

Argus White paper: Argus US Jet Fuel Prices Explained



Does market liquidity matter?

The market price with the greatest integrity is the one based on the greatest liquidity. Liquidity matters because it is the foundation for accuracy.

As a result, Argus jet fuel prices in the US incorporate every verified spot trade available in the trading day, not a few select deals at the close (see table below). Our US jet fuel prices represent the low and high, and volume-weighted averages of deals done.

In the US jet fuel market, CME Nymex provides the fixed price, and the cash market trades at differentials to this moving target. The industry has asked Argus to index the differentials we collect to the Nymex settlement price because it represents the deepest, broadest, and most easily hedged fixed-price value available. As a service firm, Argus provides prices as a tool for use in many types of supply arrangements, applying a pricing methodology that aligns with how airlines and suppliers actually buy and sell oil.

By any measure, jet fuel prices have become more volatile. Volatility in the basis differential price is best resolved by using broad market average prices to represent the entire day – prices based on all the liquidity available. One approach is to benchmark the entire day to a single moment in time. But this actually exacerbates the volatility by exaggerating the price movement between days. Liquidity-based market averages are the best alternative.

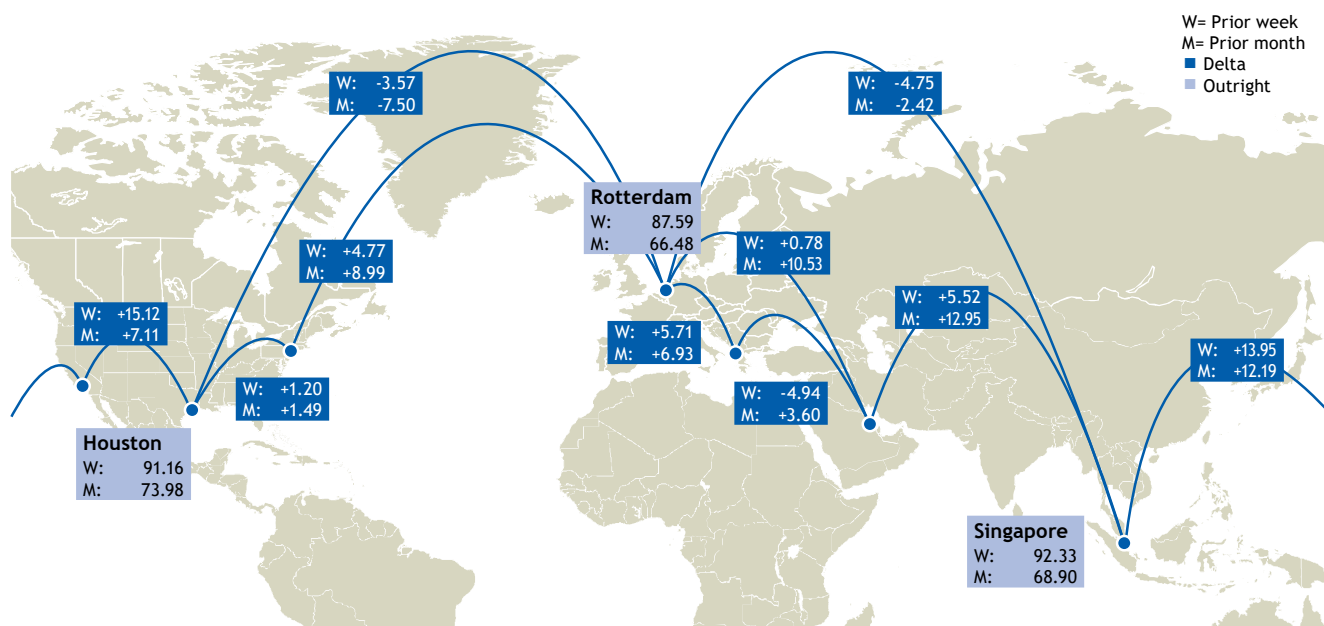
Participant diversity in a market also guarantees that the interests of suppliers, airlines, and intermediaries are fairly represented in price formation. Argus prices include deals by all classes of trade that are active in the jet fuel market.

Spot market deals done					
Market	Spec	Timing	Basis	Price	Volume
fob NWE	Jet A-1	8-12 Feb	Mop	-4.50	4000 t
fob NWE	Jet A-1	5-9 Feb	Mop	-0.50	4000 t
LA	Jet A	Feb	Mar Nymex	-5.00	25000 bl
LA	Jet A	Feb	Mar Nymex	+0.00	50000 bl
USGC Colonial	Jet A	cycle 9	cycle 10	-0.35	25000 bl
USGC Colonial	Jet A	cycle 9	cycle 10	-0.25	25000 bl
USGC Colonial	Jet A	cycle 9	cycle 10	-0.10	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.25	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.25	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.20	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.15	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.10	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.10	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.10	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.10	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-14.00	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.90	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.85	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.75	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.50	25000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.00	50000 bl
USGC Colonial	Jet A	cycle 9	Mar Nymex	-13.00	25000 bl
Buckeye	Jet A	6-8 Feb	Mar Nymex	-4.75	25000 bl
Buckeye	Jet A	6-8 Feb	Mar Nymex	-4.25	25000 bl

