

COUNTERPARTY RISK NOTES · ISSUE 01 · JULY 2026

When financialisation becomes counterparty risk

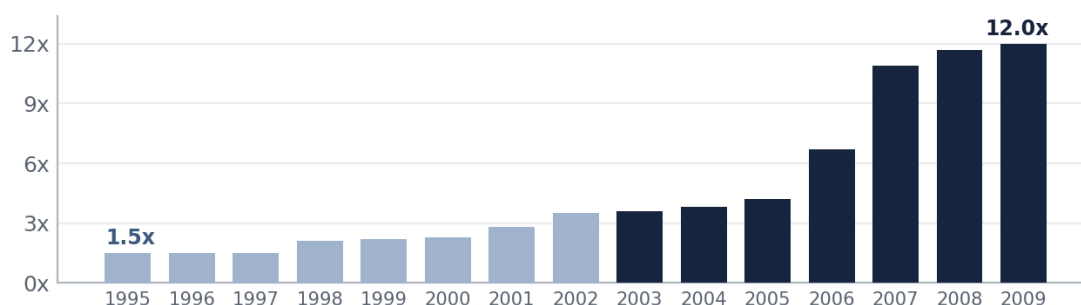
Independent research · credit risk in energy and commodity markets

Executive summary. The financialisation of commodities, the build-out of derivative markets many times larger than the physical trade they reference, has turned price volatility into an immediate funding and counterparty problem for energy and commodity firms. Falkowski (2011) documented the structural break: commodity-index instruments grew from roughly \$15bn in 2003 to over \$200bn by 2008, and crude futures from about twice to nearly twelve times the size of the physical market. That plumbing is now being stress-tested in real time. Europe's 2022 energy shock produced margin calls Equinor put above €1.5 trillion; the LME nickel squeeze confronted its clearing house with margin calls dwarfing the entire default fund; and the 2026 Strait of Hormuz crisis drove Brent from roughly \$72 to a peak near \$120 and back. The recurring lesson for credit functions: a counterparty solvent through the cycle can still fail to meet a margin call by 9 a.m. These are not only trading and liquidity events. They are direct tests of a firm's exposure measurement, IT systems, data and governance.

Research insight: the financialisation thesis

Our partner Michał Falkowski documented the structural break in his 2011 survey, a decade before the market proved it, and it still defines commodity markets: institutional holdings of commodity-index instruments rose from roughly \$15bn in 2003 to at least \$200bn by mid-2008, and crude-oil futures grew from about twice the size of the physical market to nearly twelve times it over fifteen years (Chart 1). Falkowski himself was cautious. Commodities with no futures market (rough rice, edible beans, apples) rose as fast as exchange-traded ones, so he doubted speculation drove the long-run price level.

For a credit audience the durable insight is structural rather than directional. Financialisation replumbed the market: more derivatives over each barrel and megawatt-hour, more financial intermediaries between producer and consumer, and more risk moved through margined contracts than balance-sheet credit. That is the channel through which a commodity price move now arrives as a same-day cash demand on the treasury, and as counterparty exposure on everyone facing the position.

Crude-oil futures traded as a multiple of the physical market, 1995-2009

Source: Falkowski (2011), Fig. 3, after Masters Capital Management (NYMEX + ICE WTI + Brent futures vs. daily physical volume).

Current market evidence: three stress tests in four years

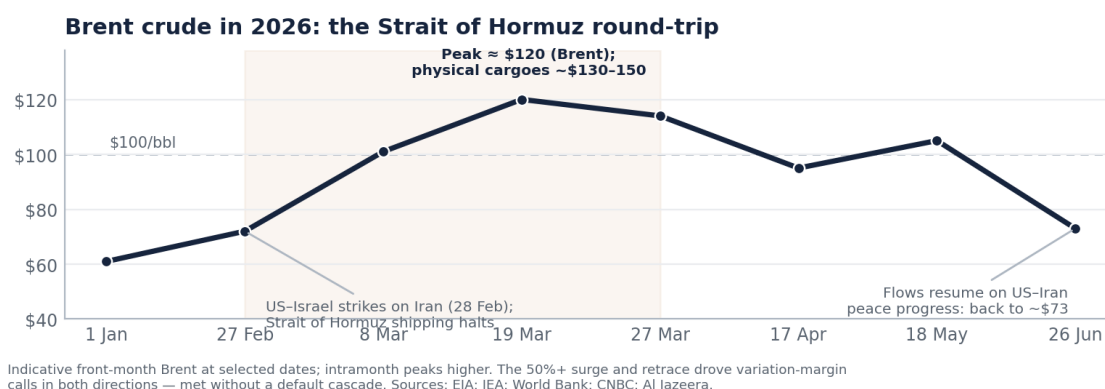
The mechanism is collateral, and recent history has tested it repeatedly. In 2022, as Russia's invasion of Ukraine sent Dutch TTF gas to €340/MWh and German power above €600/MWh, initial margin on TTF futures rose from about €5 per MWh to peaks of €79 (ICE) and €145 (EEX), and intraday variation-margin calls of hundreds of millions became routine. Equinor estimated European margin calls (ex-UK) exceeded €1.5 trillion, Uniper required a state rescue, and the UK stood up a £40bn backstop.

