Trader Insights

Bank of America Merrill Lynch

Actionable Ideas for the Power to Optimize Your Trades

Are You Hedging All of Your Commodities Exposures?

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Mr. Efken**:** Commodity prices can be among the most volatile components in a company's bottom line. Most would consider a 5% variation from their annual budget significant. Commodity prices can move that much or more in a single day!

Commodities exposures include energy such as natural gas and power, metals like aluminum and nickel, petrochemicals including polypropylene and ethylene, or agricultural and soft commodities like corn, cattle, and sugar. You can reduce risk by hedging your primary exposure to these commodities, but you can hedge more than you might think by considering the additional products you use. In other words, don't just think about the resin or metal you may buy, but consider the natural gas it takes to heat it, and the diesel you use to deliver the final product.

In addition to direct hedging, you can hedge many commodity exposures by proxy. For example, you could help offset the cost of electric motors by hedging the price of copper. Or offset rising freight costs by hedging diesel fuel. The real key to maximizing your potential financial risk management impact is taking a holistic approach and addressing your full exposure; hedging not only your primary exposures, but secondary ones as well.

For other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep.