CFF Hedging Strategy Playbook

Five Strategies for Every Risk Profile

Hedge Structures at a Glance

Five proven approaches to managing freight rate risk with CFF

1. Flat Monthly Hedge

- Lock a single month's freight cost. Best for: spot-market exposed participants with near-term shipments

2. Rolling Strip

- Hedge 6–12 months of volume forward, rolling the nearest month at expiry. Best for: steady-state importers

3. Calendar Spread

- Trade the rate differential between two months (e.g., Q3 vs. Q1). Best for: seasonal risk managers

4. Partial Hedge

- Hedge 30–70% of volume, keeping the rest exposed for upside. Best for: companies with flexible budgets

5. Route Spread

- Trade the differential between routes (e.g., FENE vs. NEFE). Best for: diversified logistics companies

Strategy 1: Flat Monthly Hedge

Lock a single month — the simplest entry point for first-time hedgers

How It Works

- Buy futures for a single delivery month matching your planned shipment dates
- Example: you ship 200 FEU on FENE in September. Buy 40 September FENE contracts (40 x 5 FEU)
- At expiry, your futures settle against the XSI®-C September average, offsetting your spot freight cost

When to Use

- You have a known, one-off shipment with significant volume at risk
- You want to test the hedging workflow before committing to a multi-month program
- Peak season protection: lock in July, August, or September before the Q2 rate build-up

Complexity: Low. Margin requirement: Standard. Ideal first trade for any new CFF participant.

Strategy 2: Rolling Strip

Maintain a continuous 6–12-month hedge by rolling forward each month

How It Works

- Buy a strip of futures covering the next 6 or 12 months of shipments simultaneously
- Each month, the nearest contract expires and settles. You add a new contract at the far end
- This maintains a constant hedge horizon — you are always covered for the next 6–12 months

Example

- In January, buy Feb–Jul strip. In February, Feb expires; buy August. In March, Mar expires; buy Sep
- Your broker can execute the roll as a calendar spread (close near, open far) in one transaction

When to Use

- Steady-state importers with consistent monthly volumes who need continuous budget certainty

Complexity: Medium. Produces a smooth average hedged rate over time, reducing timing risk.

Strategy 3: Calendar Spread

Trade the seasonal rate differential — buy peak season, sell off-peak

How It Works

- Buy contracts for the month you expect rates to be high (e.g., August) and sell contracts for a low month (e.g., February)
- You profit if the spread between the two months widens beyond what you paid
- Reduced margin requirement vs. outright positions because the spread has lower volatility

Use Cases

- Seasonal hedging: lock in peak vs. off-peak differential when it is narrow, profit when it widens
- Rolling your hedge: close the expiring month and open the next as a calendar spread trade
- Market view: if you believe peak season will be stronger than the curve implies, buy the Q3/Q1 spread

Complexity: Medium. Lower capital requirement. Ideal for participants with strong seasonal conviction.

Strategy 4: Partial Hedge

Hedge a portion of volume to balance protection with upside flexibility

How It Works

- Instead of hedging 100% of your volume, hedge 30–70% and leave the rest exposed to spot
- If rates rise: your hedged portion is protected. Your unhedged portion costs more, but your blended cost is still far below full spot
- If rates fall: your unhedged portion benefits from lower spot. Your blended cost outperforms a full hedge

Choosing Your Hedge Ratio

- 30%: light protection — for companies with flexible budgets and a view that rates will fall
- 50%: balanced — the most common starting point for new hedging programmes
- 70%: strong protection — for budget-sensitive companies or ahead of known risk events

Complexity: Low. Lower margin. The easiest way to start hedging without full commitment.

Strategy 5: Route Spread

Trade the differential between trade lanes — headhaul vs. backhaul, Asia vs. Atlantic

How It Works

- Go long one route and short another for the same month — you trade the spread, not the level
- Example: buy FENE, sell NEFE — you profit if the headhaul premium widens vs. backhaul
- Reduced directional risk — you are hedged against market-wide moves, only exposed to relative value

Use Cases

- Logistics companies with exposure on both legs of a round-trip (e.g., import from Asia, export to Asia)
- Financial traders seeking relative value opportunities between correlated but diverging routes
- Carriers wanting to hedge the risk of imbalance between inbound and outbound trade volumes

Complexity: Higher. Best suited for experienced participants with multi-route exposure or market views.

Choosing Your Strategy

A decision framework based on your exposure type, risk appetite, and experience

If You Are New to Hedging

- Start with a Flat Monthly Hedge or Partial Hedge (50%) on your largest route
- Test the operational workflow: margin, daily settlement, reporting

If You Ship Consistently Year-Round

- Build a Rolling Strip covering 6–12 months, rolling monthly for smooth average cost
- Layer in with a Stair-Step: hedge 25% now, add 25% each quarter until fully covered

If You Have Strong Seasonal Exposure

- Use Calendar Spreads to lock Q3 peak season rates while they are still priced in Q1

If You Operate Across Multiple Routes

- Consider Route Spreads to hedge relative value and benefit from portfolio margin efficiencies

Your broker can help design the optimal strategy based on your specific exposure analysis.

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