Natural Gas

Introduction

Natural gas Trading

Natural gas accounts for almost a quarter of United States energy consumption, and the NYMEX Division natural gas futures contract is widely used as a national benchmark price. The price is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural gas pipeline systems that draw supplies from the region’s prolific gas deposit. The pipelines serve markets throughout the U.S. East Coast, the Gulf Coast, the Midwest, and up to the Canadian border. Henry Hub Natural Gas (NG) Futures allow market participants significant hedging activity to manage risk in the highly volatile natural gas price, which is driven by weather-related demand. They also provide efficient transactions in and out of positions. Natural gas futures are the third-largest physical commodity futures contract in the world by volume and continue to grow as a global and U.S. energy source. This independent and stand-alone commodity is traded on the Chicago Mercantile Exchange (CME) and is delivered in every month of the year. Natural Gas futures traded on the CME conforms to strict specifications regarding quality, grade and contract unit described below.

CME natural gas futures contract specifications

Product symbol: NG
Contract unit: 10,000 million British thermal units (mmBtu)
Grade and quality: Natural Gas meeting the specifications set forth in the FERC-approved tariff of Sabine Pipe Line Company
Pricing quotation: U.S. dollars and cents per mmBtu
Settlement type: Physical
Recent price history

At the beginning of July 2008, Natural gas peaked at a close of over USD 13.5. Then the global financial crisis (GFC) or global economic crisis began around July 2007 and destroyed demand for many durable goods. As a direct consequence of this global slowdown, natural gas prices declined very quickly in the following month by more than USD 10 to reach USD 2.5 in September 2009, less than 20% of the price reached in July 2008. Since then, natural gas prices range while slightly increasing to above USD 3.5 in July 2013.

Which factors can affect natural gas prices?

The price history of natural gas shows that demand and supply can be impacted by various different factors such as:

- Politics
- Social factors
- Environmental factors (such as natural disasters)
- Macroeconomics
- Speculation
- Technological advancements (such as with alternative energies)
- Global economic conditions
- Emerging economies and markets
- Weather and climate conditions
Due in part to its presence in numerous markets, natural gas price is subject to various external forces as well as other markets' conditions. Changes in the industries that use natural gas in their products can have a significant impact on the natural gas industry itself. The usage of natural gas may be significantly impacted by weather conditions, global economic conditions and by emerging economies.

It is important to note that currency trading is also directly affected by natural gas prices. For example, the US dollar may cause the rise or fall of the price of natural gas, and vice-versa. Due to this fact, the US dollar is known as a commodity currency. Other commodity currencies are the NOK, CAD, AUD and NZD.

**Who uses the natural gas market?**

The natural gas marketplace comprises of a large array of participants, including:

- Commercial enterprises with a direct stake in the price of natural gas: the contract can be a valuable hedging instrument. As a safeguard against falling cash market prices, producers and traders can sell natural gas futures to lock in prices for future delivery, protecting the value of future natural gas sales.
- Other natural gas industry participants.
- Professional energy traders.
- Investors and speculators: with no intention of buying or selling actual physical commodities, are simply trying to make money by trading its value.

**What are the underlying risks of natural gas trading?**

The risk of loss in trading natural gas or other commodities can be substantial. You should, therefore, carefully consider whether such trading is suitable for you in light of your financial condition.

Natural gas trading is speculative and influenced by many factors

Natural gas trading can be very volatile and involves a high degree of risk. The low margin deposit required permits an extremely high degree of leverage. Accordingly, a relatively small price movement in a natural gas contract may result in immediate and substantial loss or gain to the trader.

Price movements are influenced by among other things; changing supply and demand relationships, economic events, trade, fiscal, political, monetary and exchange policies of governments, weather (climate conditions) and emotions of the market place. Foreign policy of certain countries can have a big impact on natural gas prices, and investors can do very little about this aspect of natural gas trading. Those diverse factors can cause drastic changes in the price of natural gas, therefore making natural gas trading extremely risky. War or civil unrest can decrease natural gas production, increasing demand and sending prices skyrocketing, however producing too much natural gas can lead to a drop in natural gas prices, resulting in a big loss for natural gas traders.
None of these factors can be controlled and no assurance can be given that the trading activity will result in profitable trades and not in substantial losses.

