



# The Growing Commodity Trading Market in Asia

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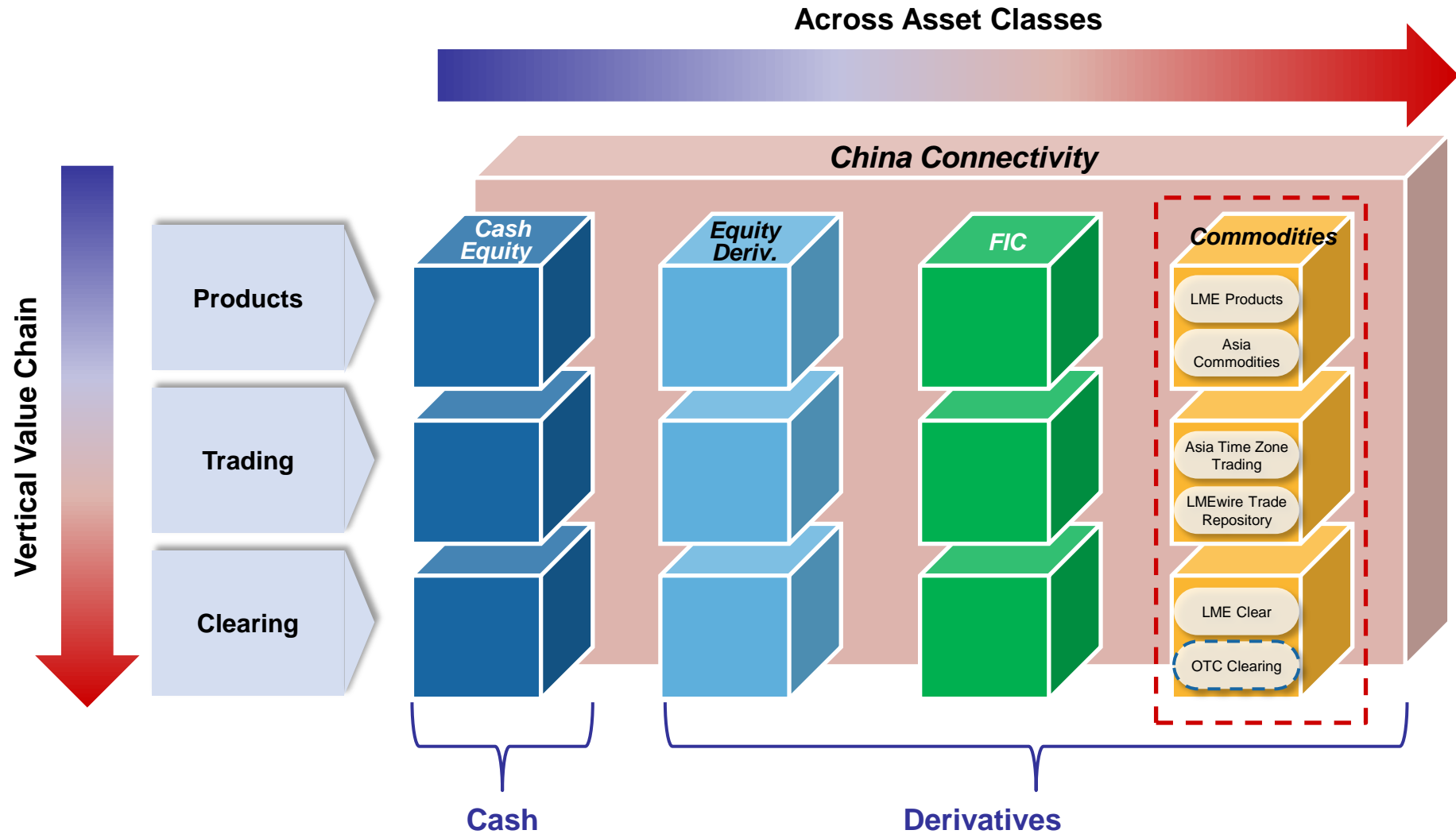


# I. HKEx's Entry into Commodities

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# HKEx Group Business Strategy

