



RENEWABLE ENERGY

Merrill Lynch Launches Biofuels Indices

Published: 1 Oct 07 - 14:16

Financial management and advisory firm Merrill Lynch on Monday introduced two indices designed to offer investors exposure to the fast-growing biofuels market.

The company said that investors seeking to profit from rapid expansion in the ethanol and biodiesel industries typically had to recur to traditional agricultural commodity indices or futures.

"Such instruments are vulnerable to very negative roll returns, or negative carry, due to the storage dynamics of the underlying agricultural commodity markets," it stated.

Head of global commodity research at Merrill Lynch, Francisco Blanch, said, however, that the firm's indices had been designed to mitigate the negative roll returns inherent to many agricultural commodities markets.

"They also offer additional returns by overweighting crops that produce the most energy in biofuel production, notably sugar and soybeans."

The MLCX Biofuels Index weights commodities according to production levels and calorific potential, in order to reflect their economic value.

It contains seven commodities commonly used as biofuels feedstock, such as sugar, corn, soybeans, barley, rapeseed, canola and soybean oil. The MLCX Biofuels Plus Index adds gasoline and diesel to the commodities in the MLCX Biofuels Index. The MLCX Biofuels Plus Index reflects how current technology and infrastructure is more geared to blending biofuels with conventional fossil fuels than to offering a pure biofuel alternative.