

Swiss Re



Hedging and weather derivatives

WRMA September 2010

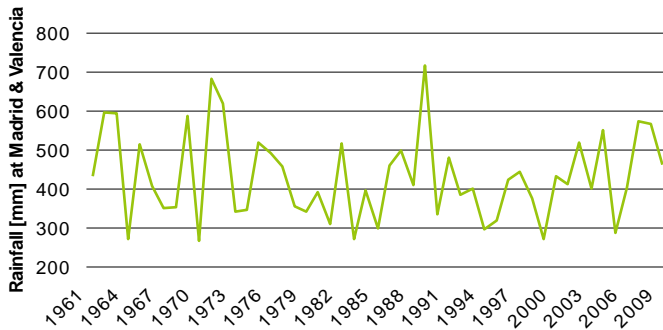


Why do firms manage weather risk?

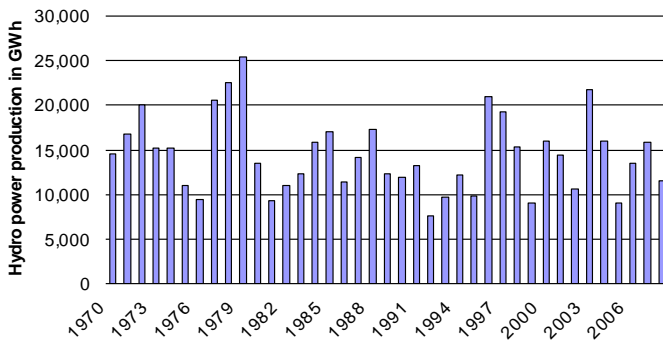
Weather drives supply

. . . and demand

Volatility of rainfall . . .

