

ICI 4 derivatives update: Total traded volume hits 1 million tonnes



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The ICI 4 coal derivatives market reached a landmark in August, as total volume traded since the index was listed on the CME's Nymex exchange in February reached 1mn t. The milestone was achieved as 25,000 exchanged hands on Friday 31 August. Open interest has increased to 150,000.

The general air of positivity around the ICI 4 derivatives market continues as market participants seek to manage Indonesian coal price risk. Producers and end-users have ramped up not just the amount of low-calorific value Indonesian coal being traded, but the amount that is indexed to ICI 4. This, in turn, has increased the need for effective risk management tools in the market, and ICI 4 derivatives have become more integral in this process. At least 15 companies have now traded ICI 4 derivatives since February.

The underlying physical market for low-calorific value Indonesian coal is growing — an estimated 120mn t/yr of GAR 4,200 kcal/kg coal is leaving Indonesia for the export market, with an ever increasing proportion being sold on an index-linked basis. The index of choice is the ICI 4. This increases the requirement to hedge using ICI 4 derivatives.

ICI 4 — a look at the types of contributors to the assessment

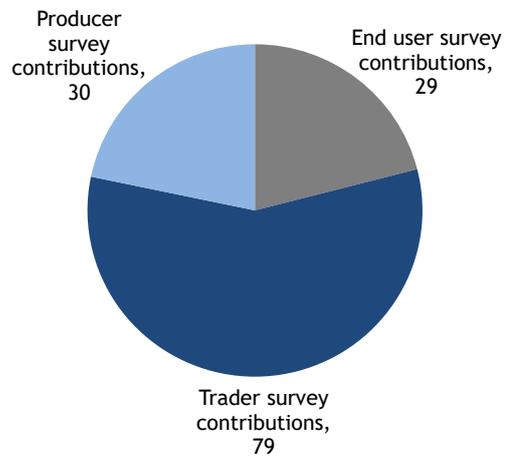
The wide acceptance of the ICI 4 as the benchmark price for GAR 4,200 kcal/kg fob Indonesia coal is based on the accuracy of the price in reflecting trading conditions in the physical market. Argus and Coalindo — the joint publishers of the index — include trades and price indications from the three major types of active counterparties.

Argus market survey contribution analysis – August

The five weeks of pricing for the August ICI 4 settlement price included a similar number of viewpoints from the end user and supplier sides of the market.

Argus data contributions during August 2018

%

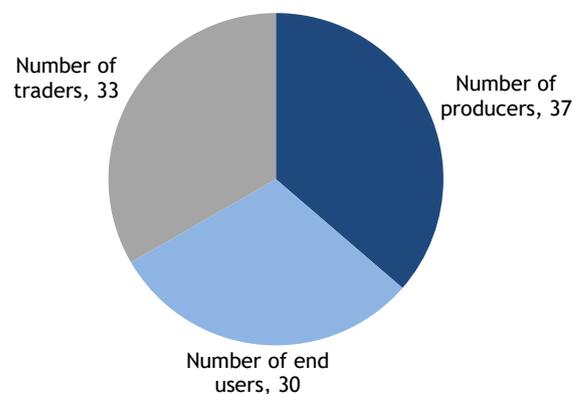


Coalindo contribution analysis – January-August

During the first eight months of 2018, the split between end users, traders and producers contributing to Coalindo's panel was roughly even at 10, 11 and 12, respectively. This shows that the panel is representative of a wide cross-section of market views.

Coalindo panel contributions: Jan-Aug 2018

%



ICI4 Frequently Asked Questions

ICI 4 FAQs:

How is the ICI 4 index calculated?

The ICI 4 weekly price is a straight average of the Argus GAR 4,200 kcal/kg fob Indonesia price assessment and the Coalindo price assessment for the same grade. The monthly price, which is generally used to settle index-linked contracts, is an average of the four or five weekly values published within a given month.

The Argus component is based 50pc on “deals done” – i.e. index-relevant GAR 4,200 kcal/kg fob Indonesia fixed-price physical transactions, and 50pc market survey. Argus applies its editorial expertise in order to gauge whether a transaction reported or a market survey submission is acceptable for assessment purposes. An average of the two values, 1) volume-weighted average of index-relevant trades and 2) market survey submissions that have been included, is the final weekly assessment.

There is a similar number of buyers and sellers when obtaining information from the market.

Where and when is the ICI 4 price published?

The weekly prices and the monthly indexes are published on Fridays — unless Friday is a Singapore public holiday, in which case it is published the day before — in the Argus/Coalindo Indonesian Coal Index Report. For further information on subscriptions, please contact marketingsg@argusmedia.com.

Is all ICI 4 trade cleared, and can I still trade through a broker?

All reported ICI 4 derivative transactions to date have been brokered, with the broker then “giving up” the transaction to the exchange for clearing. In order for this to occur, both counterparties must have a clearing account.

Where does the CME’s cleared instrument fit into this?

CME listed the ICI 4 price as a clearable derivative on its Nymex exchange in February. This was a significant step forward for the market, as it means counterparties can trade cleared derivatives, managing price risk and mitigating credit risk simultaneously. This is how most coal derivatives are traded. For more information regarding the CME’s services please contact coal@cmegroup.com.

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