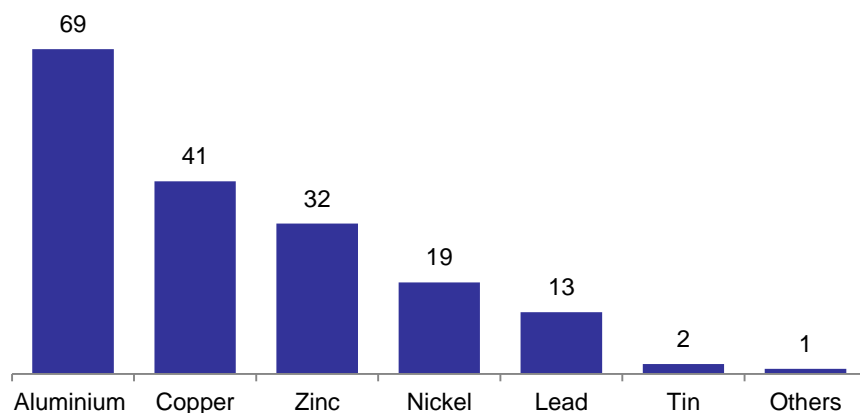
## Horizontal Asset Classes + Full Vertical Integration



## The LME Sets the Global Standard

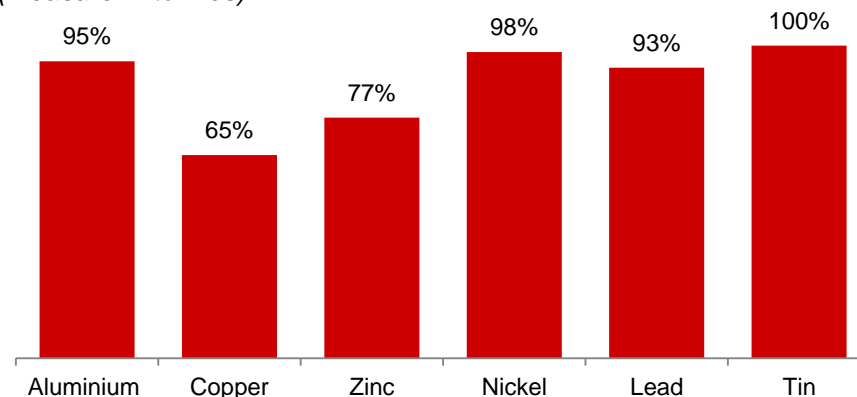
- ✓ World's largest base metals futures market with over 80% market share
- ✓ LME prices are used as the global benchmark for physical trading
- ✓ Most liquid contracts, with 177 million lots traded in 2014
- ✓ Global network with over 700 LME-approved warehouses across 40 locations
- ✓ Close to 100 members representing leading financial institutions, futures brokers and metals traders and producers

### 2014 Total Volume (million lots)



### 2014 Market Share in Futures Trading Volume

(measure in tonnes)



**LME is the world's largest marketplace for base metals contracts**

# LME's Unique Business Model



## Daily Prompt Date Structure

Daily

Weekly

Monthly

- Daily prompt up to 3 months
- Weekly prompt for 3-6 months
- Monthly prompt dates for 15, 27, 63 or 123 months forward

## Hybrid Trading Platform



## Physical Delivery

- Over 700 LME-approved storage facilities in about 40 locations in 15 countries
- Prices reflecting industry supply and demand
- Nearly 600 LME-approved brands from 55 countries

***LME is ingrained in the global base metals market infrastructure***

# LME New Products & Initiatives



| <u>Products / Initiatives</u> | <u>What is it?</u>   |
|-------------------------------|--|
| <b>Premium Contracts</b>      | <ul style="list-style-type: none"><li>■ Allow consumers to hedge against the cost of Aluminium premium, which is the difference between the physical and the LME price</li></ul>                                 |
| <b>Ferrous Products</b>       | <ul style="list-style-type: none"><li>■ Launch cash-settled steel rebar and scrap contracts to provide better risk managements tools</li><li>■ May also extend to iron ore, coking coal and steel coil</li></ul> |
| <b>Precious Products</b>      | <ul style="list-style-type: none"><li>■ May launch precious contracts with underlying in gold, silver, platinum<sup>1</sup> and palladium<sup>1</sup></li></ul>  |
| <b>Monthly Liquidity</b>      | <ul style="list-style-type: none"><li>■ Enhance liquidity for monthly settled contracts to meet demand for a more traditional futures-style trading</li></ul>  |

