

Quanto futures

SAFEX quanto futures — in which RMB is an active market maker — are suitable for businesses seeking pure commodity exposure without the associated exchange rate risk. Our quanto commodity futures are listed on SAFEX and are available to South African entities.

Why choose quanto futures?

Quanto futures are immune to exchange rate fluctuations, allowing you to invest and derive a payoff purely from the performance of the underlying commodity. Quanto futures are also flexible enough to facilitate or enhance a wide variety of trading strategies.

Examples of a quanto future payoff

Investor one

	T = 0	T = 1	Result
Quanto futures	Bought gold at US\$1,300 USD/ZAR = R10 Position value = R1,300	Gold price = US\$1,690 USD/ZAR = R8.50 Position value = R1,690	Percentage increase in position value = 30%

Explanation:-

The value of the investor's position is only dependent on the value of the gold price in US dollars. Since gold increased by 30% in US dollars, the value of the investor's position increased by 30%. The performance of the rand relative to the US dollar did not affect the value of the investor's position.

Investor two

	T = 0	T = 1	Result
Standard futures	Bought gold at US\$1,300 USD/ZAR = R10 Position value = R13,000	Gold price = US\$1,690 USD/ZAR = R8.50 Position value = R14,365	Percentage increase in position value = 10.5%

Explanation:-

The value of the investor's position is not only dependent on the value of the gold price in dollars, but also on the USD/ZAR exchange rate. Since gold increased by 30% in US dollars, but the rand strengthened to USD/ZAR 8,50 from USD/ZAR 10, the value of the investor's position only increased by 10.5%. The performance of the rand relative to the US dollar affected the value of the investor's position.

Trading and hedging strategies using quanto futures

They are used in a wide variety of risk mitigation strategies, for example:

Trading strategies

- Energy
 - Crack spread
- Precious metals
 - Gold/platinum ratio

Producers

Quanto futures allow producers to protect themselves from any downward price movements in the underlying commodity. Ideal for producers selling the physical commodity in US dollars.

Consumers

Quanto futures allow consumers to protect themselves from any upward price movements in the underlying commodity. Ideal for consumers buying the physical commodity in US dollars.

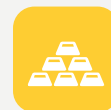
Investment manager/investor

An investor owns shares in an oil producing company. The investor is bullish on the prospects for oil as a commodity, but is concerned about the impact of aspects such as strikes, operational risks, environmental disasters, etc. on the company's share price. The investor can buy quanto Brent futures to ensure continued exposure to the oil price without currency and company risks.

Commodities referenced



Energy
Brent crude oil
Heating oil
Gasoline
Natural gas



Precious metals
Platinum
Palladium
Silver
Gold



Base metals
Copper



Soft commodities
Sugar #11
Coffee
Cotton
Cocoa
Corn

Product profile



Aggressive

Contact details

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Historical returns

Figure 1: Rand gold return vs. US dollar gold

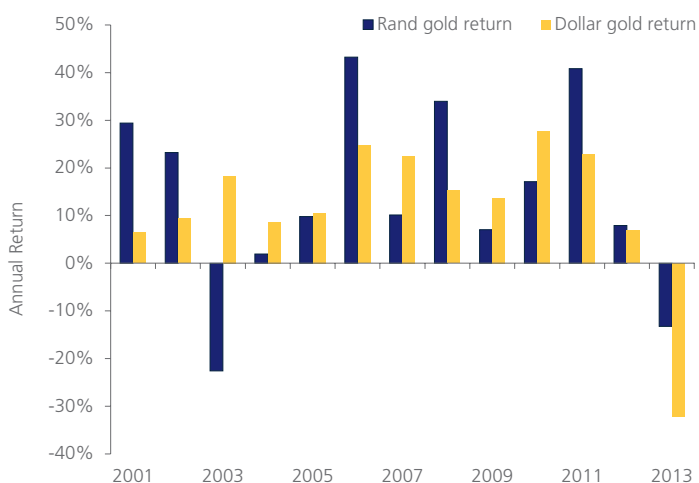
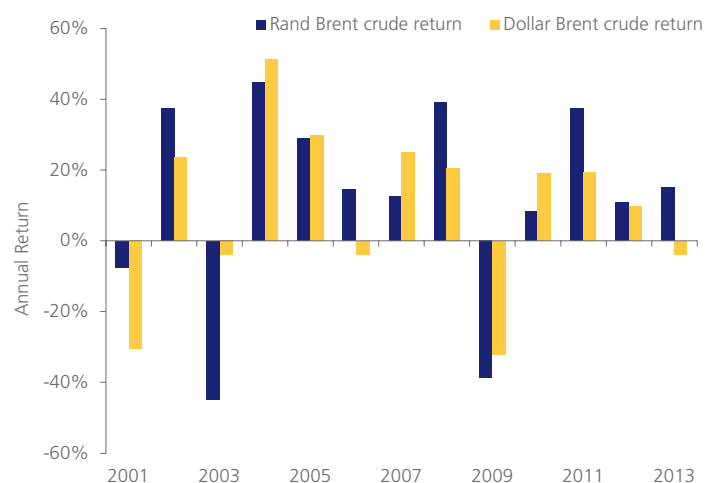


Figure 2: Rand Brent crude return vs. US dollar Brent crude



Definitions

Quanto

"Quanto" is short for "quantity adjusting option".

Crack spread

The price differential between the price of Brent crude oil and the petroleum products extracted from it.

Product profile key



Conservative product profile

You wish to protect your investment portfolio and aim to generate returns in excess of inflation over time. As a conservative investor, your risk tolerance ranges from low to moderate.



Balanced product profile

You are looking for an asset allocation and management method aimed at balancing your risk and return. These investments carry more risk than those aimed at capital preservation or current income and are therefore suitable if you have a longer time horizon plus a degree of risk tolerance.



Growth product profile

You are seeking assets with "good growth potential". These investments may be volatile and deliver negative returns at times, but would be suitable if you have a longer time horizon and a higher risk tolerance than investors who invest in a balanced investment product.



Aggressive growth product profile

You expect very high capital growth by taking very high risk. These investments are sometimes viewed as being speculative and you would need to have a much higher risk tolerance than those investing in conservative, balanced or growth products. The higher risk profile of these products means that you may be subject to value fluctuations, including the loss of your invested capital.

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