US refiners, marketers, airlines, and traders are integrating Argus prices throughout their organizations. The industry is rapidly forming a consensus that an entire-day mean or a volume-weighted average differential price embeds within it the bona fide volatility of the day, the greatest diversity of participants, and the full volume of transactions. Applying that differential price to the futures settlement adds strength to strength. You cannot have integrity without liquidity.

ARGUS MARKET MAP

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Argus Captures the Entire Day

The US jet fuel market is a rateable market, based on all-day refining operations and all-day supply into planes and airport storage.

The spot markets reflect this physical reality by trading throughout the business day. For jet fuel in the US, Argus publishes the low and the high of deals done. Argus also provides a volume-weighted average of deals done in the actively traded Colonial pipeline spot market for 54 grade jet fuel.

Argus values transparency, so we publish the price and volume of every deal we discover through the entire trading day (see table on p1). This allows you to cross check the deals against the prices.

And Argus is committed to verifying deal prices, counterparties and volumes. Not all markets trade actively, so in these markets Argus publishes an intelligent range of trade. In less active markets, Argus looks to assess the range within which product could have traded, based on bids and offers through the day, movements in similar grades and extensive polling of market participants.

The Market-on-Close

In contrast, the competing methodology assesses US jet fuel

markets based exclusively on deals done in a narrow window ending at 3:15pm EST. This market-on-close (MOC) methodology marks the value at the moment it is assessed, but reflects only a small subset of the day's activity. The industry trades far less in the MOC window than throughout the entire day.

Trades in the window are only done to hedge exposure to the index or to set the value of index-linked business. Trades done throughout the day are transacted to manage the legitimate physical forces of supply and demand.

The resulting window price deviates significantly from the mean and the weighted average of deals done for the entire day. This divergence has opened up new risks for both supplier and airline, risks that many are either unwilling or unequipped to hedge.

Financial crude and products markets remain inextricably bound together at the 2:30 EST settlement. The US physical crude market has already moved to an Argus basis, and Argus crude prices are based off the 2:30 settlement. Many airline treasury departments hedge risks by using not only the ULSD and jet fuel derivatives but also by using crude futures.

The long term solution to this hedging problem is to use Argus pricing for jet fuel supply contracts.

The Argus Alternative

Jet fuel term contracts for both bulk and airport-level supply were originally signed on the assumption that the index reflected the aggregate of the entire day's trade and was based on the futures settlement. Argus is now the source for this type of index. Switching to Argus is viewed by many not as switching, but simply going back to where they began.

US refiners are converting much of their business now to an Argus basis. US midstream and marketing firms are also diversifying their term contracts to include Argus. Argus is already the primary price index in the US domestic crude oil markets – for grades such as LLS, WTS, and Mars. Those interested in hedging with jet fuel swaps also find that the entire-day approach works best. CME Nymex ClearPort has listed jet fuel contracts for both the Gulf coast and New York as a result of customer demand for these new instruments (see box below).

Using Argus prices – which are based on all the spot trade throughout the day – better serves the airline and the supplier who are looking to achieve the best average price, and reduce the volatility that has plagued the jet fuel industry.

Argus Jet Fuel Risk Management available on CME Clearport and Globex Futures and ICE

CME Outrights

4Y New York Harbor (Argus) Futures

AF Gulf Coast Jet (Argus) Up-Down Futures

CME Cracks and Spreads

AJU/JU Gulf Coast Jet (Argus) Up-Down Futures

A5U/5U New York Harbor Jet Fuel (Argus) vs. NY Harbor ULSD Futures

ICE FUTURES U.S.

Jet Fuel Diff - Argus NYH Jet Fuel vs Heating Oil 1st Line Future

Who is Argus?

Argus is an independent media organisation headquartered in London and has offices in each of the world's principal commodity centres. It is headquartered in London and has offices in each of the world's principal commodity centres. Its main activities comprise publishing market reports containing price assessments, market commentary and news, and business intelligence reports that analyse market and industry trends.

Argus is a leading independent price reporting agency covering energy markets around the world. Founded in 1970, Argus reports on oil, coal, LPG, natural gas, emissions, metals, power, petrochemical, fertilizer markets, agriculture, as well as freight and other transport issues.

Argus has offices globally, including London, Houston, Washington, New York, Calgary, Rio de Janeiro, Singapore, Dubai, Beijing, Tokyo, Sydney, Moscow, Astana and other key centres of the commodity industries. Argus was founded in 1970 and is a privately held UK-registered company.

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