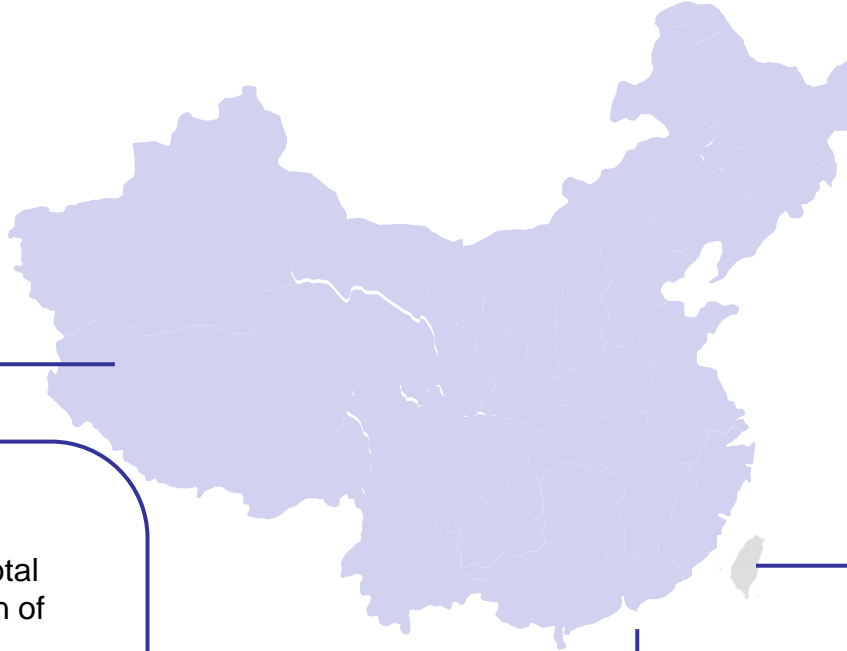
***LME is launching new products & initiatives to meet demand for the growing commodity trading market globally***

Note (1): LME is appointed by the London Platinum and Palladium Fixing Company Limited to operate the administration of the platinum and palladium price benchmarking.

## II. Enhancing LME Presence in Asia

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# Asia Industry Landscape – Greater China & Taiwan



## CHINA:

- Account for 30-50% of total production / consumption of base metals
- Substantial needs for the industrial users, miners and traders in China to manage price risks
- Large number of physical users, commodities trading houses and arbitrage players

## HONG KONG:

- Commodities trading center linking China and the rest of the world
- HKEx recently launched an Asia commodities platform, offering international benchmarks for China to manage its price risks

## TAIWAN:

- Dominated by a few active non-member brokers
- Growing number of producers and consumers looking to hedge
- Number of warehouse operators (one LME warehouse in Kaohsiung)



# Asia Industry Landscape – Southeast Asia, India & Australia

## INDIA:

- Underdeveloped mining and processing industries
- Mining reform
- Growing consumer hedging business
- Produce AL, ZN, PB
- Large Import: CU, PB
- **Prop business**

## THAILAND:

- No large production
- Large processing industries
- Untapped consumer market
- Large import: AL, CU, ZN, PB

## VIETNAM:

- Underdeveloped industry
- Commissioned large AL smelter
- Small SN & ZN processors
- No large import of base metal

## PHILIPPINES:

- **Uncertainty over mining law**
- Few large producers & processor
- Large number of small-size miners
- Produce CU, NI
- No large import of base metals

## INDONESIA:

- **Uncertainty over mining law**
- Few large producers
- Large number of small/midsize producers
- Growing processor segment
- Untapped consumer market
- Produce CU, NI, SN, AL
- Large import: AL, PB

