The DDC Approach to Commodity Price Risk Management

Do you have a hedging strategy in place to manage potential volatility when the unexpected happens? One of the most effective ways to start is to build a more robust framework for managing commodity price risk — something we call the "DDC" approach.

DIVERSIFICATION

Diversifying your hedging strategy is similar to spreading your risk around in your personal investment portfolio.

A good hedging strategy includes:

- Component price
- Flat price
- Exchange options
- Cash price
- Custom OTC options

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DISCIPLINE

What is the key to dealing with the uncertainty of managing commodity risk? Discipline.

Here are some ways you can insert more discipline into your hedging strategy:

- Make decisions based on what's going on in the current market, not what's happened in the past
- Have a plan with targeted objectives and consider scaling into percentages at various price levels & timeframes
- Protect and enhance margins
- Set a plan and stick to it

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CONTROLS

You should have a series of controls in place to ensure processes and regular events are completed and deliverables are executed.

These include:

- A clear reporting structure
- Regular stress testing
- Measure results

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Having a comprehensive DDC strategy in place won't prevent the unexpected from happening. It could, however, help make the decision-making process a bit less challenging.

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