



Introduction to Weather Markets 1.0 Broker's Perspective



Weather Trading Strategies



- **Aggregate Heating Degree Day (HDD) and Cooling Degree Day (CDD)**
 - Contracts are most frequently traded instruments
 - HDD is defined as the daily deviation of average temp below 65°F.
 - CDD is defined as the daily deviation of average temperature above 65°F.
 - Contracts may be monthly or seasonally based.
- **Various Trading Strategies**
 - Utilize Short/Long Term Forecasts
 - Exploit Cross Market dislocations (Natural Gas/Electricity/Heating Oil)
 - Opportunistic based on supply/demand imbalances
 - Location Spreads to exploit station/regional weather biases

Execution



- **OTC Broker Market**
 - All options and 90% of swap deals are negotiated in the OTC market then given up to the CME as block trades
 - Deals do not have to be CME cleared but it seems to be the market's preference
- **Electronically on the CME Globex**
 - Only prompt and seasonally markets

Market Participant Examples



- **Energy Companies**
 - Constellation, Mercuria, Direct Energy, E.ON
- **Banks**
 - JP Morgan, Goldman, Morgan Stanley
- **Reinsurers**
 - RenRe, Swiss Re, MSI GuaranteedWeather
- **Hedge Funds**
 - Tudor, DE Shaw, Cumulus
- **Brokers**
 - Evolution, ICAP, VCM Partners, MarexSpectron, The Dow Corp

Liquidity



- **“Spot” Liquidity**

- The weather market has an enormous capacity for risk
 - Without physical supply constraints, the availability of capital to trade is conceptually infinite
 - However, there is not always significant depth of market at the point of trade
 - Because of the insurance influences, there is massive size available -- but often just outside the point of trade

- **The weather market is not the natural gas/power market**

- Liquidity is limited by the complexity of the market and the number, size and profile of market participants
- Unlike energy commodities, the weather market is less liquid out the curve

5

- i.e. Far dated CAL strips or large positions require structuring, broker assistance

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