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For immediate release

## Clearing houses provide cross-margin boost for traders in Iron Ore Swaps-FFA markets

**London.** Traders working positions in freight derivatives and iron ore swaps need no reminder that the first half of 2009 has been a roller-coaster ride. But market players are now able to realise some cost efficiencies, with clearing houses in London and Singapore offering inter-commodity spread credits.

London-based LCH.Clearnet, which provides an over-the-counter clearing service for both Forward Freight Agreements (FFAs) and Iron Ore Swaps (IOS), announced two days ago that the IOS will be included as one of the products eligible for inter-commodity spread margin credit with Capesize and Panamax Timecharter Average FFAs beginning August 26, 2009.

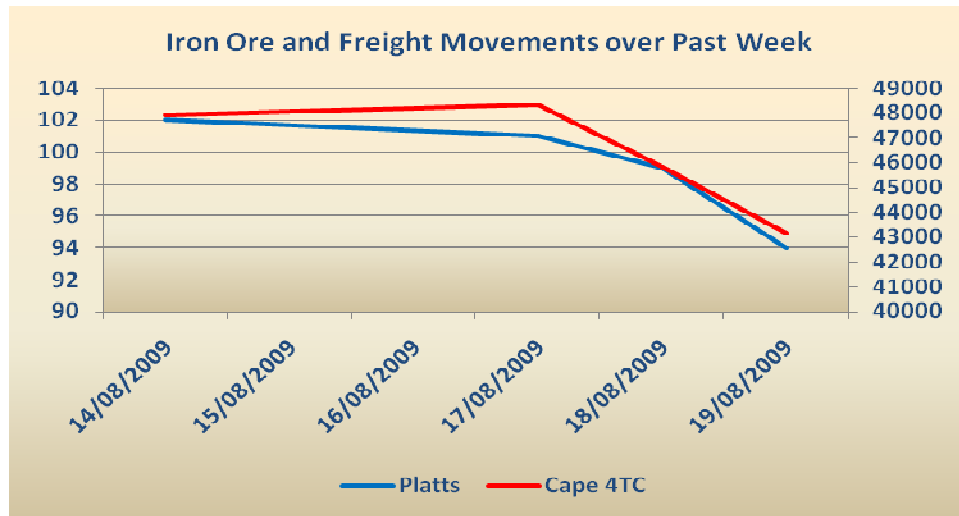
The recent tangle between producers and consumers over the benchmark price for iron ore as well as collapse in freight rates in late 2008 and their partial recovery this year has fired interest in using derivatives such as FFAs and the IOS to hedge and manage price and counterparty credit risk.

Despite the slide in prices and volumes, the robustness of the FFA market has been a spur to take-up of the IOS, with a robust index and full clearing.

Freight rates have historically enjoyed a very close relationship with iron ore prices because iron ore is one of the biggest dry bulk commodities shipped. Demand for iron ore imports in turn helps to drive freight rates.

The relationship is carried through in both derivatives, since the IOS is quoted on a cost and freight (CFR) basis, inclusive of shipping costs. The close relationship is illustrated in the graph below which shows the correlation of the Capesize average of four timecharters and the Platts iron ore index prices over the past week.

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Source: FIS

From later this month, traders with positions to manage in both FFA and IOS derivatives can take advantage of cross-margining offers from the two major clearing houses active in these markets.

LCH.Clearnet announced yesterday that the IOS will be included as one of the products eligible for inter-commodity spread margin credit with the most liquid FFAs starting from August 26, 2009. The applied spread credit will be 35% per leg for both Capesize and Panamax FFAs.

This means that any trader holding a long position in one product and a short position in the other will be able to pay 35% less in margin requirements by applying the inter-commodity spread credit.

For the purposes of illustration, assume that a trader buys 1 lot Iron Ore Swap Sep 09 contract and sells 1 lot Full-day Capesize 4TC Sep 09 contract to be cleared via LCH.Clearnet

- LCH.Clearnet Initial Margin for Iron Ore Swap Sep 09 = \$8,000
- LCH.Clearnet Initial Margin for Capesize 4TC Sep 09 = \$15,000

Hence, trader's total initial margin requirement will equal \$23,000

But applying the inter-commodity spread credit, the new initial margin requirements would be recalculated as  $\$23,000 - (0.35 \times 8,000 \times 1) - (0.35 \times 15,000 \times 1)$  to total \$14,950.

The announcement by LCH.Clearnet means that it joins Singapore's SGX Asiaclear in providing OTC clearing for both FFAs and IOS as well as applying a 25% per leg spread credit, a service it has had in place since August 3, 2009.

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## **Notes to Editors**

### **About the FIS Iron Ore Swap**

The cleared iron ore derivative contract operates as an over-the-counter, cash-settled agreement, with settlement against The Steel Index TSI . Trades can also be settled bilaterally against the Metal Bulletin MBIO or Platts Iron Ore Index and these trades will generally operate under an international swaps and derivatives association agreement. Trades can be made on a per month, per quarter or per calendar year basis and prices quoted up to 24 months forward.

### **About FIS**

FIS was founded in 2002 as an independent FFA broking house to offer impartial and accurate risk management guidance. We helped bring freight trading into the mainstream and have now turned our expertise to the fertilizer and iron ore derivatives markets as well as physical shipbroking. The company operates world-wide and is registered and regulated by the Financial Services Authority (FSA) in UK and MAS in Singapore.