

Futures Market Backs Development of Nonferrous Metals Industry

(Speech on China International Copper Conference 2009)

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Good afternoon respectful leaders, ladies and gentleman,

Thanks to the invitation from China Nonferrous Metals Industry Association, Daye Nonferrous Metals Company and Beijing Antaike Information Development Co., Ltd., I am glad to be here today and exchange ideas with everyone about futures market secures the development of nonferrous metals industry.

1. The development status of China's nonferrous metals industry under financial crisis.

China is not only a large producer but also a huge consumer of nonferrous metals in the world. Due to the lack of mineral resources, China has to more rely on international nonferrous metals resources market, a highly opened market environment. Therefore, the acute price fluctuation brought by international financial crisis in 2008 would definitely cause huge impact on production and operation of China's nonferrous metals producers.

To cope with international financial crisis, China has implemented easy fiscal and monetary policies and constituted 'Adjustment and Revitalization Plan on Nonferrous Metals Industry', helping producers out of trouble through establishing national storage and increasing export tax rebate. Supported by a series of preferential policies, China's nonferrous metals market stopped decline and showed the tendency to rise. Two major indicators are: on the one hand, accumulative production of ten nonferrous metals during Jan.-Aug. 2009 reached 2.3592 million tonnes, only 3.9% less than that of the same period in 2008, and a smaller decrease rate month on month; on the other hand, China saw a increasing improvement on management efficiency of nonferrous metals industry. The total margin of large scale nonferrous metals enterprises has reached RMB 43.9 billion during Jan.-Aug. 2009, which is 53% less than that of 2008 but the decrease rate has greatly lowered than the 71% during Jan.-May 2009.

2. The stable development of nonferrous metals industry needs support from future market.

The self supply rate of raw materials in most of China's nonferrous metals smelters are relatively low, therefore, the uncertainty of enterprises development perspective and market risk have abruptly increased when nonferrous metals prices meet strong fluctuations.

Comparing China's nonferrous metals industry with iron and steel industry during the international financial crisis last year, we found that nonferrous metals industry had a smaller decrease rate both on sales revenue and operating profit, despite its price dropped more than that of iron and steel industry. Nonferrous metals industry haven't seen overall loss as in iron and steel industry. According to statistics from National Bureau of Statistics, nonferrous metals industry realized RMB 531.989 billion of sales revenue during Sep.-Nov. 2008, a decrease of 16.9% month on month, while iron and steel industry saw RMB 1105.031 billion sales revenue, a decrease of 23.5% month on month. Profit in nonferrous metals industry was RMB 8.965 billion during Sep.-Nov. 2008, decreasing by 73.6% month on month, while that in iron and steel industry was RMB -6.061 billion, decreasing by 102.2%. It is obvious that nonferrous metals industry has successfully offsetted some management risk brought by price fall through hedging strategy.

Statistics show that domestic nonferrous metals enterprises have far cognized the risk management function in futures market after the international financial crisis. Large enterprises such as 100 kt/yr above copper producers and 150 kt/yr above zinc producers, have participated in hedging trade on Shanghai Futures Exchange, while numbers only account for 41%, 15% and 13% of domestic copper, aluminium and zinc productions in 2008 among copper, aluminium and zinc smelters, processors and traders in China.

The needs of using hedging trade to avoid market price fluctuation risks by nonferrous metals enterprises have brought the question to Shanghai Futures Exchange.

3. Give full play to the functions of futures market and serve for the development of nonferrous metal industry

The birth of futures market, is the inevitable outcome during the process of China's economic system changing from planned economy to market economy. For instance, as early as in 1995, State Planning Commission and China Nonferrous Metal Corporation issued a document taking the first-week weighted average price of copper and aluminum in the delivery month at Shanghai Metals Exchange as the country's pricing basis on the purchase price of nonferrous metal, which indicates the country's resolution to optimize the distribution of social resources through marketized pricing system.

Especially in 1999, the Administration of Futures Trading Tentative Regulations issued by the State Council laid solid legal foundation for the healthy and stable development of the country's futures market. Shanghai Futures Exchange(SFE), has been developing steadily in such context adhering to the market rules of being "Open, Fair and Impartial". Since 2004, five sorts of futures including fuel oil, zinc, gold, wire rod and screw steel have been listed. As the turnover increases steadily, the futures

market functions well due to the sound market liquidity.

With the continuous growth of the market scale of SHFE, the futures prices at SHFE are also gaining stronger international influence. Taking the copper futures price as an example, the copper futures price at SHFE has gained certain influence over the copper futures price at London Metals Exchange(LME) according to Granger Casual Relation and Coefficient Analysis, and the linkage effects are getting stronger. SHFE, LME and COMEX(New York Commodity Exchange) together are generally acknowledged as the three copper pricing centers in the world.

Besides, the futures price of copper, aluminum and zinc at SHFE has become the pricing basis for domestic spot trade. For example, in spot trade of copper concentrate, copper manufacturing material or cathode copper, the pricing modes of “Shanghai futures price plus or deduct processing fee” or “SHFE future price plus or deduct premium or discount” have been generally applied. The open and transparent price formation mechanism of the future price has become the key factor in optimizing distribution of social resources and ensures that the market circulation of spot goods are highly-efficient and ordered.

In fact China’s futures market has got into the trail of healthy and stable development. The function of futures market is given full play. In December of 2008, the State Council issued Guiding Opinions on Facilitating Economic Development in the Context of Current Finance, urging to introduce new commodity futures like steel and corn that would fit for the needs of the development of national economy. To some extent, it confirms the role of futures market in pushing forward the development of national economy.

In comparison with the western mature futures market, China’s futures market, with less than twenty years’ history since its birth, still has a certain gap, though it has already started to function. There still exist inconveniences in China’s current futures trade system, which do not quite apply to the market function. In response, SHFE made adjustment on its original structure to add nonferrous metal department, energy & chemical industry department and gold & steel product department, in an effort to strengthen communication with industries and optimize the existing futures sorts through professional management. It also further promotes the functioning of futures market, better serves the national economy and provides security for the nonferrous metal industry.

Finally, I’d like to wish the “China International Copper Conference 2009” a complete success. Thank you all.

Oct.27, 2009