## MALAYSIA:

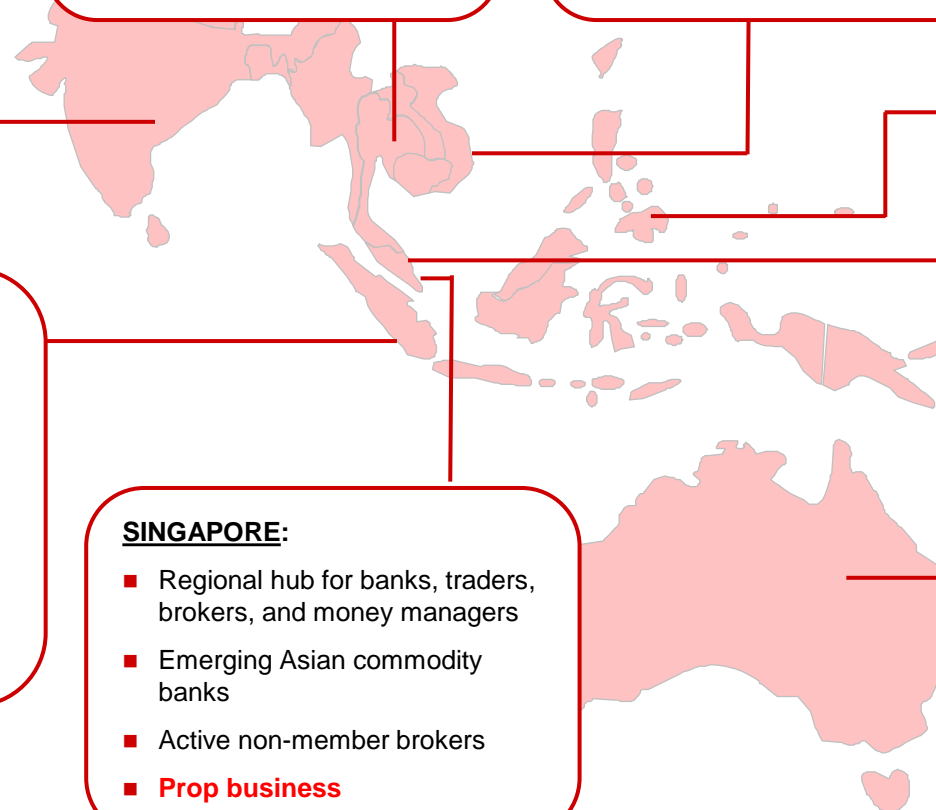
- No large mining
- SN and AL processing industries
- Untapped consumer market
- Large import: AL, CU

## SINGAPORE:

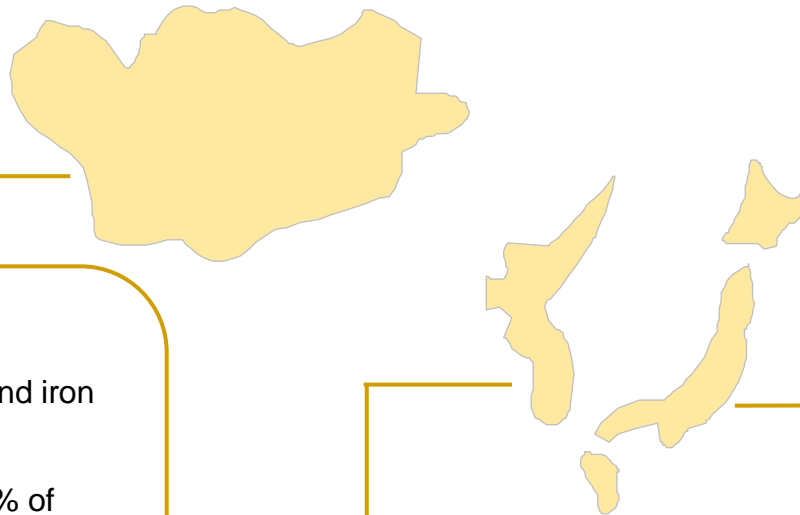
- Regional hub for banks, traders, brokers, and money managers
- Emerging Asian commodity banks
- Active non-member brokers
- **Prop business**

## AUSTRALIA:

- Dominated by large producers and processors
- Growing mid-size segments
- Produce AL, CU, ZN, NI, PB
- No large import of base metals
- Matured market
- **Prop business**



# Asia Industry Landscape – Northern Asia: Japan, Korea & Mongolia



## MONGOLIA:

- Produce coal, copper and iron ore
- Mining contributes ~18% of Mongolia's GDP
- Principle market for export is China
- No large import of base metal

