






# Trade financing example

to explain funding mechanism

	 Purchase and sale agreements	 Taking delivery from supplier	 Transportation	 Pricing and delivery to customer	 Customer payment
Transaction component	Day 1 Purchase and sale agreements	Day 5 Taking delivery	Days 6>19 Transportation	Day 20 Pricing and delivery	Day 50 Customer payment
Brent crude oil price	\$60	\$59	\$55	\$55	\$60
Dubai crude oil price	\$59	\$59	\$55	\$55	\$58
<b>Physical trade</b>	<ul style="list-style-type: none"> <li>Trafigura agrees to purchase 1 million barrels @ Brent minus \$1/barrel, based on Brent price at delivery date</li> <li>Trafigura asks a bank to issue an LC for \$59 million to the benefit of the supplier, against sight of an acceptable contract, in order to guarantee payment to the supplier, using a <b>transactional credit facility</b></li> <li>Trafigura agrees to sell 1 million barrels @ Dubai plus \$2/barrel, based on Dubai price at delivery</li> <li>Transaction costs (interest cost, insurance, transport, storage, control, inspection, taxes, etc.) expected at \$0.5 million</li> </ul>	<ul style="list-style-type: none"> <li>Trafigura is invoiced \$58 million by the supplier <math>(\\$59 - \\$1) \times 1</math> million</li> <li>Trafigura asks bank to pay 95%* of cargo value <math>(95\% \times \\$58 = \\$55 \text{ million})</math> to supplier (and cancel letter of credit) against security over title of the cargo, using <b>transactional credit facility</b></li> <li>Trafigura draws the difference <math>(\\$58 - \\$55 = \\$3 \text{ million})</math> from the <b>RCF</b></li> </ul> <p>* percentage financed, depends on each transaction, usually 90-100%</p>		<ul style="list-style-type: none"> <li>Trafigura invoices \$57 million to customer <math>(\\$55 + \\$2) \times 1</math> million</li> <li>Trafigura sells the receivable (if eligible) to its receivables <b>securitisation programme</b> at face value, receiving payment of \$57 million</li> <li>Trafigura repays \$55 million of the <b>transactional credit facility</b></li> <li>Trafigura uses remaining \$2 million <math>(\\$57 - \\$55)</math> to repay the <b>RCF</b> and build up <b>cash</b></li> <li>Trafigura pays \$0.5 million transaction costs (interest cost, insurance, transport, storage, control, inspection, taxes, etc.) using <b>cash</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Securitisation programme</b> receives payment of \$57 million from customer and repays funding</li> </ul>
<b>Hedging purchase leg</b>	<ul style="list-style-type: none"> <li>Trafigura purchases 1 million barrels equiv. of Brent futures @ \$60/barrel</li> <li>Trafigura pays initial margin of \$1 million using the <b>RCF</b></li> </ul>	<ul style="list-style-type: none"> <li>Trafigura sells 1 million barrels equiv. of Brent futures @ \$59/barrel, paying net amount of \$1 million using the <b>RCF</b> <math>(\\$59 - \\$60) \times 1</math> million</li> <li>Trafigura recovers \$1 million initial margin and repays the <b>RCF</b></li> </ul>			
<b>Hedging sale leg</b>	<ul style="list-style-type: none"> <li>Trafigura sells 1 million barrels equiv. of Dubai futures @ \$59/barrel</li> <li>Trafigura pays initial margin of \$1 million using the <b>RCF</b></li> </ul>		<ul style="list-style-type: none"> <li>Trafigura receives payment of \$4 million (margin call) and repays the <b>RCF</b> <math>(\\$59 - \\$55) \times 1</math> million</li> </ul>	<ul style="list-style-type: none"> <li>Trafigura purchases 1 million barrels equiv. of Dubai futures @ \$55/barrel</li> <li>No further margin call since price stable</li> <li>Trafigura recovers \$1 million initial margin going to <b>cash</b></li> </ul>	
<b>Transactional credit facility utilisation</b>	59	55	55	-	-
<b>Letter of credit utilisation</b>	59	Cancelled	-	-	-
<b>Drawn amount</b>	-	55	55	Repaid	-
<b>RCF utilisation</b>	2	5	1	-	-
<b>Drawn amount</b>	1+1=2	2+3+1-1=5	5-4=1	Repaid	-
<b>Securitisation utilisation</b>	-	-	-	57	-
<b>Drawn amount</b>	-	-	-	57	Repaid
<b>Cash position</b>	-	-	-	1.5	1.5
<b>Outstanding cash</b>	-	-	-	1-0.5+1=1.5	1.5