Fertilizer Swap Trader Example

A trader wins a tender award in July for 10,000t prilled UREA for delivery in September (all prices are assumed):

Award level	$850 pt CFR
Less: Freight + Costs	$ 80 pt
Net	$770pt
Profit Margin	$10 pt
Sought cover price	**$760 pt**

• Physical sale at $850/t CFR will provide a $10 pt profit margin if the trader can cover at $760/t FOB
• **Trader's exposure: short physical**
• **Hedge suggestion: Long 10,000t swap at $760 pt** – lock in forward price using FIS swap at $760

Scenario A: Physical market firms – Average physical price in Sept is $775 pt FOB

• The trader covers in the physical market at $775 pt fob, but has hedged his position with the FIS cash settled swap:

FIS Swap Position	$760pt
Fertilizer Index avg. Sept	$775pt
Differential	**$ 15pt**
Quantity = 10,000t	

• FIS swap settlement **(Seller pays the Trader):** 10,000t x $15pt = $150,000 **Trader receives $150,000**

• Overall position:

Physical cover (10,000t × $775pt)	$7,750,000
Less: FIS swap settlement	$ 150,000
Total Cost of Cover	**$7,600,000**

$7,600,000 / 10,000t (total volume) = $760 pt fob

Without the FIS swap, the trader would have lost all profit margin by covering physical at prevailing spot of $775 pt FOB. By using the FIS swap, the trader achieves overall cost of cover at $760 and a margin of $10pt* profit on the trade.

Scenario B: Physical market softens – Average physical price in September is $745 pt FOB

• The trader covers in the physical market at $745 pt fob, but has hedged his position with the FIS swap:

FIS Swap Position	$760pt
Fertilizer Index avg. Sept	$745pt
Differential	**$ 15pt**
Quantity = 10,000t	

• Overall position:

Physical cover (10,000t × $745pt)	$7,450,000	
Plus : FIS swap settlement	$ 150,000	**(Trader pays the Seller)**
Total Cost of Cover	**$7,600,000**	

$7,600,000 / 10,000t (total volume) = $760 pt fob

By using an FIS swap, despite the physical market value falling below the trader's cash settled swap level in this example, the trader still achieves overall cost of cover at $760 and a margin of $10pt* profit on the trade.

***Please note – FIS broker commission is USD 0 .50 (50 cents) per ton which should be deducted from the final calculation.**