

Friday Night 'Lights

17th August 2018



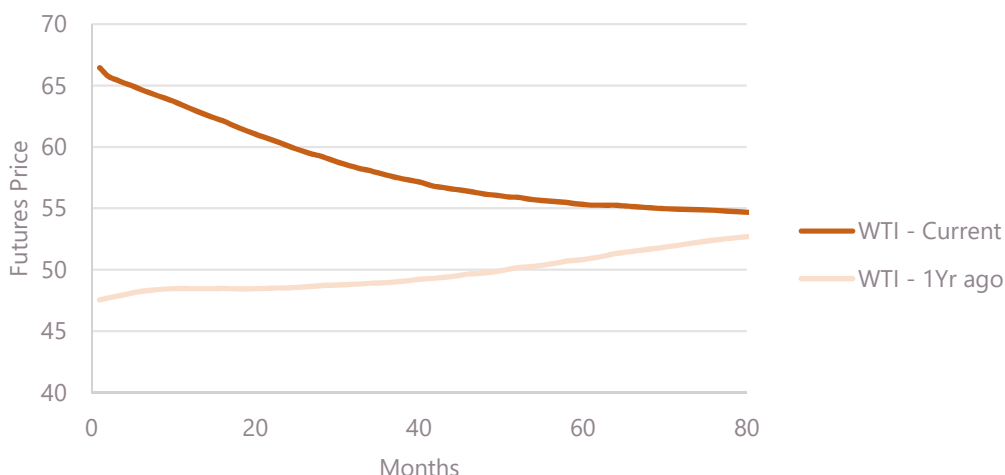
For Professional Investors and Institutional Clients only

Drilling down into the oil curve

As the avid reader of FNL will recall from [previous editions](#), access to oil is ordinarily undertaken via futures contracts that have an explicit maturity date (unless any of our readers have a spare tanker or a yard big enough to store the barrels!). Ordinarily the futures curves, that is the price of futures contracts on the same underlying oil barrels (whether Crude or Brent oil) across differing maturity dates are upward sloping – for the derivative geeks read “Curve in Contango”. Intuitively that does make sense, as the opportunity cost of holding the physical asset is that of storage and transportation costs.

However, there are occasions, usually occurring when there are short term concerns regarding oil supply, where the futures curve becomes downward sloping – read “Curve in Backwardation”. As the below chart indicates, that is exactly where the oil futures curve is right now and therefore it poses a fantastic entry point (from a derivatives point of view, see later) for investors looking to gain exposure. However, some would argue that this shape cannot continue in the medium to longer term, as it would provide investors with ‘free’ carry by continually selling the front month contract and buying back later down the line at a deflated price, therefore making profits. This does not persist in an arbitrage free world, some would argue.

Chart showing current backwardation of WTI Crude oil versus 1 year ago



So why does it represent a fantastic entry point from a derivatives point of view? Well firstly think about those down and in puts we continually talk about with investors and whether selling those (from an investor’s point of view) on an upward sloping curve or downward sloping curve would raise more premium. And indeed conversely whether buying calls, digitals and autocall coupons on an upward sloping curve or downward sloping curve would cost more or less. Well the obvious answer is the puts will raise more premium and the calls, digitals and autocall coupons would cost less than for the downward sloping curve as those bank’s derivatives models will assign a greater probability to the puts paying out and the calls, digitals and autocall coupons not paying out. Hence why now could be a good point to invest in oil via structured returns.

The value of investments and the income from them can go down as well as up and the investor may not get back the amount originally invested. Past performance is not necessarily a guide for the future.