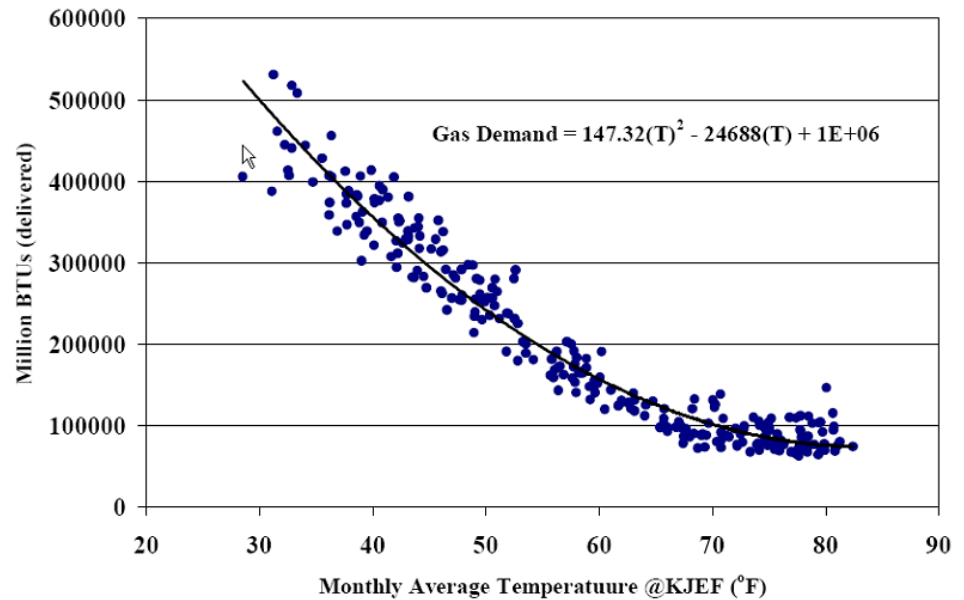


...drives production volatility



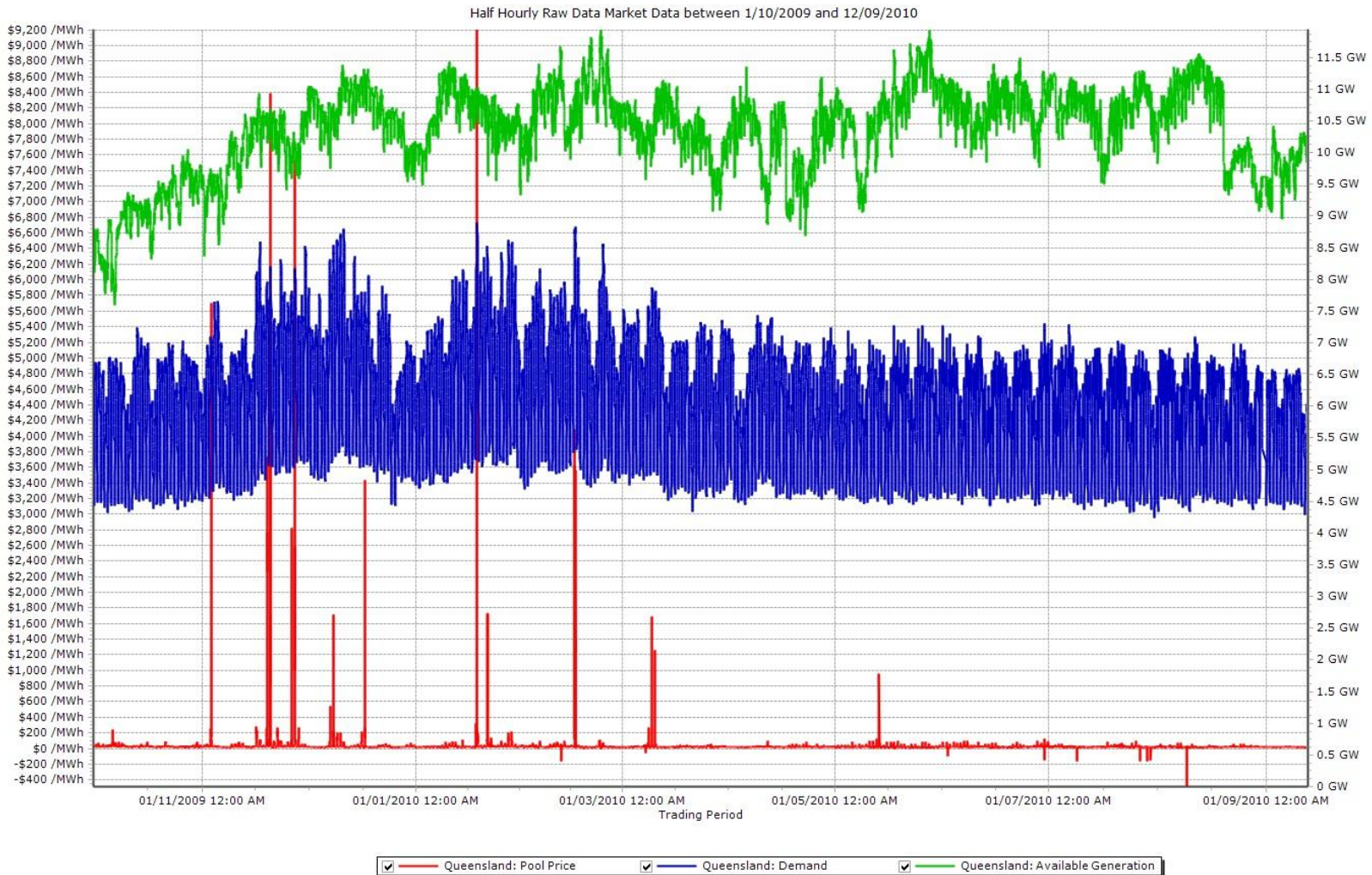
Source: Company data and estimates

Monthly demand versus temperature – gas distributor



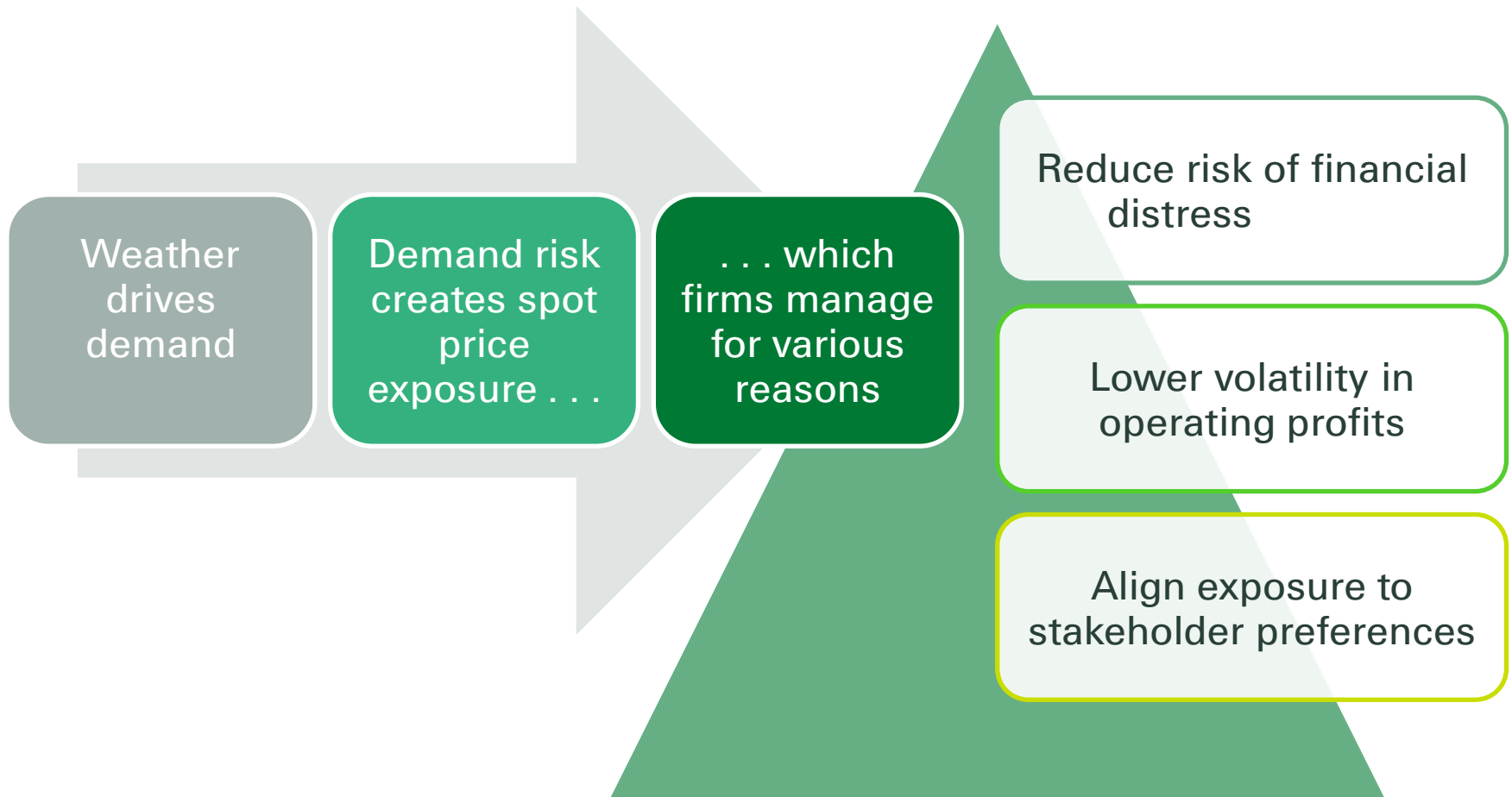


What volatility looks like



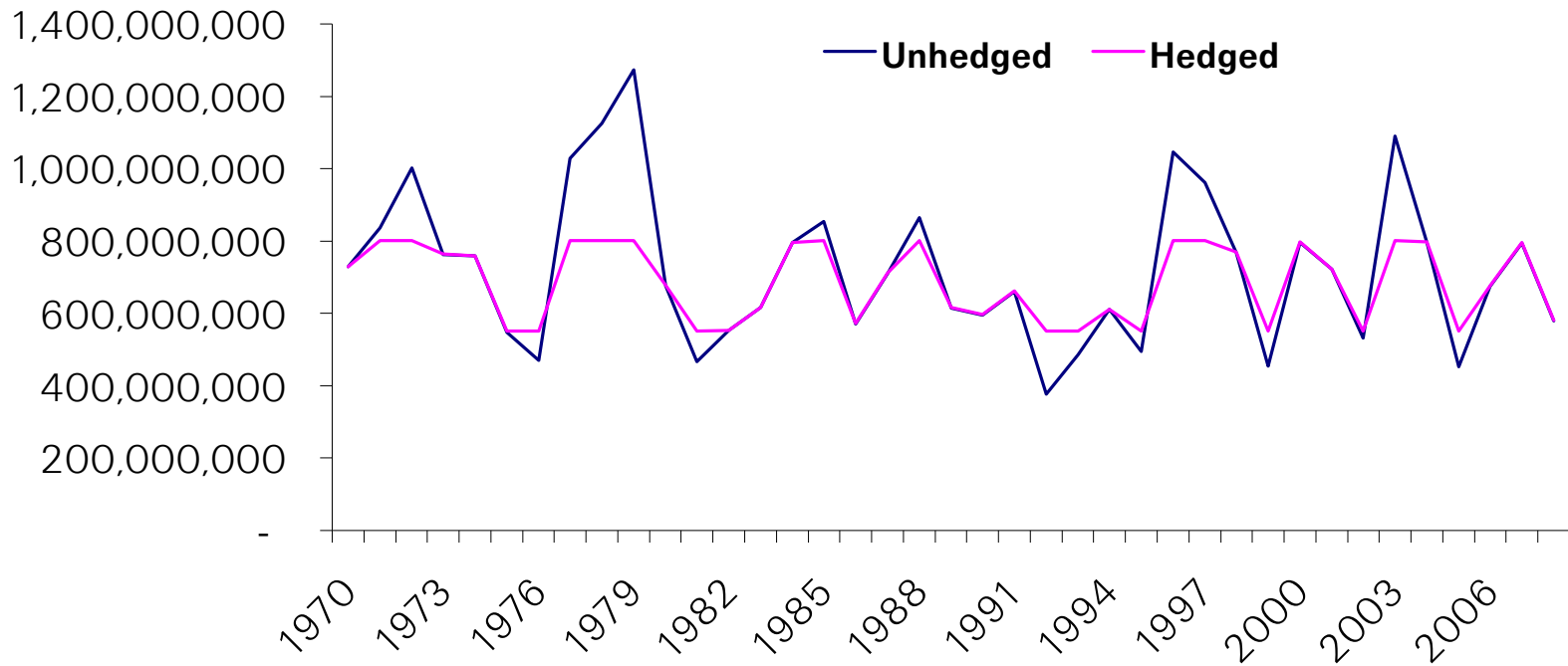


