JSE adds contracts to provide protection against rising diesel price

By Mari Blumenthal



Consumers have been complaining about the price of fuel ever since we swapped the horse drawn carriage for the automobile. A steep climb in the price of petrol or diesel can be a huge blow to any household budget, but for businesses it can be a complete knockout.

Chris Sturgess: Director of commodity derivatives at the JSE says the diesel price can have a great influence on the input costs of South African businesses in industries, from transport to agriculture and mining, and eats away at their profit margins. To allow investors and businesses to protect themselves against movements in the local diesel price the JSE has added Diesel Hedge Futures and Options (DSEL) to its range of commodity derivatives.

The contracts provide a hedge against movements in the local pump price of diesel through following the price of European Gasoil Futures, as traded on the New York Mercantile Exchange (NYMEX). Gasoil is a refined crude oil product and is close to diesel in the refinery process. The contracts will be traded in rand per litre and cash settled.
The contracts can help farmers and businesses to protect themselves against volatility in the diesel price and give them greater certainty to manage their costs. One contract represents 5 000 litres of diesel, which means any business that uses a greater volume of diesel per month can meaningfully use the contract," says Sturgess.
Sturgess says although the contracts provide investors with a hedge against movements in the price of diesel refined in Europe, this price plays a big role in what we pay for diesel in South Africa. "We are excited about the new product that will make it easier for local participants to manage their price risk in the diesel market. Interested clients can trade via JSE derivative brokers with transactions guaranteed through the JSE's clearing mechanism."

Chris Kairinos, Commodity Trader at Rand Merchant Bank (RMB), which will be acting as market maker for the contracts, says energy markets are especially prone to volatility. "Geo-political tensions can see energy prices blow out for no valid reason. The contracts can be extremely useful because they enable businesses to be more prudent and lock in their margins, regardless of where the diesel price goes."

André Greeff, Energy Specialist at BVG, explains that the South African wholesale diesel price is made up of taxes and levies as well as the Basic Fuel Price (BFP) of diesel. The BFP (free on board) is determined by international energy prices, which are quoted in US dollars, as well as the Rand/Dollar exchange rate. Currently the total Fuel Levy on diesel amounts to 209,5 cents per litre and the Road Accident Fund levy adds an additional 104 cents per litre.

"European Gasoil is proxy for the basket of international energy prices used to calculate the South African diesel price. The JSE's futures and options combine this price with the Rand/Dollar exchange rate and this means that the JSE futures price is very strongly correlated with the local wholesale diesel price and provides an excellent way to manage risk," says Greeff.

The price of the diesel contracts will be calculated based on the average exchange rate and average

European Gasoil Futures in the month before the contract expires. This is known as the reset month and the contract will not trade during this month. The month in which the contract expires will be known as the pump month and the contract will expire at the beginning of this month.