

ABOUT THE COMMODITY MARKETS

Commodity markets are inter-connected. The core business of commodities firms is about moving minerals, food or fuels from where they are produced to where they are consumed.

THE COMMODITIES SUPPLY CHAIN AND THE ROLE OF COMMODITY FIRMS

Commodity firms work to meet the challenge of matching the supply of commodities with demand. To do so, they organise the individual components of the supply chain between places of supply and demand, and manage the associated risks. This includes transporting, storing and transforming (e.g. refining, blending or processing) commodities to bridge the gap between supply and demand in terms of location, time and form of the commodities. They seek to reduce costs through improving and optimising supply chain logistics, which sometimes involves ownership of industrial assets or facilities. They use international trading opportunities from bottlenecks in supplies and gaps between origins and destinations.

BENEFITS OF COMMODITIES COMMERCE

- ✓ Serves the real economy by providing industry and manufacturing with raw materials when and where needed – important for competitiveness of European industry which is reliant on affordable and reliable sources of raw materials and energy
- ✓ Connects different parts of the supply chain – helps producers distribute their production and manufacturers secure a reliable supply of raw materials, ultimately allowing consumers access to food, energy and other consumables
- ✓ Contributes to security of supply of raw materials and consumables
- ✓ Creates more efficient and competitive markets
- ✓ Connects regional, national and local markets, providing price transparency between regions



Producing / Sourcing



Storing / Transporting



Processing/ Refining/ Manufacturing



Trading



Retailer/ Consumer



RISK MANAGEMENT IS ESSENTIAL

Commodity firms are only viable if they are able to neutralise some of the risks in the global supply chain. One of the biggest risks they face is price volatility. The risks in commodity markets are much more varied than in the financial markets. For example, factors such as seasonality, crop quality, weather variations, geography, geopolitics and timing differences all play a part in the risk management decision making process. Managing risks is particularly important given large scale and thin margin nature of commodity trading business.

DERIVATIVE MARKETS PLAY A KEY ROLE

Liquid and well-functioning global derivative markets are essential for allowing commodity firms to hedge some of the risks related to their physical activities and assets, in particular, price risk in the commodities that they buy and sell. The use of the derivative markets makes trading in commodities more transparent and efficient and provides for predictable prices. Derivatives help maintain stable food and energy prices and provide products at a reasonable cost to consumers. These markets also allow commodity firms, producers, farmers and retailers to plan well ahead, and therefore be better equipped to invest and help the economy grow.

CONCLUSIONS

- Commodity firms play a crucial role in the global trade of commodities by linking producers to consumers and ensuring a reliable supply of raw materials to industry.

- Given the vital importance of managing the risks related to their physical activities and assets, liquid and well-functioning global derivative markets are essential for the viability of commodity firms.
- Policy resulting in reduced liquidity or otherwise hindering the functioning of the commodity derivative markets in the EU would influence the ability of these firms to manage risks. This would ultimately impact on the cost of raw materials and energy for European industry and consumers.
- In this respect, it is essential to mitigate the immediate impact of Brexit on the functioning of the commodity derivative markets, as well as to maintain as much openness as possible in the trading, clearing and reporting of commodity derivative instruments between the EU and UK in the future. Equally, it is important to refrain from unduly restricting the access of third-country firms to the EU financial markets because of Brexit.

ABOUT CMC EUROPE

CMC Europe is the only association in Europe representing the range of commodity market participants - agriculture, energy, metals and other commodity market participants, benchmark providers, price reporting agencies, and trading venues operating in the EU, EEA, Switzerland and neighbouring countries. The majority of CMC Europe members use commodity derivative markets to hedge the risks related to their physical activities and assets.

CMC Europe's key purpose is to engage with policy-makers and regulators to promote liquid and well-functioning commodity derivative markets in Europe.