NATURAL GAS TRADING IS SPECULATIVE AND INVOLVES A SUBSTANTIAL RISK OF LOSS AND MAY NOT BE SUITABLE FOR ALL INVESTORS

Demand for natural gas can be extremely difficult to predict

Analysts generally predict the demand for natural gas to go up, and therefore the price to increase.

Natural gas has many applications and the natural gas demand is worldwide. As this demand increases, prices should also be expected to rise. However, natural gas demand is a tricky thing to predict! As the price of natural gas increases, this places greater pressure on consumers’ consumption. For example, should natural gas prices increase at a time when the economy is worsening; this will more than certainly result in the drop in demand from consumers. Less demand means a decrease in natural gas price, with natural gas traders ultimately losing money.

Trade leverage

Depending on your experience level, trade leverage can be a powerful tool to help maximize returns, or alternatively it can cause significant loss. Due to its complexity, trade leverage must not be taken lightly and it is recommended that you refrain from trading until you have read and fully understood the mechanism described in the eForex contract, in the Account opening documentation and on Swissquote’s websites.

In addition, natural gas trading with leverage may not be suitable for all investors as it carries a high degree of risk. As you could lose your initial deposit, you should ensure that you fully understand all the risks. These risks are also intensively described in the eForex contract, in the Account opening documentation and on Swissquote’s websites.

Failure of Electronic Trading System

Electronic trading systems are susceptible to temporary breakdown. In the event of system or component failure, it is possible that (for a certain period of time), you may not be able to enter new orders, execute existing orders, modify, or cancel orders that were previously entered. In such circumstances, you shall directly contact a sales representative or the dealing desk in order to check and monitor your open positions.
Natural gas Trading

Swissquote aims to facilitate to its clients the access to online natural gas trading, as well as to provide an alternative to current solutions offered by other online brokerage platforms (namely futures).

We aim to propose a natural gas trading alternative with the same trading features that are currently applied to currencies, precious metals and energy on all of our eForex platforms such as:

- Real time trading
- Deep liquidity
- Low cost trading
- Leverage use
- Automatic closing out
- Automatic rollover of open positions
- No physical delivery

A natural gas transaction executed through Swissquote is made against USD (NGC/USD).

What does Swissquote propose?

Through its natural gas contract, Swissquote proposes a combination between:

- OTC trading (with no physical delivery); and
- Derivative products (which imply automatic management of expiration dates).

The natural gas transaction is a computation derived from the CME Natural gas Future contracts (hereafter “CME Natural gas Futures”) traded and quoted at the Chicago Mercantile Exchange (Symbol: NG).

CME Natural gas Futures are organized through a specific calendar and only standardized contract months are available in the marketplace (for example: January 2013, February 2013, March 2013, etc.). On the other hand, CME Natural gas Futures have the benefit of a relatively high liquidity.

Price generation

The natural gas contract is constructed through the combination of two CME Natural gas Futures contracts with different maturities.

Indeed, the natural gas contract price is based on the 1st Maturity Future (NG1) and adjusted by the Spread between the front contract (NG1) price and the next available Future (NG2) price; the spread itself adjusted by a Delta Factor and a Time Factor.

\[
\text{Swissquote’s Natural gas (NGC/USD) } = \text{NG1} - [ [ \text{Spread} - \text{Delta Factor} ] \times \text{Time Factor} ] \pm \text{SQ Markup}
\]
Spread = NG2 – NG1 (eq to. Price difference between 2nd & 1st Maturity Future contract)

NG1: the 1st Maturity Future

NG2: the 2nd Maturity Future

Delta Factor = Price adjustment computed once a month to avoid a price gap at the Future contract switch.

Time Factor = ratio combining the remaining days before NG1 expiration and the total number of day between the last and the next expiration.

