
Asian coal traders risk over exposure on freight

Friday, 20 Nov, 2009

Reuters reported that Indian and Chinese coal traders face big losses if they fail to ramp up their use of derivative instruments to hedge a growing shipping freight exposure.

Traders and producers said that Indian traders who have not hedged either coal or freight costs are likely to fail to honour contracts, creating a domino effect of losses for their suppliers. This will result in a rash of disputes and lawsuits as has happened several times during the past few years.

Freight rates have remained erratic in recent months partly due to bursts of coal and iron ore buying activity by China and depressed demand for raw materials due to the economic downturn.

Mr Nikos Nomikos reader in shipping risk management with London's Cass Business School said that "If you have volatility in the freight market that has repercussions further down on the supply chain."

Indian coal traders, who supply almost all the 20 million tonnes of South African coal imported annually into the country, are currently losing up to USD 10 a tonne by not hedging coal linked to the benchmark API4 physical price index.

Traders said that importers have also not hedged their coal freight, with many companies facing massive losses and closure.

The 400 million tonne Asian physical coal trade is double that of the Atlantic market where traders hedge every tonne. Only a small part of coal price risk in Asia is hedged using swaps with even less done via freight forward agreements.

Indian traders said that they find FFAs costly and not entirely appropriate to their needs.

(Sourced from www.reuters.com)

For more news visit at www.steelguru.com