## SOUTH KOREA:

- Net consumer of refined nickel, lead, tin, copper and aluminium
- Net producer of refined zinc
- Large automotive, construction and heavy industries
- Matured market with ~80% of physical players who hedges
- Dealing must go through local IDBs

## JAPAN:

- Long history as a leader in the industry and is one of the most important markets for the LME
- Account for ~7% and ~5% of aluminium and copper consumption
- Various major LME members
- Many key LME clients

# How Can HKEx Support LME in Asia?



**Recruit new Asian members and clients to connect and trade on the LME**

**Conduct product marketing on LME new products & initiatives in Asia**

**Offer training and education to new clients**

**Provide market intelligence / latest industry trend on the Asian market**

***Connectivity solutions and marketing / education partners would be crucial in enhancing LME presence in Asia***

## III. HKEx Asia Commodities Platform

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# Why Build a Hong Kong Commodities Platform?



## Strategic Rationale

**China Product Focus**

**RMB Internationalization**

**Open China Window**

**Capitalize on China's Preference to Collaborate with HKEx**

**Internationalize Chinese Benchmarks**

## Business Rationale

**HKEx's Multi-asset Connectivity**

**Generate Capital Efficiency for Trading Counterparties**

**Maximize LME Franchise**

**Leverage on Concentration of Mainland Financial Institutions**

**Easier Access to Chinese Markets**

# Why Metals?

|                              | Aluminium  | Zinc  | Copper  |
|------------------------------|--|---|---|
| Major Users                  | <ul style="list-style-type: none"><li>➤ Construction</li><li>➤ Packaging</li><li>➤ Transportation</li><li>➤ Automotive</li></ul> | <ul style="list-style-type: none"><li>➤ Construction</li><li>➤ Automotive</li><li>➤ Batteries</li></ul> | <ul style="list-style-type: none"><li>➤ Construction</li><li>➤ Electronics</li><li>➤ Automotive</li></ul> |
| China % of World Consumption | 45%  | 44%   | 44%   |
| YOY Growth in 2013           | 8%   | 11%   | 11%   |

