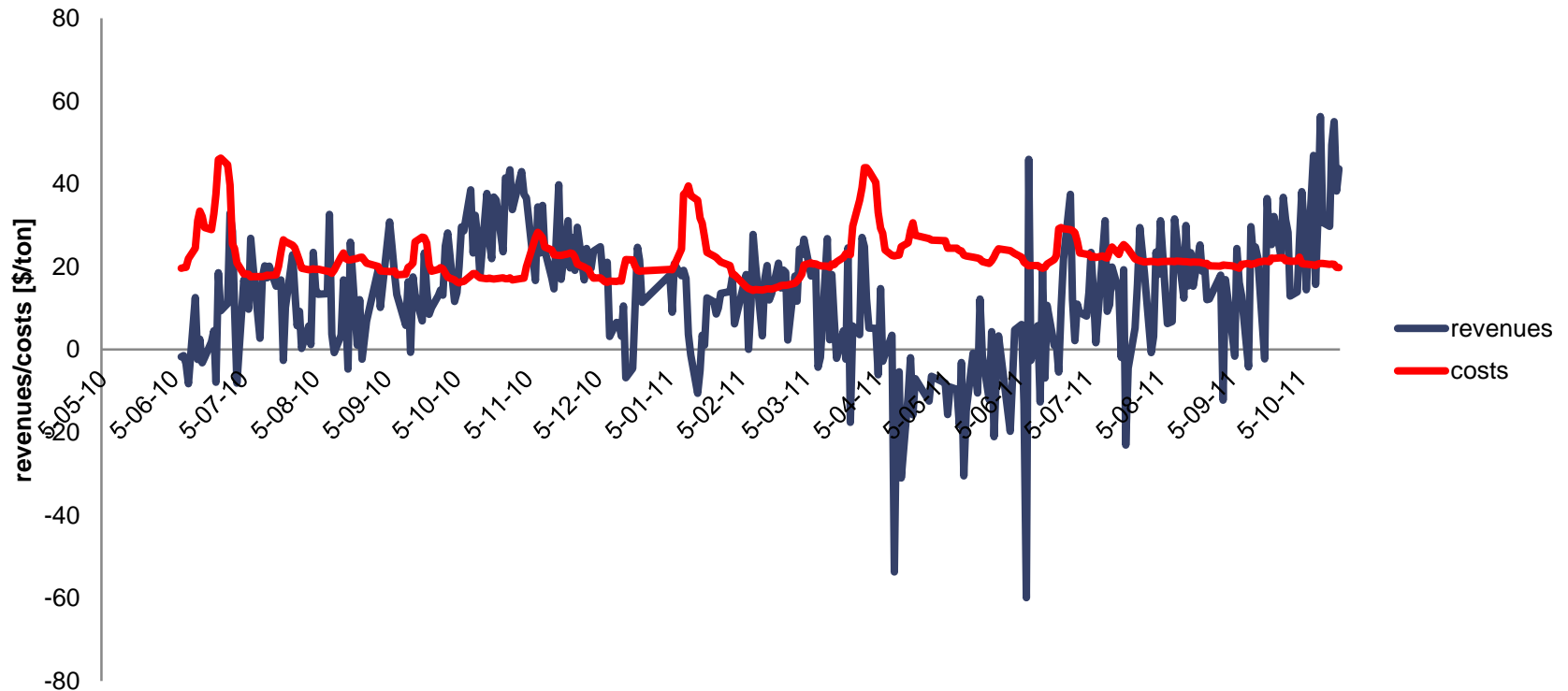
- Geographical arbitrage → $\Delta \text{ price} = (\text{price}_{\text{location a}} - \text{price}_{\text{location b}}) \geq \text{trade costs}$
- Time arbitrage → Calendar spread \geq storage costs
- Technical arbitrage → $\Delta \text{ price} = (\text{price}_{\text{blend}} - \text{sum price}_{\text{components}}) \geq \text{operational costs}$

Geographical Arbitrage

$$\Delta \text{ price} = (\text{price}_{\text{location a}} - \text{price}_{\text{location b}}) \geq \text{trade costs}$$

Export diesel from Singapore to Northwest Europe:

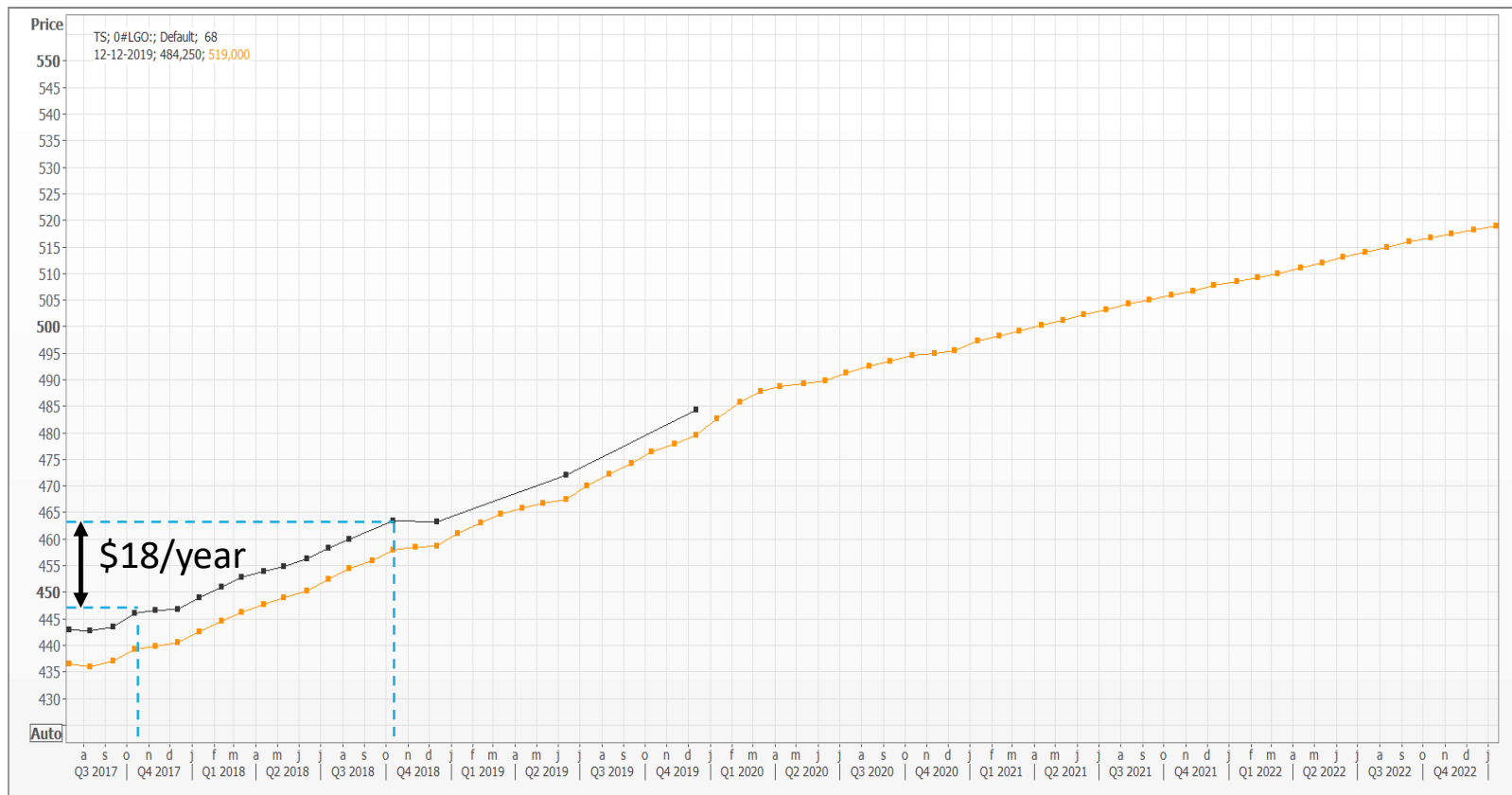
ARB Singapore - NWE



Time Arbitrage

Calendar spread \geq storage costs

Calendar spread (ICE gasoil forward curve July 3rd 2017):



Speculation

Take position in anticipation of moves in prices/spreads

Oil price:



Crack spread:



Volatility is key

Optionality

build in flexibility to:

Profit from market opportunities / Limit losses if market turns against position

Examples:

I. Optionality during geographic arbitrage trade

- Offer cargo in markets along the route
- Divert ship if better deal

II. Optionality during contango storage

- Empty tanks if market turns to backwardation
- Empty tanks if geographic arbitrage opportunity yields better returns

