

Are you taking advantage of the rapid transformation of the LNG markets? In this newsletter we focus on LNG. We also showcase the latest release of Lacima Analytics.

Software
Demonstration
Enquiries

Forthcoming Events and Hot News

Energy Trading Week 28 - 29 September 2023, London

E-world Energy & Water 20 - 22 February 2024, Essen Germany



Unveiling the value: Why cargo options surpass ADP options

In our latest hot topic analysis, Lacima shares a quick summary of its most recent research into contrasting ADP and cargo option valuation. [Read on](#)



A complete LNG solution

Four integrated modules that provide holistic analytics across the entire LNG portfolio including deal and portfolio analysis, VaR and other risk metrics. [Read on](#)



Lacima Analytics>LNG implemented in a global gas supplier

Lacima has recently onboarded a major EMEA based gas supplier, providing market leading deal valuation and risk capabilities for this important global market participant [Read on](#)



Release Highlights v10.3

We are proud to announce the release of Lacima v10.3, which includes a range of new features and improvements to existing functionality. [Read on](#)



Unveiling the value: Why cargo options surpass ADP options

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The LNG option type you choose has a massive impact on value. It all comes down to timing.

- Two types:** LNG contracts are dominated by two main types of options - ADP and cargo.
- Timing matters:** ADP options relate to a series of cargos on a set date. Cargo options, on the other hand, are more flexible and apply to individual cargos a short period before loading.
- Complexity quandary:** Players in the LNG sector often opt to simplify ADP options into cargo options due to their complexity.
- Underestimated impact:** Simplification results in substantial overvaluation of ADP options.

Consider two contracts: Contract A and Contract B, each for one monthly cargo throughout 2024.

Contract A has options allowing cargo cancellation 30 days before loading.

Contract B is solely ADP options, cancelling all cargos by November 1st, 2023.

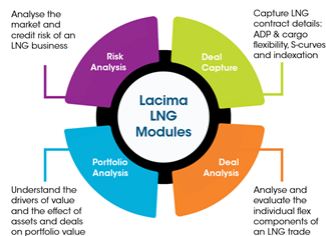
Our analysis (available on request) depicts monthly option value, showcasing that cargo options consistently exceed ADP as option value increases with time

to expiry. Contract A has 60 days to option expiry and is worth \$108m, Contract B averages 260 days to expiry and is worth \$78m.

Cargo-level options have substantially higher value, which is magnified in high volatility situations. During deal structuring and negotiation, recognising the value linked to each flexibility term is vital, especially when altering parameters, such as switching from cargo level to ADP level options.

This analysis leveraged Lacima's LNG solution. If you would like a copy of the spreadsheet showing this analysis, please email info@lacimagroup.com

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Lacima Analytics>LNG, a complete solution

Offering a complete solution for LNG portfolios, we handle the analytical challenges facing LNG trading businesses

In the past three years, LNG markets have experienced unprecedented volatility, with significant fluctuations in gas hub prices and regional spreads. This heightened volatility has resulted in substantial profits for those who possess flexibility in their LNG deals and portfolios, but it has also increased the risks associated with such ventures. Consequently, clients are now placing greater emphasis on LNG deal valuation, understanding the risk-reward profile of deals, and evaluating the value of each component of flexibility within a deal. Furthermore, clients are actively constructing LNG portfolios with risk-reward profiles that align with their business objectives and risk appetite.

Recognising the importance of these factors, Lacima has made LNG a key focus. We have engaged extensively with various stakeholders in the LNG industry, gaining invaluable insights into the critical questions and challenges faced by LNG businesses. Drawing upon this expertise, we have developed four integrated modules that provide holistic analytics across the entire LNG portfolio including deal and portfolio analysis, VaR and other risk metrics.

The response from our clients has been overwhelmingly positive, with feedback indicating that our software provides structured and quantifiable answers to vital business questions, empowering decision makers to justify and quantify their choices to senior management.

Module overview

- **Deal capture:** Capture LNG contract details: ADP & cargo flexibility, S-curves, and indexation
- **Deal Analysis:** Analyse and evaluate the individual flex components of a LNG trade
- **Portfolio Analysis:** Understand the drivers of value and the effect of assets and deals on portfolio value
- **Risk Analysis:** Analyse the market and credit risk of an LNG business

Answers your key questions

- How can I **capture the details** of my LNG structures and deals?
- What is the **value of a deal** and the value of each flexibility term?
- What is the effect of **adding a deal** to my portfolio?
- What **caused my VaR to jump** overnight?

Key Benefits of our solution:

- **Analysing and comprehending key drivers:** Evaluate portfolios and ascertain the factors that drive value and risk in a deal or a portfolio of deals.
- **Scenarios:** Understand the consequences of modifying elements within a deal or components of a portfolio. Assess the impact of

different market conditions, such as varying price levels, volatility, and correlations.

