

Airport Business

--

A [Cygnus Business Media](#) Website

[ab link](#) [cygnus link](#)

- [Home](#)

-

- [Top News](#)
- [Airport News](#)
- [Airline News](#)
- [Air Security News](#)

- [Magazine](#)

- [Blogs](#)

- [Products](#)

- [Classifieds](#)

- [Events](#)

- [Directory](#)

- [Careers](#)

- [Buyers Guide](#)

- [Subscribe](#)

- [Advertise](#)

eNewsletter Sign Up

Sign up for our free Industry Newsletter & Industry Brief

- Airport Business
- AB Solutions
- AB News

Airline News

[Most Read](#) [Most Emailed](#) [E-mail Story](#) [Print Story](#)

Updated: September 18th, 2006 10:46 AM EDT

[Home](#) > [Airline News](#)

United's Hedge on Jet Fuel Not Best Bet in 3rd Quarter

The Latest from Airport Business

[NWA Gets OK to Launch Compass](#)

[Airlines Urge EU and US on Passenger Data Agreement](#)

[Continental Ranked Best for Int'l Business Class in the US](#)

[Big Airbus A380 Delays Expected](#)

[Atlanta Investors Buy Florida Flight School to Train Foreign Airline Pilots](#)

Ameet Sachdev

The Chicago Tribune



Before oil prices surged this summer, United Airlines locked in the price of some of its jet fuel, following a strategy that other airlines have used successfully to reduce their fuel costs.

But oil prices have been dropping like a stone since a midsummer peak in July of more than \$78 a barrel. On Friday, oil futures settled at \$63.33 on the New York Mercantile Exchange.

United's financial hedges on oil for the third quarter, secured in the spring, have an average price of \$69.84, or about \$6 more than the current price of a barrel of oil.

Falling oil prices are welcome relief to an airline industry that has been slammed by higher fuel costs. Jet fuel is now a bigger factor in airline costs than labor. But along with the recent gain, there is some pain for United and other carriers.

"It's possible those hedges will cost them money in the quarter," said Helane Becker, aviation analyst with the Benchmark Co.

United acknowledged the tradeoff.

"While we have some hedges that exceed the price of fuel today, the cost of that is dwarfed by the benefit we get from lower fuel prices," the Elk Grove Township-based company said in a statement.

Investors don't appear too worried about a possible financial hit from out-of-the-money fuel hedging contracts. United and other airline stocks have climbed in recent days on the notion that declining oil prices will cut fuel costs and drive significant earnings growth. United shares rose 10 percent this week and closed Friday at \$27.60 in Nasdaq trading.

The airline industry uses 19 billion gallons of fuel a year, according to the Air Transport Association, an industry trade group. Every 1-cent-per gallon increase drives the annual cost up \$190 million industrywide.

Besides trying to save fuel, airlines have turned to the financial markets to protect themselves from future price shocks. Jet fuel is not traded on an organized futures exchange so airlines hedge their fuel costs by trading commodities such as crude oil, heating oil and unleaded gasoline.

Some airlines, such as Southwest, made bold gambles on fuel hedges in recent years that paid off handsomely. Southwest's hedging program locked in oil prices at \$36 a barrel this year, and its hedges stretch to 2010. The financial bets let the Dallas carrier remain consistently profitable despite record energy costs the last few years.

United did not have as much financial flexibility to buy hedging contracts while in bankruptcy from December 2002 to February 2006. The airline conserved fuel by retiring older, gas-guzzling aircraft and lowering the cruise speed on some of its planes.

Nevertheless, in the second quarter, its fuel costs, excluding regional affiliates, soared 31 percent to \$1.2 billion as prices for jet fuel increased from \$1.71 a gallon to \$2.16. The airline's labor costs in the quarter totaled \$1.07 billion.

United has gotten more aggressive in managing its fuel costs since emerging from bankruptcy. It doesn't hedge all of its future fuel needs. The airline had hedging contracts that covered 57 percent of the company's fuel requirements for July and 23 percent for August.

As of July 24, the company had 28 percent of its fuel consumption, excluding fuel used by its regional affiliates, hedged for the third quarter, according to United's public financial disclosures.

Other airlines are even more active in the derivatives market. American Airlines, at the end of June, had hedges covering 34 percent of remaining 2006 fuel requirements. The average price of those contracts is \$66 a barrel. An American spokesman declined to comment on whether the carrier will lose money on its third-quarter hedging program.

Falling oil prices are not uncommon at this time of year, when gasoline consumption traditionally tapers off and heating oil demand has yet to ramp up. The drop has been magnified by a perception among oil traders that threats to supplies, ranging from Atlantic hurricanes to Middle East politics, have eased.

The recent dip also raises questions of whether airlines will ease up on hedging. Becker, of Benchmark, said her discussions with some airlines indicate that some will be more patient.

United declined to comment on its future hedging strategy.

[Copyright 2005 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.](#)
[Terms and Conditions](#) | [Privacy Policy](#)

News stories provided by third parties are not edited by "Site Publication" staff. For suggestions and comments, please click the Contact link at the bottom of this page.

[Advertise With Us](#) | [Subscribe](#) | [Contact Us](#) | [Privacy Statement](#) | [User Agreement](#) | [Link to Us](#) | [Bookmark Us](#) | [Support](#)

Copyright © 2006 All rights reserved. Cygnus Interactive, a Division of Cygnus Business Media.



[RSS Feeds](#)



- [Publishing](#)
- [Expositions](#)
- [Interactive](#)
- [Custom Solutions](#)

- [Find Your Market](#)
- [SRDS Classifications](#)
- [Content Licensing](#)

- [Event Calendar](#)

- [Career Opportunities](#)
- [Find Your Market](#)
- [Internet Trends](#)
- [Get Started Now](#)
- [Content Licensing](#)