Markets summary:

Rates (%)		
	Current	YTD Change*
GBP 1yr	0.955	0.301
GBP 3yr	1.163	0.278
GBP 5yr	1.306	0.275

Equity Indices (%)		
	Current	YTD Change*
FTSE 100	7539.54	-1.93%
S&P 500	2818.37	5.41%
Nikkei 225	22192	-2.52%
Eurostoxx 50	3369.28	-3.84%

5yr Credit Spreads (bps)		
	Current	YTD Change*
Citigroup	55.011	15.247
Credit Suisse	71.175	21.185
Deutsche	147.437	74.324
GS	64.318	11.844
HSBC	37.939	18.209
JPM	44.811	7.156
MS	61.525	11.857
Sant UK**	30.200	2.000
Soc Gen	47.051	23.585

Commodities & Currencies (%)		
	Current	YTD Change*
Gold	1179.11	-9.49%
Oil (CLA)	65.12	7.78%
GBPUSD	1.27	-6.02%
GBPEUR	1.117	0.80%
GBPJPY	140.697	8.20%

5yr Implied (vol pts)		
	Current	YTD Change*
FTSE 100	15.0%	-1.29%
S&P 500	18.5%	-0.21%
Nikkei 225	17.4%	-1.71%
Eurostoxx 50	16.5%	-1.50%

*Source Fortem / Partner Banks

YTD changes for Data as at

17th August 2018 at 08:00

**ASW from liquid EUR SANUK 1.125 01/14/22 bond

Contact

General Enquiries T 020 8050 2900 E enquiries@fortemcapital.com Trading T 020 8050 2901 E trading@fortemcapital.com
Advisory & Analytics T 020 8050 2904 E analytics@fortemcapital.com Sales T 020 8050 2905 E sales@fortemcapital.com

Friday Night 'Lights

17th August 2018



For Professional Investors and Institutional Clients only

The below represent two examples of the types of payoffs that provide defined return investments to Crude And Brent oil.

Autocall:

WTI Crude (CL1 Comdty Index)

Issuer Rating: A+ (S&P), A (Fitch), A1 (Moody's)
USD denomination
5yr maximum maturity
50% EKIP

Autocall Barriers: 100% / 95% / 90% / 85% / 80%

Autocall Snowball Return: 11.40%

Growth and Income:

WTI Crude (CL1 Comdty Index)

Issuer Rating: A (S&P), A+ (Fitch), A1 (Moody's)
USD denomination
5yr maturity
50% EKIP

Fixed Coupon: 3% p.a. paid annually

Growth Return: 175% participation in ATM call

For those with any further questions or interest in differing product iterations, please don't hesitate to get in touch and look out for those new launch e-mails as Fortem may well be launching such products in the near future.

For further reading on similar topics, please re-visit some of our previous FNLs on commodities:

[Oil me up, but don't be crude](#)

[AU...have you thought about investing in commodities?](#)



The value of investments and the income from them can go down as well as up and the investor may not get back the amount originally invested. Past performance is not necessarily a guide for the future.

Disclaimer

This document has been issued and approved as a financial promotion by Fortem Capital Limited for the purpose of section 21 of the Financial Services and Markets Acts 2000. Fortem Capital Limited registration number 10042702 is authorised and regulated by the Financial Conduct Authority under firm reference number 755370. This document is intended for Professional Investors and Institutional Clients and advisors and should not be communicated to any other person. The information has been prepared solely for information purposes only and is not an offer or solicitation of an offer to buy or sell the product. All information, including prices, analytical data and opinions contained within this document are believed to be correct, accurate and derived from reliable sources as at the date of the document. However, no representation or warranty, expressed or implied is made as to the correctness, accuracy or validity of such information. Fortem Capital Limited assumes no responsibility or liability for any errors, omissions or inaccuracy with respect to the information contained within this document. All price and analytical data included in this document is intended for indicative purposes only and is as at the date of the document. The value of investments and the income from them can go down as well as up and the investor may not get back the amount originally invested. Past performance is not necessarily a guide for the future. The information within this document does not take into account the specific investment objective or financial situation of any person. Investors should refer to the final documentation and any prospectus to ascertain all of the risks and terms associated with these securities and seek independent advice, where necessary, before making any decision to buy or sell. The product may not be offered, sold, transferred or delivered directly or indirectly in the United States to, or for the account or benefit of, any U.S. Person.

Contact

General Enquiries T 020 8050 2900 E enquiries@fortemcapital.com Trading T 020 8050 2901 E trading@fortemcapital.com
Advisory & Analytics T 020 8050 2904 E analytics@fortemcapital.com Sales T 020 8050 2905 E sales@fortemcapital.com