Leverage

During the week, you will enjoy a maximum leverage of 30:1. Actually, this leverage is only available between 11:00 pm CET on Sunday and 09:00 pm CET on Friday. On weekends (between 09:00 pm CET on Friday and 11:00 pm CET on Sunday), the maximum leverage is 15:1. Regardless of which platform you choose, a 30:1 leverage with a capital outlay of USD 1,000 will allow you to invest USD 30,000 in the market.

Automatic closing out

You are fully responsible for monitoring the activity on your account. However to ensure that your losses do not exceed your entire equity, Swissquote operates a system which ensures the automatic closing out of all open positions as soon as the margin threshold is breached, at the next available market price for the corresponding execution size. For additional information, please refer to the Forex contract, the Account opening documentation and Swissquote’s websites.

Rollover/overnight fee

It is not possible to physically deliver the aluminium traded on our platform. The aluminium contract is purely speculative by nature. To prevent the delivery, the open aluminium positions are automatically renewed for the following maturity date. To smooth out the price difference between the two Futures contracts (NG2 & NG1), which basically represent the monthly rollover cost, we would apply this difference on a daily basis, as a rollover fee. With such a fee actualized on a daily basis, the client does not suffer from the switch from one contract to another.

Daily Rollover cost = ( ( [ NG2 – NG1 ] - Delta Factor ) / Y) ± SQ Markup

Y = total number of days between the last and the next expiration (NG1 & NG2).

This rollover mechanism is applied on daily basis and therefore has consequences on your account. An amount is credited or debited to your trading account and is related to the renewal of your position: this being the price difference between the next available CME Natural gas Future maturity (NG1) and the subsequent available CME Natural gas Future maturity (NG2). The rollover process takes place automatically between 11:00 p.m. and 11:15 p.m. The debit or credit is then booked to your account on the following day.
Practical examples of Overnight Rollover

Example 1

Date of transaction: 24 January 2011

Available CME Natural gas Futures contracts:

<table>
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<tr>
<th></th>
<th>Price</th>
<th>Roll date</th>
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<tbody>
<tr>
<td>NG1 maturity</td>
<td>6.9</td>
<td>13.02.2011</td>
</tr>
<tr>
<td>NG2</td>
<td>6.7</td>
<td>-</td>
</tr>
</tbody>
</table>

Delta Factor = -0.4

Time factor = 0.57

Spread = 6.7 - 6.9 = -0.2

**NGC/USD Price** = 6.9 - ((-0.2 - (-0.4)) * 0.57) + mark-up = 6.786 + mark-up

Roll over fee: -0.01765 + mark-up

Example 2

Date of transaction: 30 March 2011

Available CME Natural gas Futures contracts:

<table>
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<th>Price</th>
<th>Roll date</th>
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</thead>
<tbody>
<tr>
<td>NG1 maturity</td>
<td>6.2</td>
<td>10.04.2011</td>
</tr>
<tr>
<td>NG2</td>
<td>6.1</td>
<td>-</td>
</tr>
</tbody>
</table>

Delta Factor = 0.2

Time factor = 0.39

Spread = 6.1 - 6.2 = -0.1

**NGC/USD Price** = 6.2 - ((-0.1 - (0.2)) * 0.39) + mark-up = 6.317 + mark-up

Roll over fee: 0.0036 + mark-up.
Help

If you require help or further information, please do not hesitate to contact our FX sales team +41 44 825 87 77.

<table>
<thead>
<tr>
<th>Customer Care Center</th>
<th>Gland Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>T 0848 25 88 88</td>
<td>Swissquote Bank SA</td>
</tr>
<tr>
<td>F 044 825 88 89</td>
<td>Ch. de la Crétaux 33</td>
</tr>
<tr>
<td>When calling from overseas:</td>
<td>1196 Gland</td>
</tr>
<tr>
<td>T +41 44 825 88 88</td>
<td>Switzerland</td>
</tr>
<tr>
<td>F +41 44 825 88 89</td>
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