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Petrobras Spends $320 Million to Hedge Crude Oil at $60 a Barrel

- **It buys put options to cover part of this year's production**
- **Brazilian giant also hedged part of its 2018 output at $65**

By Peter Millard, Javier Blas and Alex Longley

(Bloomberg) -- Brazilian state-controlled oil giant Petrobras has hedged part of its oil production for a second successive year, fixing the price for part of its 2019 output at $60 a barrel to protect its cash flow.

The oil producer paid a total premium of $320 million for put options expiring at the end of the year, it said in a statement on Friday. The hedges will protect against a downturn in the oil market while allowing the company to benefit if prices remain elevated, it said.

Petrobras didn't disclose how many barrels were hedged, but the company said last year it locked in 128 million barrels at an average price of $65. Based on current options prices for $60 Brent crude for April-December, and the total fees it paid, its looks like Petrobras hedged a similar amount again this year, according to Thibaut Remoundos, founder of Commodities Trading Corp., which advises on hedging strategies.

Petroleo Brasileiro SA, as it's also known, is now one of the biggest hedgers in the oil market, along with Mexico, which runs the biggest sovereign program and spent $1.2 billion last year to protect 2019 oil revenues.

Options trading jumped earlier this month, prompting speculation that Petrobras was involved. Activity was dominated by $60 puts.

Traders will be on alert for further signs of a major producer hedging as U.S. shale companies have locked in less than their traditional share for the rest of the year and in 2020. On top of that, Mexico usually starts to buy put options in the spring to fix prices for the following year. The selling pressure created by shale companies and Mexico in the oil futures market could roil the market, sending oil prices lower.

Petrobras Chief Executive Officer Roberto Castello Branco said earlier this month his company was willing to hedge, but that low production costs are the best protection against low prices.

"If I hedge at $60 per barrel and tomorrow the barrel is at $80, I'll be sad. The opposite can also be true, and you can say, I'm glad I did it," he said in a March 10 interview. "As we don't expect an acceleration of the world economy, nor an acceleration for oil demand, we need to be prepared for lower prices."

Related ticker:
PETR4 BZ (Petroleo Brasileiro SA)

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