How developing nations can efficiently use the commodity markets to manage their risk

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Recent developments and new challenges in the commodity markets: Minerals Ores and Metals

Presented by Robert Fig
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The Ring: global reference price

The home of global metals markets since 1877 with London trading routes back to 1500’s
The LME is the leading metal exchange

LME Share of exchange metal traded

2015 LME market share

- AA: 100%
- Al: 92%
- Cu: 60%
- NA: 100%
- Ni: 64%
- Pb: 91%
- Sn: 93%
- Zn: 74%
Global commodity markets are down

Only Tin is up since 2007 whilst lead is flat
Losses as much as 72% Nickel and 87% Baltic Dry Index

Data as of 14th April 2016
Source: LME, Bloomberg
Natural resources exposure

Sum of resource rents as % of GDP
*additional benefits from manufacturing and equipment

- Chile: Copper 16%
- Zambia: Copper 16%
- Angola: Oil 33%
- Australia: Iron Ore 7%
- South Africa: Gold, PGM’s 8%
- Indonesia: Palm Oil, Copper, Nickel 6%

Source: World Bank, 2014 data
A diverse marketplace

- **Mining**
  - Mining Companies
  - Protect value of mining assets

- **Smelters**
  - Smelter and Refinery Companies
  - Protect margins during smelting process

- **Merchants**
  - Trading Houses
  - Protect value of physical stocks

- **Consumers**
  - Cable, tube, and automotive companies
  - Protect against increasing material costs

- **Recyclers**
  - Recycling companies
  - Scrap trading companies
  - Protect value of metal content

**Orders**

**Liquidity**

- Brokers
- Banks
- Market Makers
- Investors

LONDON METAL EXCHANGE

An HKEX Company
Physical usage of LME Copper

Identified Client Volumes by type

Producer / Merchant / Processor / User: 40%
Money Manager: 30%
Algo/Prop: 15%
Broker Dealer / Index Trader: 10%
Other Reportables: 5%

Identified Client contract volume
Source: LME Research
Hedging community dominates the LME

Nickel Positions held by the hedging community outnumber money managers 1:1.6

Money Manager Positions > Hedging Positions

Hedging Positions > Money Manager Positions

Average over 12 months:

CME Copper

LME Copper

LME Nickel

* COTR Open Interest Ratio is for Long+Short average over one year
Entities are classified at broker discretion according to the primary function of the entity. Entities may be involved in dual business
Continued investment: physical relevance

Pricing is anchored in the physical market thanks to a wide range of deliverable brands.
Warehouse Locations

Over 650 warehouses approved by the LME - 14 countries, 35 locations & LME Shield with MOU to develop along Belt and Road routes

1. Antwerp, Belgium 10. Vlissingen, Netherlands
2. Bremen, Germany 11. Barcelona, Spain
3. Hamburg, Germany 12. Bilbao, Spain
4. Genoa, Italy 13. Helsingborg, Sweden
5. Leghorn, Italy 14. Hull, UK
6. Ravenna, Italy 15. Liverpool, UK
7. Trieste, Italy
8. Moerdijk, Netherlands
9. Rotterdam, Netherlands

Silk Road Economic Belt

Maritime Silk Road

1. Busan, South Korea
2. Gwangyang, South Korea
3. Incheon, South Korea

1. Nagoya, Japan
2. Yokohama, Japan

1. Kaohsiung, Taiwan

1. Dubai, UAE

1. Johor, Malaysia
2. Singapore
3. Port Klang, Malaysia
LME remains the market of choice

Copper Open interest in tonnes

Million tonnes
SHFE day trading bias

Open interest in days of volume

* Ratios taken over average of Q4 2015 – same trend LME>SHFE is consistent throughout history.
LME volumes exclude admin and member give up trades
LME holds further out positions

LME forward curve trades out to 63 months

Shanghai open interest is concentrated on one month

Data as of March 16th 2016
SHFE Nickel launches new arbitrage market

** Pre 7am % is limited to 3M outright on LMESelect

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