

STEEL DERIVATIVES – A NEW EDGE

Steel is an indispensable building block of the global economy and the developing economies of Asia. Global production of crude steel in 2000 was 848m tonnes and by 2013 had grown to 1.6 bn tonnes, with an estimated value of over \$1trn.

But the global steel industry is also facing challenges and is set for a period of radical change. Over the years, steel has been seen as traditional and conservative, particularly in procurement, favouring a combination of long-term contracts and annual pricing to secure its supply chain.

Recent history has seen a huge increase in spot price visibility for iron ore, steel, coking coal and freight and increased volatility in prices not just of raw materials but of finished products too. Going forward, the increasing price volatility will increase the margin uncertainty for steel mills like never before. The future of steelmaking and trading will require the use of risk management across all raw materials and finished products.

To reflect these changes, Freight Investor Services provides a complete suite of steel derivatives products, developed in response to market demand for cleared, cash-settled swaps and futures.

WHAT ARE STEEL DERIVATIVES SWAPS?

The strength of steel derivatives lies in the wide range of steel products available as the underlying market

for derivatives. The most common steel and scrap products traded are Hot Rolled Coil (flat product) and Billet (long product from which Rebar is made) and scrap.

Steel derivatives for both HRC and Rebar trade in large volume on the Shanghai Futures Exchange. Some 294m rebar contracts traded on SHFE in 2013, an increase of 62.7% compared to 2012. So far in 2014 the contract has traded as high as RMB 3,550 and as low as RMB 2,725. SHFE HRC traded 1.7 million contracts as of beginning of August 2014, since launching in March 2014.

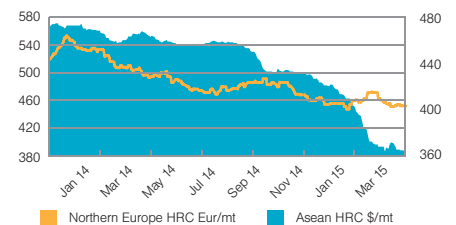
A steel or scrap derivatives involves taking a position in a futures (paper) market as a substitute for a forward cash (physical) transaction. It is an over the counter, cash-settled contract with no physical delivery, where both the buyer and seller agree on a price which is settled against an index.

Steel and scrap derivatives offer benefits to a wide range of potential participants including steel mills, stockists, traders, service centres, manufacturers of automobiles and white goods, shipyards, construction companies, scrap collectors and mining companies.

WHAT ARE THE BENEFITS?

Traders and hedgers have been advocating the use of cleared derivatives as a means of managing their price risk and exploiting new market opportunities. The emergence of a liquid swaps market has brought opportunities for a wider community of steel counterparties.

Northern Europe HRC vs Asean HRC



Source: FIS

Steel derivatives provide price risk management, giving miners, traders and steel end-users certainty on margins. Derivatives can even help end users win future projects by being able to offer fixed prices for steel using the forward curve.

WHAT CONTRACTS ARE AVAILABLE?

FIS has worked with first-class index providers to help make steel derivatives a reality.

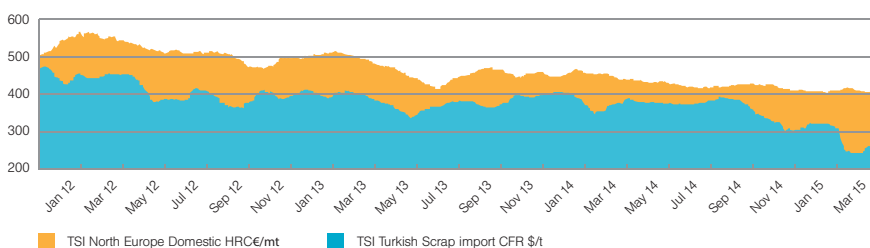
FIS currently provides coverage of nine steel and scrap contracts

- Hot Rolled Coil: US Domestic, North Europe, South Europe, China Domestic, ASEAN;
- Billet: Black Sea
- Rebar: China Domestic
- Scrap: Turkish Imports, US Domestic

The North and South Europe HRC, Turkish scrap and ASEAN HRC contracts settle against The Steel Index (TSI) while the China domestic contract settle against the Cleartrade China Steel Index (CCSI) provided by Umetal. The US steel contract settles against CRU, the Black Sea Billet contract settles against Platts and the US domestic scrap contract against AMM.

The steel and scrap contracts from FIS increase the range of steel derivatives available and will add to the depth and liquidity of the steel futures market, by offering a counterpart to existing physically-delivered futures contracts.

