



Fuel Hedging and Risk Management: Strategies for Airlines, Shippers and Other Consumers (The Wiley Finance Series)

By Simo M. Dafir, Vishnu N. Gajjala

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A hands-on guide to navigating the new fuel markets

Fuel Hedging and Risk Management: Strategies for Airlines, Shippers and Other Consumers provides a clear and practical understanding of commodity price dynamics, key fuel hedging techniques, and risk management strategies for the corporate fuel consumer. It covers the commodity markets and derivative instruments in a manner accessible to corporate treasurers, financial officers, risk managers, commodity traders, structurers, as well as quantitative professionals dealing in the energy markets.

The book includes a wide variety of key topics related to commodities and derivatives markets, financial risk analysis of commodity consumers, hedge program design and implementation, vanilla derivatives and exotic hedging products. The book is unique in providing intuitive guidance on understanding the dynamics of forward curves and volatility term structure for commodities, fuel derivatives valuation and counterparty risk concepts such as CVA, DVA and FVA. Fully up-to-date and relevant, this book includes comprehensive case studies that illustrate the hedging process from conception to execution and monitoring of hedges in diverse situations.

This practical guide will help the reader:

- Gain expert insight into all aspects of fuel hedging, price and volatility drivers and dynamics.
- Develop a framework for financial risk analysis and hedge programs.
- Navigate volatile energy markets by employing effective risk management techniques.
- Manage unwanted risks associated with commodity derivatives by understanding liquidity and credit risk calculations, exposure optimization techniques, credit charges such as CVA, DVA, FVA, etc.

Praise for *Fuel Hedging and Risk Management*

"Risk Management is an art, not a science, but it certainly helps to know a lot of science. In this book, the authors provide an excellent overview of both qualitative and quantitative aspects of risk management and how to design and implement effective win-win fuel oil hedging strategies that will achieve the desired objectives under normal and extreme market conditions.

In addition to discussing key foundational issues, the book also discusses a framework to understand and manage hugely important second-order effects, such as credit risk or margin calls or asset-liability mismatches, which have the potential to turn a good idea into a bad outcome.

A must read for anyone in the finance department of a corporate, trade house, or financial firm involved in fuel oil hedging."

—**Diego Parrilla**, Former Global Head of Commodity Solutions and Head of Commodities, Bank of America

"This book provides highly useful insights into hedging and risk management methodologies, as well as theory, for the users of energy products. Dafir provides intuition stemming from not just top-tier commodity structuring expertise, but also broader insight from his earlier experience as a credit derivatives and exotics trader."

—**Mitch Matharu**, former Head of Structuring, Merrill Lynch

"An Absolute Must Read. From the fundamentals of oil markets to the key points in negotiating a credit agreement and minimizing hedging costs, passing by the subtleties of implied volatility surface construction and its implications in derivatives pricing, this book offers you the indispensable practitioner's toolbox, useful whether you are a novice or a seasoned fuel trader."

—**Frederic Cogy**, Global Head of Commodities Structured Products Trading, Standard Chartered Bank

"In this book, Dafir blends his deep knowledge of the commodity markets and the vagaries of the financial market with his incredible mathematical ability to explore fuel hedging in a manner accessible to Fuel Procurement Departments, CFOs and board members."

—**Mark Lo**

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Editorial Review

From the Inside Flap

Over the last decade, energy prices have displayed a unique set of risk characteristics that have arisen in an ever-evolving, deeply geopolitical and highly volatile market. Fuel consuming industries have seen major structural and operational changes, with financial risk management even superseding operational management in determining profitability. Commodity derivative providers have also gone through tumultuous periods of growth and contraction, punctuated by events like defaults and business closures, multiplying the risks to consumers.

Written by highly experienced practitioners, *Fuel Hedging and Risk Management* presents practical hedging solutions to harness fuel price volatility, while developing a holistic understanding of the risk management process from conception to execution. The authors cover commodity derivative instruments in a manner accessible to corporate treasurers, risk managers, legal and financial officers, commodity traders, structurers, as well as quantitative professionals dealing in the energy markets.

Newcomers to fuel hedging will benefit from the description of energy markets and their development, along with a thought-provoking analysis of the strategic nature of oil resources. Supported by tools including frameworks, scenario analysis, derivative term sheets and visual aids like payoff profiles and market curves, commodity hedgers will be able to immediately apply the discussion on hedging instruments to the selection of hedge strategies, while understanding their main risks. Advanced practitioners in the derivatives market will appreciate the coverage of commodity price and volatility models, credit risk and associated CVA costs, and the nuances of risk-managing derivative transactions, illustrated using detailed examples and case studies describing real-world situations.

This practical guide will help you:

- Gain expert insight into all aspects of fuel hedging, price and volatility drivers and dynamics.
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From the Back Cover

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—**Mark Long, former Head and Managing Director of Merrill Lynch Commodities Asia**

"This book is a hands-on guide for anyone interested in fuel hedging and risk management, including lawyers involved in the execution of commodities hedging transactions and related ISDA and CSA negotiations."

—**Justin Boyd, former Head of Financial Markets Legal, Standard Chartered Bank**

About the Author

SIMO M. DAFIR is a Managing Director at Volguard, a financial consulting firm specializing in Capital Markets, Wealth Management and Derivatives. He has over fourteen years of experience during which he has held senior positions in a number of major international banks in Hong Kong and Singapore. He was the Regional Head of Commodity Structuring at Standard Chartered Bank, Head of Commodity Exotics and Hybrids at Merrill Lynch Asia, and Trader of Credit Derivatives at Credit Suisse. He is also Professor of Global Financial Markets at Sorbonne Assas International Law School and an expert witness for financial markets litigations. Dafir started his career in Aerospace and Telecom at the European Space Agency and Alcatel. He holds an MBA from INSEAD, a Post Graduate Research Degree from the National Polytechnic Institute of Toulouse, an MSc in Automation from ENSEEIHT and a Bachelor's degree in Mathematics.

VISHNU N. GAJJALA is a commodity derivatives expert at Volguard, where he oversees the financial market analytics business. He has held positions in commodities structuring and sales at institutions including Standard Chartered Bank and Merrill Lynch, where he developed customized strategies for commodity hedgers and investors, including airlines, mining companies, trading houses, private banks and sovereign wealth funds. He holds a Bachelor's degree in Electrical Engineering from IIT Madras and an MBA from IIM Bangalore. Vishnu currently resides in Singapore.

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Charles Wright:

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Teresa Dillard:

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Virginia Kang:

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