EURONEXT

# Revenue Certainty for Ocean Carriers

## Using CFF to Stabilise Liner Revenue

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# The Carrier's Rate Risk

Revenue volatility is the mirror image of the shipper's cost problem

**The Revenue Rollercoaster**

- Container lines earned record profits in 2021–2022, then saw rates collapse 80%+ by mid-2023
- Vessel operating costs (fuel, crew, port fees, charter hire) are relatively fixed — rate swings flow straight to the bottom line
- Fleet expansion decisions made during boom years create overcapacity in downturns

**Specific Carrier Risks**

- Post-peak collapse: Q4 rate drops after peak season can erase months of earnings
- Contract season pressure: annual tenders in Q4/Q1 lock in rates that may be below cost by Q3
- Backhaul imbalance: inbound routes often run at a loss — headhaul margins must subsidise both legs

**Airlines, oil producers, and miners all hedge their revenue exposure. Container lines can now do the same.**

# The Short Hedge for Carriers

Sell CFF futures to lock in forward revenue at today's rates

**How the Short Hedge Works**

- Carriers are natural sellers of freight (long the physical market) — they hedge by selling CFF futures
- If spot rates fall: futures profit compensates for lower physical revenue
- If spot rates rise: futures loss is offset by higher physical revenue — net revenue stays locked

**Example: Locking Q3 Revenue**

- In April, FENE Q3 futures are at $4,500/FEU — well above your breakeven of $2,800/FEU
- Sell 1,000 contracts (5,000 FEU) covering Jul–Sep at $4,500/FEU
- If rates collapse to $2,500 by September: you earn $2,500 physical but gain $2,000 on futures = $4,500 effective

**The carrier secures a healthy margin regardless of what happens to spot rates after the hedge is placed.**

# Use Case: Contract Season Protection

Hedge against falling spot rates during annual tender negotiations

**The Problem**

- Carriers negotiate annual contracts with shippers in Q4/Q1 based on prevailing rate expectations
- If spot rates fall significantly after contracts are signed, shippers demand renegotiations or default
- If spot rates rise, carriers face opportunity cost from below-market contract rates

**The CFF Solution**

- During tender season, sell CFF futures at the rate level you are offering in your contracts
- If rates fall below your contract rate: futures gain offsets the risk of shipper defaults or empty slots
- If rates rise: your contract revenue plus the futures cost still delivers the planned margin

**CFF gives carriers the confidence to offer competitive contract rates, knowing their revenue floor is secured.**

# Beyond Hedging: The Forward Curve as Intelligence

The CFF forward curve provides market signals for fleet deployment and commercial strategy

**Price Discovery**

- For the first time, container shipping has a visible forward curve — the market's expectation of future rates
- Contango (forward above spot) signals expected rate increases; backwardation signals expected declines

**Fleet Deployment Signals**

- If FENE Q3 futures trade at a large premium, it signals tight capacity ahead — deploy more tonnage
- If backhaul routes (NEFE) are deeply discounted, consider slow-steaming or capacity reduction

**Commercial Strategy**

- Use the forward curve to price long-term contracts more accurately — no more guessing
- Offer shippers index-linked contracts with confidence, using CFF to manage your own revenue hedge

**The forward curve transforms freight from an opaque spot market into a transparent, plannable asset class.**

# Getting Started: Carriers

A pragmatic roadmap for container lines to begin using CFF

**Phase 1: Observe the Forward Curve**

- Subscribe to CFF daily settlement prices and begin tracking the forward curve vs. your contract book
- Identify where the forward curve would have protected you in past downturns

**Phase 2: Pilot Hedge**

- Sell a small volume of futures on your highest-margin route to test the workflow
- Use EFS block trades through a freight broker for simplicity and execution certainty

**Phase 3: Strategic Revenue Hedging**

- Build a formal hedging policy with board approval — define routes, volumes, and hedge ratios
- Integrate CFF into your annual contract pricing strategy and investor communications

**Euronext's CFF team provides carrier-specific consultations to structure your hedging programme.**