*LME's three most liquid contracts*

# London Metal Mini Futures Contract Specifications



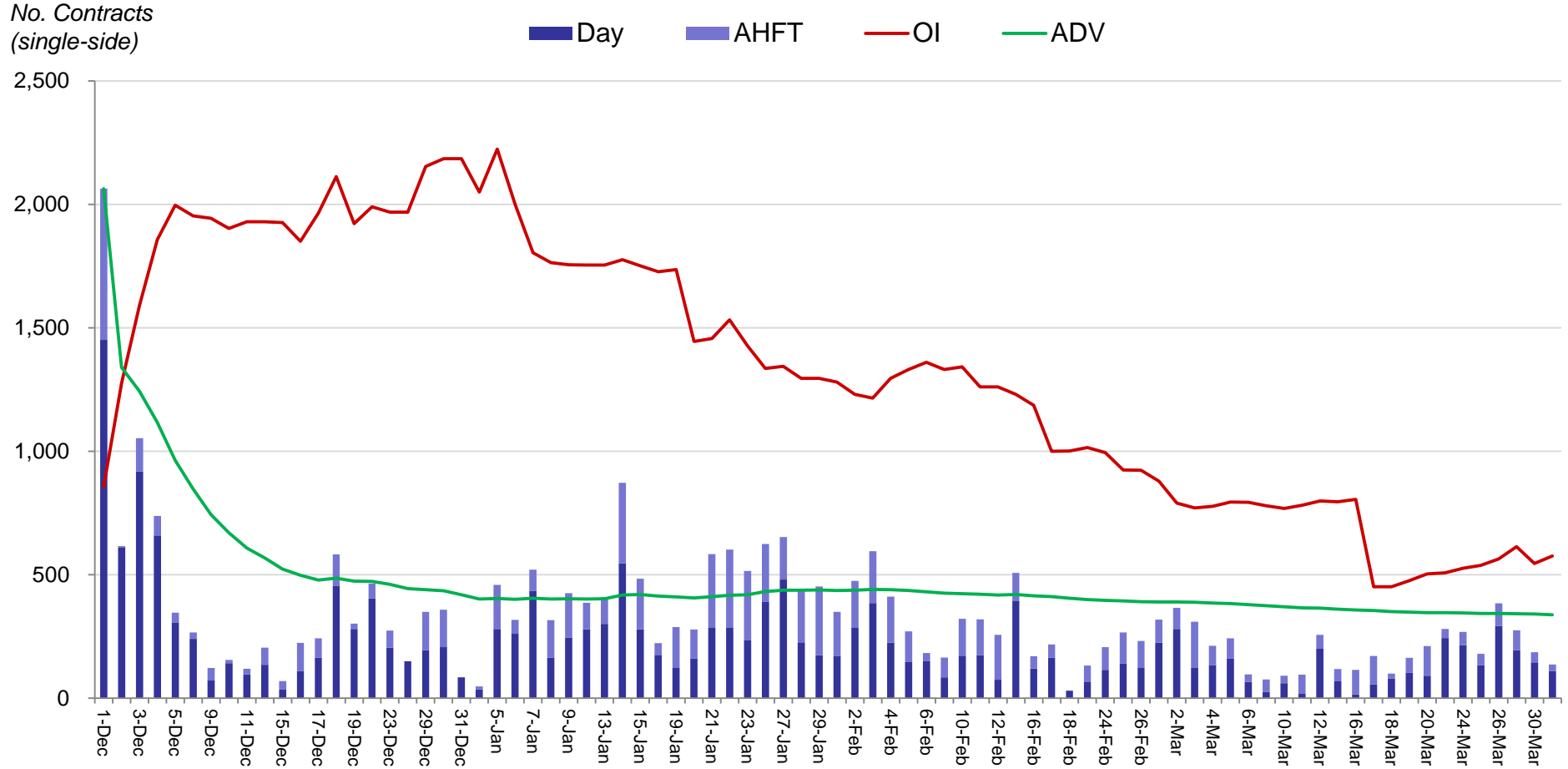
| Item                         | London Aluminium Mini   | London Zinc Mini        | London Copper Mini |
|------------------------------|---|-------------------------|--------------------|
| Underlying Commodity         | High Grade Primary Aluminium  | Special High Grade Zinc | Copper – Grade A   |
| Contract Size                | 5 tonnes / contract   |                         |                    |
| Trading Currency             | RMB   |                         |                    |
| Contract Months              | Spot Month and the next eleven calendar months  |                         |                    |
| Trading Hours                | 9:00am to 4:15pm (day trading session)<br>5:00pm to 1:00am the next morning (after-hours trading session)   |                         |                    |
| Trading Platform             | HKATS   |                         |                    |
| Tick Size                    | RMB 5 / tonne   |                         | RMB 10 / tonne     |
| Last Trading Day (LTD)       | The LTD determined by the LME for the Aluminium/Zinc/Copper Futures Contract (i.e. usually two business days before the third Wednesday of the Spot Month)  |                         |                    |
| Final Settlement Day (FSD)   | The second HK Business Day after the LTD  |                         |                    |
| Final Settlement Price (FSP) | Based on the Official Settlement Price determined and published by the LME for its Aluminium/Zinc/Copper Futures Contracts, and converted to RMB equivalent |                         |                    |
| Settlement Method            | Cash settled  |                         |                    |
| Trading Fee (per side)       | RMB 3   |                         | RMB 5              |

# Trading Summary Since Launch

*ADV since launch = ~340*



## Trading Volume and Open Interest Summary



**Volume is picking up as interested participants are getting connected to HKFE**



# What We Want You to Take Away...



**The first batch of base metal futures is launched in Hong Kong**

**London Metal Mini Futures are denominated in RMB**

**Ideal arbitraging tools with China's and international related futures**

**Open up a new international and Mainland client base who would be interested to connect to HKEx for commodities trading**

# Q & A

HKEx Website: [www.hkex.com.hk](http://www.hkex.com.hk)

HKEx Commodities Webpage: [www.hkex.com.hk/eng/prod/drprod/cmdty/cmdty.htm](http://www.hkex.com.hk/eng/prod/drprod/cmdty/cmdty.htm)