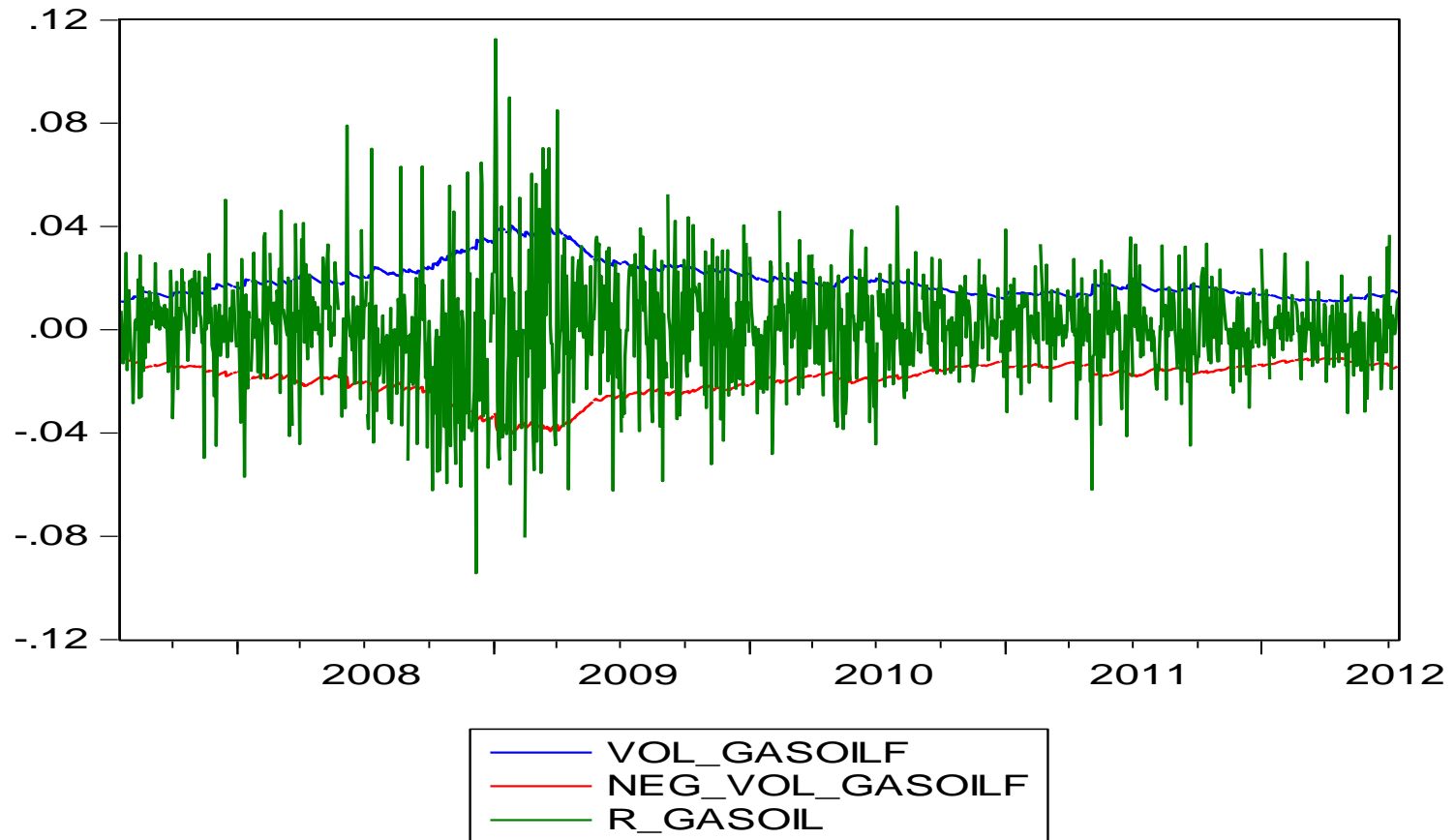
III. Optionality in transport mode

- Chose lowest cost transport mode (for instance: barge, pipe, rail)
- Works when transport costs are market driven and volatile

Volatility
is key

Volatility?

Variation in prices and spreads [% change] → is a measure of opportunity (and risk)





What to watch... and how to interpret.

What to watch..... and how to interpret? (1)

By watching these market indicators I'll be able to interpret the market and anticipate your client's actions and needs.

Oil price level

- Related to oil consumption levels
- High price → negative impact on demand
- Low price → positive impact on demand

Volatility

- Related to trader's profit potential
- High volatility → positive effect on trader's profits
- Low volatility → negative effect on trader's profits

Forward curves

- Slope of forward curve is related to demand for tank capacity and storage rates.
- Upward sloping (contango) → positive effect on tank demand
- Downward sloping (backwardation) → negative effect on tank demand

What to watch..... and how to interpret? (2)

By watching these market indicators I'll be able to interpret the market and anticipate your client's actions and needs.

Refinery margins

- Refinery margins are related to oil products supply levels
- High refinery margins → positive impact on oil products supply
- Low refinery margins → negative impact on oil products supply

Arbs

- Geographic arbs impact trade flow dynamics (routes, vessel sizes, arrival intensity)
- Arbs open → more export/import activity
- Arbs closed → less export / import activity

Stock levels (relative to tank capacity)

- Stock levels indicate tank availability and are related to storage rates
- Low stock levels → high availability, lower storage rates
- High stock levels → low availability, higher storage rates

Why should we pay attention?

... to focus on things that matter ... to understand if and how your client is making money!

These insights help to shape your business!

Impact on investment strategy:

- Invest in tanks?
- Invest in jetties?
- Etc.

Impact on commercial strategy:

- Targeting
- Pricing

Impact on operational strategy:

- Personnel planning
- Jetty / vessel planning
- Maintenance planning

Question time

Everything clear???

