

# Spot Crude Oil

Effective date: 21 April 2020

## Spot Crude Oil – Guide

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Oil is commonly traded as a Futures Contract – where a buyer and seller agree on a price now and exchange assets for cash at a future date. If the investor is only interested in speculating on the price and never wishes to take delivery of the underlying asset, they must close any positions before the contract's expiration date.

Oil trading as a spot instrument has many advantages for investors who are only interested in price speculation. The Spot Oil price is derived as a combination of the first and second nearby month future contract.

The spot price for each of these instruments is derived from a weighted average between the 1st and 2nd month Future Contracts (explained in further detail below) and follows the business day convention from New York. 1 LMAX contract is equal to 100 barrels (bbl).

This pricing method diminishes the level of volatility when the first nearby futures contract is near expiration, since there is often lower liquidity. Furthermore, rolling your position from the 1st to 2nd nearby month happens in smaller daily increments, instead of paying the full difference when close to expiration.

### 1. PRICING OF SPOT OIL

The spot price for oil is derived from a weighted average between the 1st and 2nd month Future Contracts and follows the business day convention from New York. 1 LMAX contract equates to 100 barrels (bbl).

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#### Calculation:

$$1 - \frac{D}{NumDays} * \text{Relevant Price of First Nearby Month}$$

$$+$$

$$\frac{D}{NumDays} * \text{Relevant Price of Second Nearby Month}$$

|                                  |   |
|----------------------------------|---|
| <b>D</b>                         | means the number of Commodity Business Days from, and including, the Previous Expiration Date to, but excluding, the Roll Date.           |
| <b>NumDays</b>                   | means the number of Commodity Business Days from, and including, the Previous Expiration Date to, but excluding, the Next Expiration Date |
| <b>Business Day</b>              | 18:00 to 17:00 New York   |
| <b>Next Expiration Date</b>      | means the date of expiration of the First Nearby Month  |
| <b>Previous Expiration Date</b>  | means the date of expiration of the Previous Nearby Month that expired Immediately prior to the Roll Date.                                |
| <b>Roll Date</b>                 | means the second Commodity Business Day after the current Business Day  |
| <b>Relevant Price</b>            | means the price determined in accordance with the following.  |
| <b>Commodity Reference Price</b> | The Commodity Reference Price shall be OIL-WTI-NYMEX (West Texas Intermediate light sweet crude oil).                                     |
| <b>Specified Price</b>           | the settlement price.   |

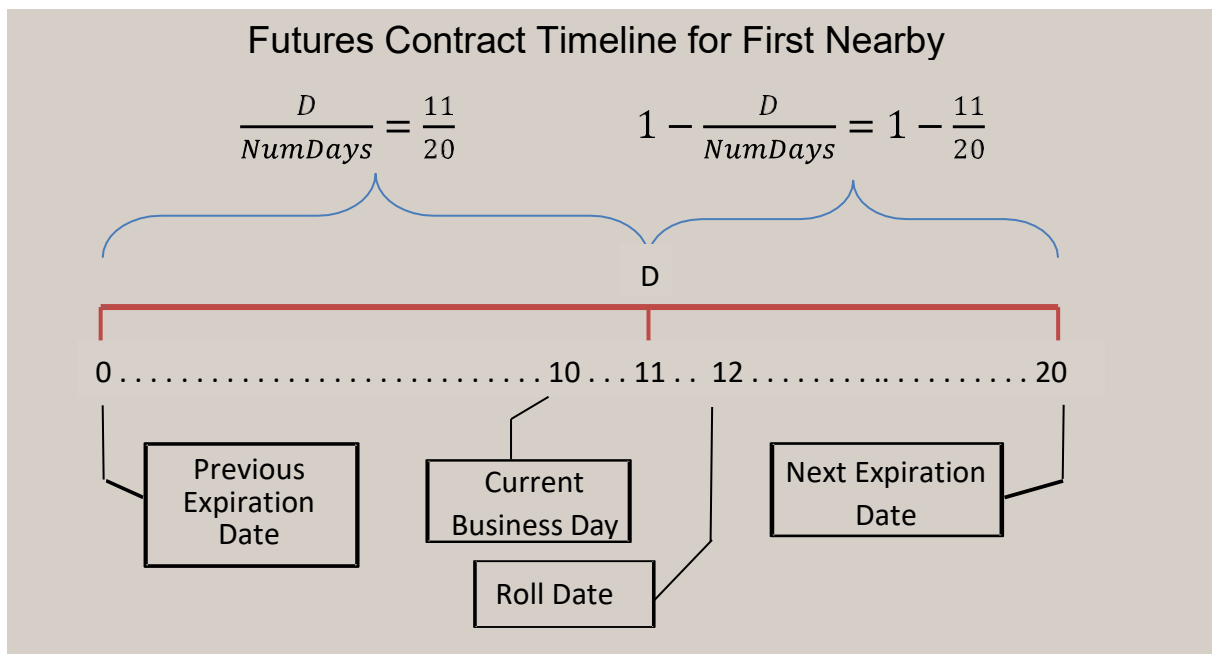
## 2. EXAMPLE OF PRICING

D = 11

NumDays = 20

Relevant price of First Nearby Month = **106.15**

Relevant price of Second Nearby Month = **106.53**



$$\begin{aligned}
 FX \text{ Spot Price} &= 1 - \frac{11}{20} * 106.15 - \frac{11}{20} * 106.53 = \\
 &= 0.45 * 106.15 - 0.55 * 106.53 = \\
 &= 106.36
 \end{aligned}$$

### 3. ROLLOVER OF SPOT OIL

The Spot Oil is a margined product; therefore, the traded value is financed through an overnight rollover charge. If a position is opened and closed within the same trading day, the account will not be subject to overnight rollover charges.

A Spot Oil position that is held overnight will be consequently closed for the relevant value date and reopened the next relevant value date.

Holding Spot Oil positions after 17:00 EST (New York time) will incur a rollover charge as follows

$$\begin{aligned}
 &\frac{EOD \text{ Mid Price of 2nd Nearby Month} - EOD \text{ Mid Price of 1st Nearby Month}}{NumDays} \\
 &= Markup
 \end{aligned}$$

Rollovers for Spot Oil are calculated based on business days, therefore, no additional charges for carrying positions over a weekend or holiday will be applied.

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