This category comprises commodity swaps and commodity forward contracts. Both instruments are used to manage the price risk in commodity markets. They allow you to lock in future prices, reduce uncertainty or speculate in price fluctuations on commodities without owning or managing the physical goods.

Commodity swaps!
A commodity swap is an agreement between two parties to exchange a series of payments over a specified time period. The payments are dependent on the value of the underlying commodity.

The most typical commodity swap is fixed-for-floating, where:
- one party pays a fixed rate
- the other party pays the floating market rate

There are also floating-for-floating swaps, where both parties pay floating prices based on various commodity indices or points of delivery. This type of swap is used to utilise price differences between markets or types of commodity.

A commodity swap can also be structured as an exchange between a commodity rate and interest rate:
- a floating leg that tracks price movements in the commodity
- a fixed leg, which is the interest payment (either fixed or floating)

Commodity forwards!
Commodity forwards are contracts that obligate buyer and seller to buy or sell a specific quantity of commodities at a future time at a specific price.

There are two main types:
- **Forwards:** customised OTC contracts with flexible conditions and higher counterparty risk
- **Futures:** standardised exchange-traded contracts with high liquidity and lower counterparty risk due to margin payments.

The Bank manages periodic margin payments, while customers typically have a credit-line setup.

The contracts can involve either physical delivery or cash settlement. The Bank does not offer physical delivery, meaning all contracts must be closed prior to maturity.

Opportunities offered by commodity swaps and commodity! forwards
You can use these instruments to:
- hedge the price risk of known future buy or sell transactions
- stabilise costs or income
- speculate in anticipated price movements without owning the physical goods

Examples:
- An airline company can protect itself from rising fuel prices through a fuel swap.
- An oil manufacturer can lock in a minimum price for future output.
- A farmer can use a forward to lock in the price of their upcoming harvest.
- An investor can place positions in price fluctuations without physical delivery.

1. Benefits and drawbacks!

Benefits	Drawbacks
You obtain exposure to commodities without tying up full liquidity.	Swaps and forwards are binding contracts.
Agreements can be customised to a specific commodity and do not require physical delivery.	Unfavourable price fluctuations may result in leveraged losses.
You can reduce or eliminate the price risk of a commodity.	You must be able to offer collateral or have a credit-line set up.

2. Risks and special circumstances

Commodity swaps and commodity forwards are sometimes complex instruments, and unfavourable market trends may result in substantial losses.

Specific risks:
- **Delivery risk:** applies to forwards that involve physical delivery, but is avoidable via contracts that are closed early (which is the case for all commodity contracts made with the Bank).
- **Low liquidity:** contracts near maturity may be trading contrary to logic when trading activity is low.
- **Liquidity risk:** OTC contracts may be difficult to close in turbulent markets.
- **Counterparty risk:** especially relevant for OTC trades, if the counterparty is unable to meet their obligations.

3. Returns!

Returns depend on changes in the commodity price.
- **Commodity swaps:** the return is the difference between the fixed rate and the floating market rate over the time to maturity.
- **Commodity forwards:** the return is the difference between the predetermined rate and the market rate at maturity or at early closing.

Pricing is impacted by, for instance:
- the commodity spot rate
- expected supply and demand
- stockpiles
- yield trends
- market volatility

4. About risk!

If the market moves against your position, your losses may be leveraged.

If you trade in currencies other than DKK, you may also assume a currency risk.

Increasing volatility in commodity markets may cause greater price fluctuations in both the underlying commodity and the contract.

Closing a position early (prior to maturity) requires a counterparty, and liquidity may be limited - especially during market turbulence.

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5. What you should know before trading!

When you trade commodity swaps or commodity forwards with the Bank, you enter into a framework agreement detailing how the Bank monitors the risk associated. The Bank may call the contract or require collateral, if the market value moves in a negative direction that exceeds any pre-arranged credit limits.

You are required to take a suitability test before you can start trading. This allows the Bank to assess:
- your purpose of making such trades
- the time horizon
- your financial resources
- your risk appetite
- your knowledge and experience with this instrument

Consult your advisor, if you have any doubts and would like to know more.

Taxation
We only provide advice on tax matters in connection with actual trades. The rules depend on whether you are trading as a private individual, a business or a company. For a specific assessment, we advise you to consult an accountant.

Costs and expenses
Trading in commodity swaps and commodity forwards entails a premium or discount, depending on the market. The size of the premium depends on the market turnover, trading costs, and the Bank's margin, which covers costs and earnings.

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