

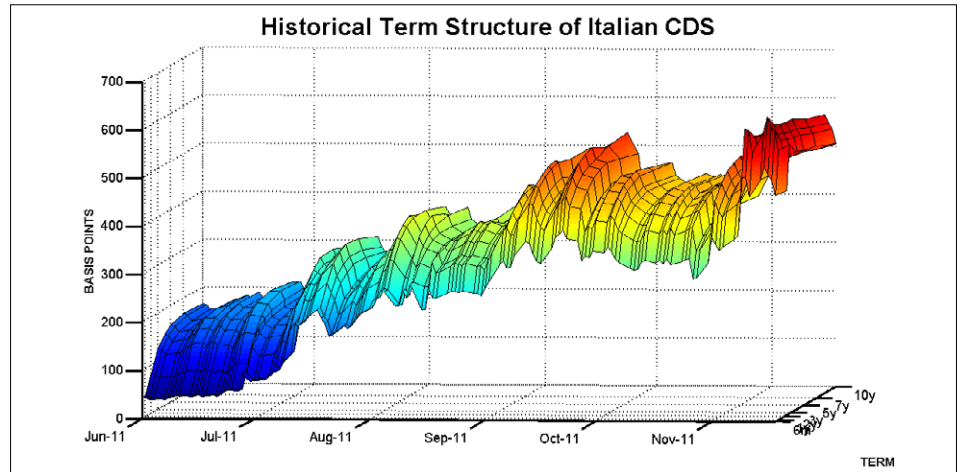
**VOLATILITY WATCH** BY ALBERTO FUERTES

**Banks Benefit from Italian Sovereign CDS Hedges**

Banks that reported holdings of Italian sovereign debt credit-default swaps have profited from mark-to-market increases in the value of the contracts in the second half of the year, especially in the third quarter. Those hedges counterbalance potential writedowns on the banks' exposure to sovereign Italian bonds and loans.

**Deutsche Bank AG** has had a gain of \$507 million since June, assuming that the notional value of the Italian CDS held did not change in each quarter and the contracts had a five-year maturity, according to Bloomberg Brief estimates. Under the same assumptions, the gains for **UBS AG** and **Bank of America Corp.** were \$340 million and \$183 million respectively.

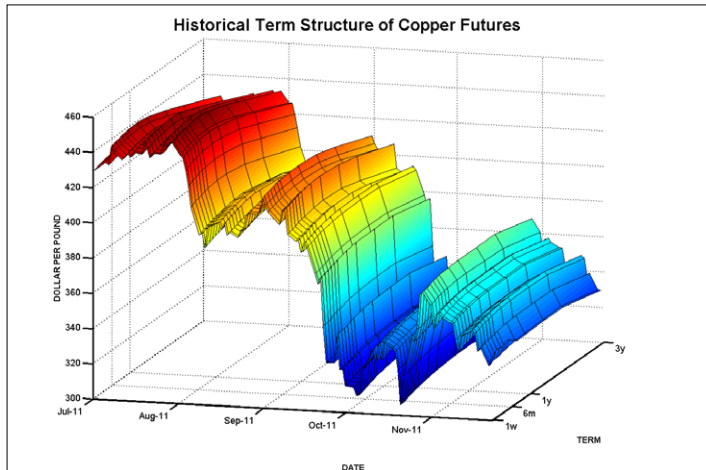
UBS's net notional position increased from 1.9 billion Swiss francs (\$2 billion)



in the third quarter to 3.6 billion francs in the fourth quarter, according to corporate filings. The net notional positions for Deutsche Bank and Bank of America experienced little change.

The historical term structure showed signs of distress in the Italian CDS market in the last two weeks, with the CDS curve inverting and the one-year maturity contracts being the most expensive.

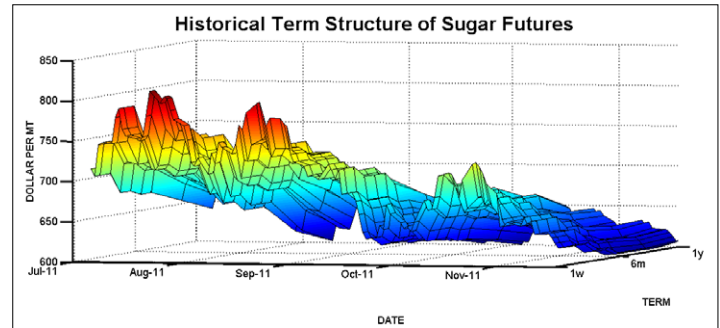
**Copper Price Declines Trigger Hedging Gains**



Copper mining companies reported hedging gains during the third quarter and plan to extend the maturity of their hedging portfolios after a 29 percent decline in prices in August and September. The copper spot price increased 4 percent since the beginning of October. Futures data show traders do not anticipate changes in copper prices in the coming months.

**Taseko Mines Ltd.** reported a \$48 million gain on copper derivatives in the third quarter and said it will extend its copper price protection program into 2013, according to an earnings call. **Southern Copper Corp.** reported a \$20.7 million gain due to its copper hedges in the third quarter and will maintain its hedging position in the fourth quarter and the first quarter of next year.

**Falling Sugar Prices Prompt Rise in Hedges**



Declines in sugar prices have prompted companies such as **Hellenic Coca-Cola Bottling Company S.A.** to start hedging the commodity after a period of volatility and rising costs. Sugar spot prices have fallen 12 percent since July and the futures curve indicates small price declines are expected in the future.

Hellenic's new hedging policy is designed to manage exposure to sugar-price volatility, according to the company's quarterly report. Hellenic previously relied on building inventories and fixed-price contracts to manage risk. The company had a 0.6 million-euro gain on the new derivatives in the third quarter and still predicts its input costs will increase in 2012, according to a company earnings call.

**Companhia de Bebidas das Americas (AmBev)**, Brazil's largest beer company, also reported gains on its sugar hedges in the third quarter. AmBev had a 0.3 million-real (\$170,000) gain from its hedges in the third quarter. By contrast, the company lost 13.3 million real in the same quarter last year.

The attached article was a free sample from **Bloomberg BRIEF** Newsletters.



**Bloomberg BRIEF** is a new publishing division of Bloomberg L.P. focused on high quality, electronic newsletter products, providing unique data, commentary and analysis from the premier source of data and analytics in the financial world. The following newsletters are currently published:

**ECONOMICS**

**ECONOMICS EUROPE**

**HEDGE FUNDS**

**FINANCIAL REGULATION**

**CLIMATE & CARBON**

**LEVERAGED FINANCE**

**MERGERS**

**MUNICIPAL MARKET**

**STRUCTURED NOTES**

**RISK**

**BANKRUPTCY AND RESTRUCTURING**

To take a trial to any of the above newsletters, or for more information on subscriptions or advertising, please visit [bloombergbriefs.com](http://bloombergbriefs.com) or email us at [bbrief@bloomberg.net](mailto:bbrief@bloomberg.net).

The attached article was a free sample from **Bloomberg BRIEF** Newsletters.