- **Deal analysis and construction:** Gain insights into the value, value drivers (Greeks), and risk-reward profile of a deal, and how they evolve over time. Examine the value of each flexibility term, the distribution of intrinsic and extrinsic value, and the effects of modifying the details of flexibility terms on overall value. Understand the value of the deal for both the buyer and the seller.
- **Portfolio analysis and construction:** Evaluate the value, value drivers, and risk-reward profile of a portfolio of trades, and how they evolve over time. Explore the impact of modifying portfolio components, including adding or removing deals, and implementing hedging strategies.

Key features of our solution:

- **Valuation:** value all major types of LNG structures
- **Flex value:** value each component of flexibility and additional value from combining flex terms
- **Scenario analysis:** examine the effect of changing part of the deal, or a particular scenario
- **Probability:** calculate probability of events such as cancellation or delivery to Asia vs Europe
- **Greeks:** calculate sensitivity of deal value to changes in price and volatility and enable delta hedging of deal value
- **Adaptable framework:** extend the framework to value new LNG flex components and structures

To find out more about Lacima Analytics>LNG, email info@lacimagroup.com

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Lacima Analytics>LNG implemented in global gas supplier

Lacima has recently onboarded a major EMEA based gas supplier, providing market leading deal valuation and risk capabilities for this important global market participant.

This gas supplier was seeking a solution that would enable them to value both the intrinsic and extrinsic values of their structured trades and assess risk profiles across multiple "flex" options in an LNG deal structure. In addition, they wanted to evaluate the risk of their entire LNG portfolio.

The gas supplier selected Lacima's Analytics as its capabilities addressed both their individual LNG deal valuation and their risk assessment needs. The deal valuation capability of Lacima Analytics allows users to both capture the characteristics of the deals and value them; including a wide range of flexibility terms such as price, location, UQT, DQT, swing, seasonal and volume. Lacima's deal valuation engine allows users to understand the value attributed to each of the individual flex terms which in turn allows origination teams to determine the ideal combination of flex terms and the price they want to negotiate for each flex term in a deal. This capability allows the marketing team to quantify and justify deal decisions to senior management.

Lacima's risk solutions allow this client to understand key market risk metrics including Parametric and Monte Carlo VaR, and Earnings-at-Risk. In addition, risk-reward distributions and the ability to run scenarios and stress tests to understand how the client's portfolio performs under different market conditions and what the key drivers of value and risks are within their portfolio, give key insights to the company. Lacima's solution also allows this supplier to build visual reporting frameworks showing cashflows and distributions for their LNG portfolios, including their Annual Delivery Program, allowing in-depth understanding of their current financial exposures and how these may change under different ADP plans.



Lacima Analytics: Highlights of new release

Lacima v10.3 is now available

We are proud to announce the release of Lacima v10.3, which includes a range of new features and improvements to existing functionality. This version includes enhancements to the LNG Deal contract type, a new Lacima Analytics module for Initial Margin calculations and analysis, an enhanced API for automation and data reporting and overall improvements in performance.

With this new release, we will be discontinuing support of all versions prior to v9.4 effective 1 August 2024.

Improvements to Lacima Analytics

New analytics and functionality have been added to our flagship Lacima Analytics application, enhancing your ability to calculate and report key risk metrics for your portfolio, including:

LNG Analytics *ENHANCED*

- Building on the LNG functionality introduced in our last release, additional types of embedded LNG deal flexibility can now be handled. LNG deal and portfolio analysis run speed has been improved and control variates have been introduced to give fast and stable Greek calculations. The LNG Deal contract type can also be included in Monte Carlo analysis, which enables our standard suite of Monte Carlo analytics, such as Earnings-at-Risk to be applied to a portfolio containing LNG products.

Margin Estimator *NEW*

- The new Margin Estimator module in Lacima Analytics allows the initial margin for a portfolio of exchange traded positions to be calculated based on a user-selected SPAN file. It also enables the impact of a change in the portfolio of positions or of the market settlement prices to be calculated and compared with the margin from the initial portfolio and prices. This new module provides a powerful tool for portfolio management and risk assessment.

API and Reporting *ENHANCED*

- In response to customer feedback, Lacima has added the ability to extract histogram data for charting output distributions from the analytics modules. This feature allows for even greater flexibility and customisation when analysing model outputs. Additionally, improvements to the API has been made for faster and more efficient data transfer, automation, data extraction, and interaction with external tools, code, and software.

Performance *ENHANCED*

- Lacima Analytics v10.3 includes significant improvements in performance when dealing with large data sets. This ensures that users can continue to analyse and manage their portfolios quickly and efficiently, even as their data sets continue to grow.
- We understand that loading net positions and portfolios can be a complex and time-consuming process. With this in mind, we have introduced a new simplified approach for loading this data, which streamlines the process and makes it easier for users to get started with Lacima Analytics.

Contact us now to realise the benefits of v10.3

Wish to upgrade or add to your current solution? Contact us to discuss your individual requirements or to experience a product demonstration of our new Lacima products and features.

Please visit our website: <https://www.lacimagroup.com/contact>, send an email to info@lacimagroup.com, or call your usual contact.

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