Improved netting and changes to NOS margins

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The sale of the equity clearing business and the merger between the ownerships of NOS and IMAREX which we announced recently, will enable NOS to focus fully on developing clearing services for the freight and commodity markets. The new structure makes it possible to allocate more resources to customising the margin structure applied to freight and bunker fuel oil. It also gives NOS the time and resources to develop new products and to increase and improve support to members.

NOS strategy remains to be the specialised clearing house for the freight market and a leading clearer for related commodity markets.

As a next step in enforcing this position NOS has chosen to introduce new and improved Inter Commodity Spread Credit (ICSC) in the margin calculations for existing members.

Main changes

Within almost all markets, the correlation between different commodities is higher in the long term than in the front periods. This is also true in the freight derivative market.

To accommodate these market characteristics, NOS has developed a margining system to allow for different correlation parameters along the length of the forward curve.

This change makes it possible to introduce margin-netting between more products than we currently offer. In addition, it is possible to give higher netting effect in the long term contracts towards the end of the forward curve.

The number of spread combinations in the freight market will be increased from 5 to 25 (Dry Bulk 10, Tanker Dirty 5, Tanker Clean 10). The netting effects of several of the 10 existing spread combinations in the bunker market will also be increased.

NOS is constantly monitoring the volatility and liquidity of the markets we clear. NOS has experienced decreased volatility in the front of the Dry Bulk forward curve. As a consequence the margins for certain Dry Bulk contracts will be reduced.

The margins for the Tanker Clean segment have not been in line with the experienced volatility in the market for some time.

NOS has been awaiting a margin increase in the Tanker Clean segment due to the lack of margin-netting effects offered between different Clean routes. However, with the introduction of 9 new spread combinations NOS has decided to effectuate the margin increase.

The following commodities and routes/indexes are affected of the margin changes and the improved Inter Commodity Spread Credit regime:

Tanker	Dry Bulk	Bunker
TD3*	PM4TC*	RDM 35 FO*
TC1*	CS4TC*	NWE 10 FO*
TC2*	SM5TC	
TC4*	C4	
TC5*	C7	
TC6*		
TD7		
TD9		

* Changes in margin curve

Members with exposure in Dry Bulk contracts will experience reduced margins due to reduced margin in the front of the forward curve and increased number of Inter Commodity Spread Credit combinations.

Members with exposure in Tanker Clean contracts will experience higher margins. However, for some members the increase in margins will be offset by increased Inter Commodity Spread Credit parameters.

Members with exposure in Bunker contracts will experience reduced margins due to reduced margin and increased Inter Commodity Spread Credit parameters.

The changes in the margin curves and Inter Commodity Spread Credit matrices are shown in Appendix 1 to this newsletter.

Decreased margins and improved ICSC for dry cargo futures

The Capesize and Panamax Time Charter routes (CS4TC and PM4TC) will have margin curves reduced, together with improved ICSC. The netting of margins was previously between CS4TC/PM4TC, PM4TC/SM5TC and C4/C7.

With the new ICSC matrix, offsetting positions in the routes CS4TC/C4/C7/PM4TC/SM5TC will have margin-netting for the first time.

Improved ICSC for Tanker clean and dirty routes. Increased margins on some clean routes.

Members will see increased margins on the clean routes and the TD3 route. However ICSC's will be introduced between several tanker dirty and between all clean routes. Previously, ICSC was only available to members with TD3/TD5 and TC1/TC5 positions. Now members will experience margin-netting effect on TD7 and TD9 positions and between all clean routes, i.e. TC1/TC2/TC4/TC5/TC6.

Effects from hurricanes like those which hit the USA last autumn will increase the market volatility, especially on the clean routes. The new margins on the clean routes will of course not fully reflect such extreme market movements, but remain more in line with observed volatility during normal market conditions.

Reduced bunker margins and increased ICSC

The margins on European bunker fuel oil contracts will be reduced. Margins on RDM35FO will be reduced in the range of 10-30% and margins on NWE10FO will be reduced with 30-40%. At the same time, the ICSC has increased (higher margin-netting in the long term period than in the front months).

The changes will be effectuated from end of business May 2nd 2006 with effect for margins to be posted by 15.00 CET May 3rd.

Any questions can be directed to NOS Clearing ASA:

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If you want some more close study of the background of margin calculation and the margining setting by NOS, you can read about it in the Appendices attached below:

- Improved ICSC - 24 April 2006

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No relation

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