



Managing Freight Rate Exposure: The board Perspective

A Framework for
Board Consideration

April 2026



Market Context: Container Freight Volatility

Why freight rate risk demands board attention

- Container shipping is a \$200+ billion annual market that moves 80% of global trade by volume
- Freight rates have experienced extreme volatility: 9x increase during COVID-19, near-repeat during the 2024 Red Sea crisis
- The OECD estimates a sustained 100% shipping price increase raises import inflation by 4.5 percentage points within a year
- Volatility is structural — driven by geopolitics (Red Sea, tariffs), capacity cycles (newbuild deliveries), and seasonal demand
- Unlike energy, metals, and agriculture — container freight has had no widely used hedging tools until now

This represents both a risk and an opportunity for our company.



Our Company's Freight Exposure

Quantifying the financial impact on our business

[Customise with your company's actual data]

- Annual container volume: [X] FEU across [X] trade lanes
- Annual freight spend at current rates: \$[X] million
- Freight as % of COGS: [X]%

Scenario Analysis

- Rates +50% scenario: Additional cost of \$[X]M → EBIT impact of [X] basis points
- Rates +100% scenario: Additional cost of \$[X]M → EBIT impact of [X] basis points
- Peak scenario (2021 levels): Additional cost of \$[X]M → material P&L risk

This exposure is currently entirely unmanaged.



Peer Benchmarking: Who Hedges?

How leading companies manage commodity and freight risk

Industries That Already Hedge Transportation Cost

- **Airlines — Jet fuel:** Southwest Airlines' hedging programme saved billions over two decades and became a competitive advantage. Fuel hedging is now standard practice across the industry
- **Steel producers — Iron ore:** When SGX launched iron ore futures in 2009, the steel industry was sceptical. Within 4 years, the market had transitioned from annual benchmarks to spot-plus-futures pricing
- **FMCG / Food — Agricultural commodities:** Standard treasury practice to hedge wheat, sugar, cocoa, and other inputs

Container Freight: The Emerging Opportunity

- China's INE SCFIS futures (launched Aug 2023) now trade \$100M-\$2B daily — proving demand exists
- Euronext CFF (launching April 2026) brings this capability to international participants
- Early adopters will gain a structural advantage — just as Southwest did with jet fuel



Introducing Container Freight Futures

A regulated, exchange-traded tool for freight rate management

- Exchange-traded futures listed on Euronext Amsterdam — Europe's leading exchange
- Four route-specific contracts covering Asia-Europe and Transatlantic lanes
- Cash-settled in USD — no physical containers involved
- Based on the Xeneta Shipping Index by Compass (XSI®-C) — an EU BMR compliant benchmark
- Centrally cleared through Euronext Clearing — no bilateral counterparty risk
- 18 consecutive monthly maturities — providing forward visibility for budgeting
- MiFID II compliant — eligible for hedge accounting under IFRS 9
- Accessible via established clearing members (StoneX, Marex, and major banks onboarding)



Product Mechanics

How the contracts work — simplified for governance review

How It Works (Simplified)

- We buy a futures contract at a fixed price for a future month (e.g., \$2,500/FEU for August)
- At expiry, the contract settles against the actual market index
- If rates are higher: we receive the difference (offsetting the higher physical freight cost)
- If rates are lower: we pay the difference (but save on physical freight)
- Net result: our effective freight rate is stabilised near the hedged level

Key Points for Board Governance

- Our physical shipping operations and carrier relationships are completely unaffected
- This is hedging, not speculation — we are reducing existing risk, not creating new risk
- Lot size of 5 FEU allows precise calibration to our actual shipping volumes



Hedging Scenario: Protecting Our Freight Budget

A worked example using our actual shipping volumes

[Customise with your company's volumes and routes]

Illustrative Example: Hedging 50% of H2 Exposure

- H2 shipping volume: 3,000 FEU | Hedged portion: 1,500 FEU (50%)
- Current forward rate: \$3,500/FEU | Buy 300 CFF contracts ($1,500 \div 5$)

If Rates Rise to \$5,500 (+57%):

- Physical cost increase: +\$6M ($3,000 \times \$2,000$)
- Futures gain: +\$3M ($1,500 \times \$2,000$) → net exposure reduced by 50%

If Rates Fall to \$2,500 (-29%):

- Physical cost savings: -\$3M | Futures cost: -\$1.5M → net savings of \$1.5M
- You still benefit from falling rates — the hedge only limits a portion of the upside



Risk Controls and Clearing Guarantee

Built-in safeguards for corporate participation

Central Clearing Guarantee

- Euronext Clearing (CCP) stands between every buyer and seller — guaranteeing contract performance
- No bilateral counterparty risk — unlike OTC derivatives, there is no credit exposure to trading partners

Risk Management Framework

- Daily mark-to-market with margining — positions are revalued daily
- Position limits ensure orderly markets — no single participant can dominate
- Regulated under MiFID II / AFM oversight — full transparency and investor protection

Operational Simplicity

- No ISDA required — standard exchange rules replace bilateral documentation
- Most physical hedgers qualify for MiFID II ancillary activity exemption



Hedge Accounting Treatment

IFRS 9 compliance and financial reporting implications

- CFF contracts qualify for cash flow hedge accounting under IFRS 9
- The effective portion of hedging gains/losses is recorded in Other Comprehensive Income (OCI)
- This reduces reported P&L volatility — gains/losses are matched with the hedged freight cost
- The underlying XSI®-C index is EU BMR compliant — meeting the regulatory requirements for designated benchmarks



Implementation Roadmap

From board approval to first hedge in 6 weeks

Week 1-2: Board Approval and Policy Framework

- Approve hedging policy, define hedge ratio (e.g., 25-50% of forecast volume), set risk limits

Week 2-3: Clearing Member Selection and Onboarding

- Euronext provides pre-vetted introductions; KYC completed within 1-2 weeks

Week 3-4: Margin Funding and System Setup

- Deposit initial margin with clearing member; establish reporting and monitoring processes

Week 4-6: First Hedge Execution

- Execute initial hedge position — start small, build institutional experience
- EFS (broker-assisted) available for those who prefer off-screen execution

Ongoing: Monitor, Report, and Refine

- Monthly reporting to risk committee; quarterly strategy review; annual hedge effectiveness assessment



Recommended Next Steps

Proposed actions for management approval

Recommendation 1

- Approve in principle: authorise management to develop a freight hedging policy for board review

Recommendation 2

- Pilot programme: begin with a limited hedge (e.g., 25% of one route for one quarter) to build institutional experience

Recommendation 3

- Engage auditors early: share the IFRS 9 guidance and clearing documentation with your audit team

Recommendation 4

- Request a clearing member introduction through Euronext to begin the account setup process

Contact: freight@euronext.com



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