Weeks later the LME nickel squeeze showed the counterparty dimension in pure form. A short as much as five times the nickel the exchange held for settlement, about 80% of it over-the-counter with four banks and invisible to the clearing house, drove nickel up around 250% to \$101,365 in days. Had the morning's prices stood, LME Clear faced margin calls of about \$19.7bn on 8 March: the LME's own figure, roughly ten times the previous record, dwarfing the \$1.1bn default fund, which the

exchange roughly doubled to \$2.075bn after the crisis. Instead the LME cancelled around \$12bn of trades struck in the eight hours after midnight, pushing risk back onto the end-clients who had paid to be insulated from it.

The 2026 Strait of Hormuz crisis is the same dynamic at larger scale. After US–Israeli strikes on Iran on 28 February, the near-total halt of tanker traffic through a strait that normally carries around 20 million barrels a day, about a fifth of the world's oil and a fifth of its LNG, shut in some 10 million barrels a day of Gulf output. On the IEA's assessment this was the largest supply disruption in the history of the oil market. Brent rose from roughly \$72 to a peak near \$120, with physical cargoes higher still (Chart 2). QatarEnergy declared force majeure and European gas nearly doubled; as negotiations advanced, prices round-tripped to about \$73 by late June. That violent two-way move generates variation-margin calls in both directions and punishes anyone who mismeasured liquidity.

Sanctions add a slower, parallel stress: the G7/EU price cap (cut to \$47.60 in July 2025), October 2025 sanctions on Rosneft and Lukoil with a 50%-ownership reach, and a shadow fleet that has roughly tripled since 2022. Together these make counterparty due diligence, ownership screening and settlement risk a daily operational concern.



Credit risk management implications

These events reprice every component of counterparty exposure. Mark-to-market and settlement exposure swing with intraday price moves. Potential future exposure (PFE) must be modelled under fat-tailed, spiral-aware scenarios rather than benign historical windows. And collateralised exposure is only as good as the liquidity behind it: a fully margined book still fails if the counterparty cannot fund the call.

Two exposures deserve explicit treatment. *Wrong-way risk* needs its margin form named: a counterparty whose funding position deteriorates precisely as the position moves against it, the nickel short in pure form. A producer hedging its own output is the textbook right-way case on solvency, yet its short hedges still carry margin wrong-way risk. *Liquidity-driven, or stressed, exposure* is the cash a counterparty, and the firm itself, must find on the worst plausible day. It now matters as much to limit-setting and risk appetite as default probability, and belongs in concentration limits, wrong-way-risk flags and reverse-stress tests.

IT, data and governance implications

The binding constraint in each episode was operational: seeing a counterparty whole, and fast. Exposure assembled overnight in batch is useless when margin moves intraday, so credit needs near-real-time aggregation that consolidates exchange-cleared, bilaterally cleared and physical positions, sourced cleanly from ETRM systems and valuation feeds, into one counterparty picture.

That rests on data foundations that fail quietly under stress: complete trade population, accurate product mapping, a correct counterparty hierarchy (the 50% sanctions rule turns ownership data into a hard control), enforceable netting and collateral terms, and reliable rating and market data, all auditable. The system stack follows: exposure and PFE engines, a live collateral inventory with eligibility and haircut logic, limit infrastructure with automated escalation, a stress-testing platform, and an SA-CCR exposure-at-default calculation wired into the same plumbing rather than produced quarterly. It should be owned jointly by credit, treasury and market risk, with model governance consistent with EMIR 3.0's EBA-supervised validation of initial-margin models, where those are used.

Practical actions for credit risk leaders

A 90-day sequence that moves from immediate visibility to an embedded operating model:

0–30 days · Stabilise	30–60 days · Strengthen	60–90 days · Embed
– Run a cross-portfolio margin and liquidity stress test against a Hormuz-style two-way price move – Map single-name and single-CCP concentrations and wrong-way-risk names – Confirm intraday counterparty exposure can be assembled within hours, not overnight – Refresh ownership and sanctions screening (the 50% Rosneft/Lukoil reach)	– Wire SA-CCR exposure-at-default and a live collateral inventory into limit checking – Add explicit wrong-way-risk and liquidity-at-risk limits and triggers – Validate trade-population completeness, product mapping and netting/collateral data – Stand up intraday margin-call and collateral-dispute monitoring	– Give credit, treasury and market risk joint ownership of a combined credit-and-liquidity appetite – Where IM models are used, gap-assess their governance against EMIR 3.0's EBA validation expectations – Set a reverse-stress-testing cadence for cash-at-risk on the worst day – Refresh EMIR 3.0 clearing-threshold calculations (commodity: €4bn) and document hedging classifications

Regulation points the same way. SA-CCR raises and capitalises commodity exposure ($EAD = 1.4 \times [\text{replacement cost} + \text{PFE}]$, feeding the leverage ratio and output floor), while EMIR 3.0 and the FSB's December 2024 report on liquidity preparedness for margin and collateral calls expect firms to model the credit and liquidity risk of their commodity counterparties together, and to demonstrate they have. The January 2025 BCBS–CPMI–IOSCO margin standards push CCPs and clearing members in the same direction.

Horizon Credit Advisory perspective

Ratings tell you whether a counterparty is likely to pay over the cycle. They are largely silent on whether your systems would see it fail to post collateral in time to act, which, in financialised commodity markets, is increasingly how default arrives. Horizon Credit Advisory works on that second question: the exposure measurement, data architecture, systems and governance that turn a credit opinion into an operational defence. We read the same disclosures the agencies do; our work begins where theirs ends.

Start the conversation. seamus.maher@horizoncreditadvisory.com · michal.falkowski@horizoncreditadvisory.com · thirty minutes to walk your book through the Hormuz two-way move.

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