Why do firms use weather protection?



Sometimes it looks obviously better

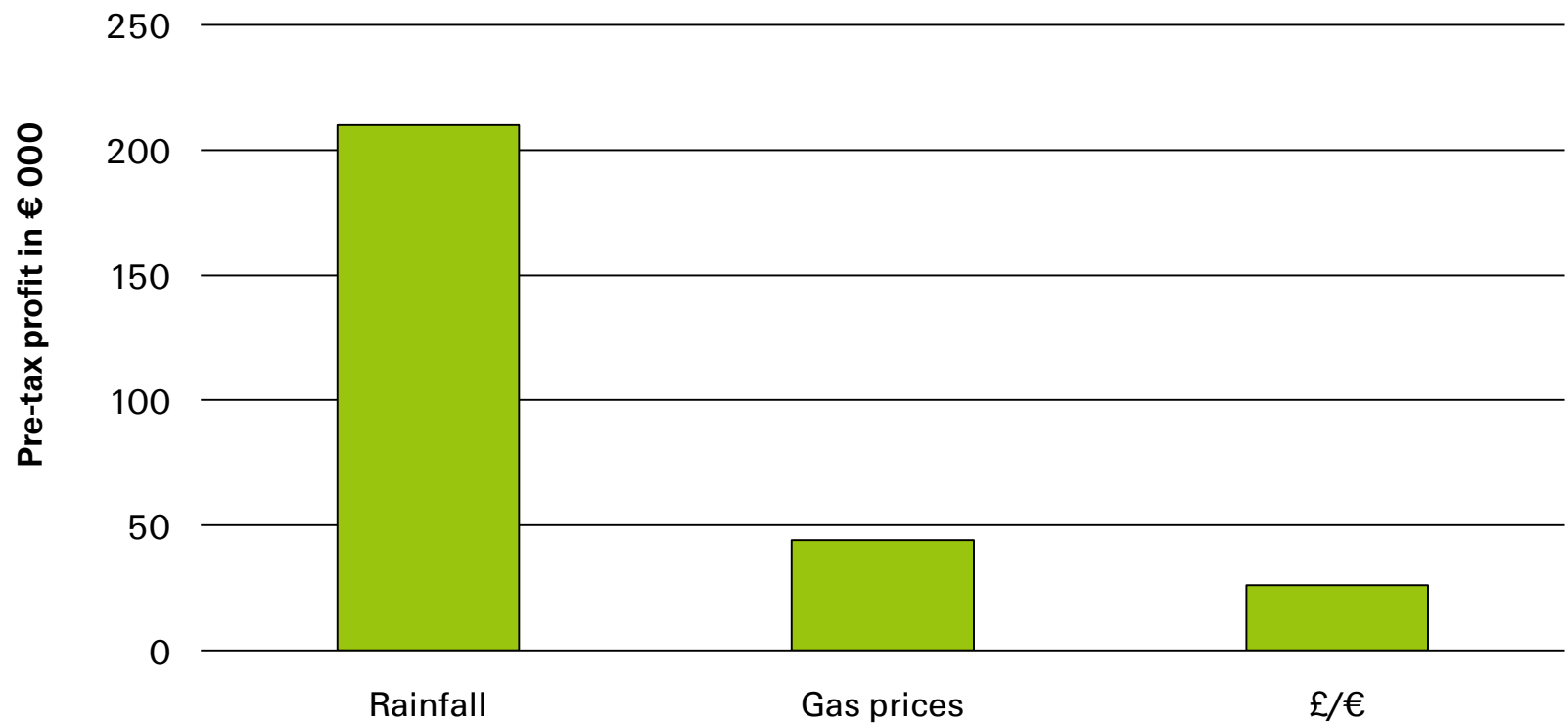
Impact of 11/16TWh collar
Operating profit assuming €50/MWh in margin



Are we hedging consistently?

Risk tolerance

Impact of 1 standard deviation move on profit - 2008





Some common objections

It's expensive

My competitors aren't doing this

My demand problem is the economy

We don't speculate

The market is intransparent and illiquid

Weather risk is diversified

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Thank you



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