

# ECTFE Professional Energy Trader Training Short Program

## Module 4. Derivatives Oil & Products Trading

The crude oil markets, being the most mature of the energy markets, have attained a level of financialization that allow market participants to hedge their trading positions at a relative low cost. This ‘paper’ market is much bigger than the physical market. In the case of crude oil, less than twenty percent of paper barrels are settled physically. And any individual looking to have a successful career as a commodities trader has to, amongst other skills, develop a sound understanding of the mechanics of derivatives trading; the pricing mechanisms for the different instruments (swaps/futures/options); the role of the various market participants, such as traders, national oil companies (NOCs), international oil companies (IOCs), financial institutions and governments; the impact of liquidity of the different paper markets; and technical analysis for derivatives trading. This course will equip its participants with a practitioner’s perspective on navigating the risks faced by a ‘paper’ commodities trader.

Course outline:

- I. Derivatives Trading
  - a. Type of derivatives – swaps/futures/options
  - b. Market participants
  - c. Mechanics of derivatives trading (Oil and Freight FFAs)
  - d. Purpose of Derivatives
  - e. Risk management/hedging tool for physical traders and consumers/producers
  - f. As a speculative/investment instrument
  - g. What drives derivatives pricing
  - h. Pricing mechanisms (future/swaps/options)
  - i. Depth and Liquidity of the different paper markets and how it affects hedging decisions and opportunities
- II. Technical Analysis