N Europe HRC v Turkish Scrap (TSI)



Source: FIS

STEEL AND SCRAP DERIVATIVES – CONTRACT SPECIFICATIONS

HOT ROLLED COIL - NORTH EUROPE

Clearing: LCH.Clearnet
Lot Size: 20 metric tons
Price Quotation: Euro
Trading Months: Up to 24 Months Ahead (Mths, Qtrs & Yrs)
Settlement: Cash/financial
Index: The Steel Index
Grade: Prime mild carbon steel EN10111 DD11 (or equivalent)
Gauge: 2.0 mm + / 1250 – 1600 mm
Coil Weight: 10 – 25 metric tonnes
Material Surcharges: Included
Extras: Excluded
Price Point: Net effective base price, ex-mill / N Europe Base Point

BILLET - FOB BLACK SEA

Clearing: CME Clearport
Lot Size: 100 metric tonnes
Price Quotation: USD
Trading Months: 24 consecutive months
Settlement: Cash/financial
Index: Platts
Grade: GOST 380-94, 5sp/ps
Gauge/width: 125 x 125 mm square, lengths 11,700 mm
Timing: Lead times 2-6 weeks
Payment: At sight

HOT ROLLED COIL - SOUTHERN EUROPE

Clearing: LCH.Clearnet
Lot size: 20 metric tonnes
Price quotation: Euro
Grade: Prime mild carbon steel EN10111 DD11 (or equivalent)
Gauge: 2.0-4.0mm. Width: 1250-1600mm
Coil Weight: 14-25 metric tonnes
Order size: 500 metric tonnes minimum
Material Surcharges: included
Extras: excluded
Price point: Net Effective Base Price, Ex-Mill

HOT ROLLED COIL - US MIDWEST

Clearing: CME Clearport
Lot size: 20 short tons
Price Quotation: USD
Trading Months: 24 consecutive
Settlement: Cash/Financial
Index: CRU
Grade: For commercial quality
Gauge/Width: extras excluded
Coil Weight: > 40,000lbs
Material Surcharges: Included
Extras: Excluded
Price Point: Net effective base price, ex-mill

US MIDWEST NO. 1 BUSHELING FERROUS SCRAP

Clearing: CME
Trade Size: Minimum 1,000 gross tons
Price Quotation: USD
Trading Months: up to 24 months
Price Point: Delivered Midwest mill
Delivery: Any mill in Illinois, Indiana, Michigan, Wisconsin, Iowa and NE Ohio
Specifications: ISRI Grade 207, No. 1 busheling.
Material Origin: All origins
Delivery Window: Within 30 days
Delivery Method: Any permitted according to ISRI specifications 2011
Payment Terms: Net 30 days post delivery. Other terms normalized
Publication Date: 5 p.m. EST, 10th day of each month (or following working day)

TURKISH HEAVY MELT SCRAP

Clearing: LCH.Clearnet
Lot size: 20 metric tons
Price Quotation: USD
Trading Months: Up to 24 Months Ahead (Mths, Qtrs & Yrs)
Settlement: Cash/Financial
Index: The Steel Index
Grade: Heavy metal scrap 1 & 2 blended in an 80:20 mix
Delivery: Within 30 days
Payment: Cash / LOC
Price Point: CFR Turkish Port

HRC – ASEAN CFR IMPORTS

Clearing: SGX
Lot Size: 20 metric tons
Order size: 1000 metric tonnes minimum
Price Quotation: USD
Trading Months: 24 consecutive months starting with current month
Price Point: CFR ASEAN Port
Grade: Prime mild carbon steel to SAE 1006, SPHC or SPHT-1 (or equivalent)
Gauge: up to 3mm; Width: 900-2000mm
Coil weight: 10-30 metric tonnes
Frequency: Daily
Publication Dates: Following Singapore calendar
Publication Time: 18:30 Singapore

HOT ROLLED COIL - CHINA DOMESTIC

Product: Domestic Hot Rolled Coil (HRC) – China
Quality: In the category of Q235
Quantity: Standard spot-market order size of 100 mt and above
Dimensions: 4.75 mm (thickness) x 1500mm (width) x C
Location: Prices sourced from 25 major cities across China
Others: Unit for assessment will be USD per metric ton. Exclude surcharges and extras.

REBAR - CHINA DOMESTIC

Product: China Domestic Hot-Rolled Ribbed Bar (Rebar)
Quality: In the category of HRB335
Quantity: Standard spot-market order size of 100 metric tonnes and above
Dimensions: with a diameter of between 16 – 25 mm
Location: Prices sourced from 25 major cities across China
Others: Unit for assessment will be USD per metric ton. Exclude surcharges and extras

For further details about Steel Derivatives or to discuss trading opportunities, call:

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