Exchange Futures for Physical (EFPs) for ICE WTI Crude Futures

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EFP for ICE WTI Crude Futures

The Exchange of Futures for Physical (EFP) is an alternative mechanism that is used to price physical crude oil. This enables participants to exchange their futures positions for a physical position thus separating the pricing from the physical supply.

The EFP trades as a differential between the futures market and the underlying physical market. The value of the differential will reflect the relative value of physical versus the futures at any given time

By transacting an EFP, a physical position is transferred from one participant to another, at the same accepting opposite futures positions. Both participants then advise their brokers to register their transactions with ICE Futures Europe.

It is important to note that when EFPs are registered with the exchange the volume is attributed to that trading day but the price is not declared to the market.

EFPs can take place in respect of any contract month in any product listed on ICE Futures Europe. An EFP can be posted up to 1 hour after the relevant time of cessation of trading of the last day of trading on the ICE platform.

When the EFPs are registered with ICE Futures the volume is attributed to that trading day but the price is not declared to the market.

The advantages are best illustrated by the following example.
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An EFP is one avenue of achieving physical delivery which means that traders can take delivery of WTI as they do on other exchanges where WTI is traded on a physical basis.

Using an EFP to set the price of physical oil

Scenario

A US crude oil producer has 2 million barrels of crude unsold. The producer believes the market to be undersupplied and that the price of physical oil is going to increase.

A refiner needs to have 2 million barrels of crude available on the 10th of December. He has bought 2000 December ICE WTI Crude futures contracts at $80 in the anticipation that the price of crude is going to rise between November and December.

Both participants are therefore long in a market where they expect the price to rise. However, the producer has not secured a buyer for his crude oil and the refinery buyer wants to be able to secure supply of the quality and delivery timing he needs.

The producer and refiner have done business together before. They agree to exchange their respective positions in order to meet their needs i.e. the seller (the producer) wants to remain long the market as he thinks the price is going up. The buyer (the refiner) wants to secure a price and the quality and delivery timing he needs.

How does the Exchange of Futures for Physical work?

On November 10th, the producer agrees to sell 2 million barrels of crude at the ICE December WTI Crude Futures Contract settlement price for that day's trading. The crude oil will be delivered on 10th December. The refiner's long futures position will be exchanged for this physical supply.

The two parties advise their brokers that they have agreed this EFP.

The two brokers then contact each other and register with the Exchange that this EFP has been agreed and the price. The refiner's long December futures position is passed over to the producer's account at the ICE December WTI Contract settlement price for November 10th.

Positions after the EFP

The November 10th settlement price for the ICE December WTI contract is $80.50 barrel.

Producer	Short 2 million barrels of crude	$80.50
	Long 2000 December WTI futures	$80.50
	Sale of crude not priced until producer sells futures	
Refiner	Long 2000 December WTI futures	$80.00
	Sold 2000 December WTI futures	$80.50
		$00.50 profit
	Long 2 million bbls crude at	$80.50
	December delivery has been fixed at $80.00	

Because both participants believe the price is going to increase the EFP has suited both their needs, enabling security of supply without commitment to a price on behalf of the Producer.

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