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What Is Hedging?

Hedging is a RISK management strategy to protect against investment losses or to add stability (budget) to expectations of future cost of consumables.

CENTRAL OIL & SUPPLY CORPORATION

RISE ABOVE



Forward Price Contracts
(Hedging)

Diesel & Jet-A Fuels



CENTRAL OIL
&
SUPPLY



What Is Hedging?

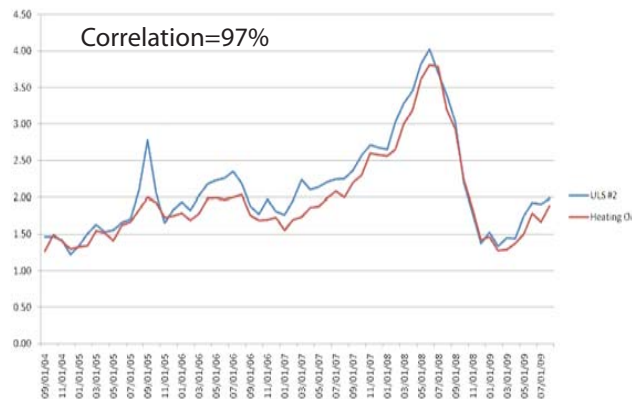
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Why Use Hedging?

Most entrepreneurs realize that it is more prudent to put mechanisms in place that will minimize his/her exposure to unforeseen and uncontrollable market price volatility. It just makes sense to know (approximately) what off-road diesel (e.g.) will cost in the planting and harvesting season of the following year, well in advance.

Correlation Chart of Ultra-Low Sulfur Diesel and Heating Oil Futures



How Can Central Oil & Supply Help?

You, the customer (farmer, municipality, etc.), are concerned that the price of diesel will rise in the coming months and want to know what you can do to mitigate this RISK.

Central Oil and Supply (COS) will write a physical agreement offering You the ability to secure a forward price target for your projected diesel/Jet-A requirements.

When hedging diesel prices, a heating oil future (HOZ9) at the NYMEX is used as a cross hedge because of its very high correlation to diesel prices. The fuels are produced together and are chemically similar. *(Please see the ULSD/HOF Correlation Chart.)*

Each COS/customer contract represents a 7,000 gallon commitment. You want to purchase 7,000 gallons of diesel/Jet-A for delivery at some point in the future. COS offers you a forward contract and then buys 1 futures contract in a hedge account. Your COS agreement will require a 15% down payment of the total contract.

Example: (7,000 gallons x \$2.00/gal = \$14,000)

(\$14,000 x 15% dp = \$2,100 due at signing)



The futures contract will be held until the physical diesel/Jet-A is purchased by COS and delivered to you. Once this occurs, it will be liquidated and any "basis" difference may become part of your price.