FANYA – Breaking the Mold on Specialty Metals Trading?

Commodity exchanges have sprung up over time either at the source of the capital in major financial centres (e.g. LME and New York Mercantile Exchange) or at the source of the product traded (e.g. the various spice exchanges in India) or the attempts to launching exchanges in Indonesia and Malaysia dealing in local products such as tin or palm oil.

As is well known the Chinese dominate a number of metals through the production of the raw material and at the same time are important as the end-consumers or processors of the same metals. Thus to some extent it makes sense that the trading of these metals should take place at exchanges within China rather than in some far distant place like Singapore or London. Moreover it would seem the Chinese are also tired of the low value added that the big trading houses bring to the equation. Knowing the end users in a space like Antimony or Rare Earths, for instance, is no rocket science. Everyone knows who they are, so why would one need some slick-suited bankerish type intermediating the transaction when in some cases the product is produced in China and ends up in an industrial application within China?

Bringing Home the Bacon

The issue has been addressed in two ways. Firstly we saw the Hong Kong-backed acquisition of the London Metal Exchange (reminiscent of the old advertisement featuring Victor Kiam saying “I liked the product so much I bought the company”). Secondly the establishment of exchanges within China such as the Shanghai Metals Exchange for bulk products (in competition with the LME and more recently with the appearance of the FANYA Metals Exchange in Yunnan province with a focus upon those specialty metals that China has quite literally “made its own".

The short-term goal of FANYA Metal Exchange, which started trading in April 2011, was to be the leading global market in rare metals The metals traded include Indium, Germanium, Cobalt, Tungsten (APT), Bismuth, Gallium, Silver, Vanadium, Antimony, Selenium, Tellurium, Rhodium, Dysprosium oxide, and Terbium oxide. Apparently, the volumes of both trading and settlement of Indium, Germanium, Tungsten, Bismuth and Gallium rank in the first place in the world. However to be the largest trading platform in the mentioned metals (excepting cobalt) is not that difficult considering there is no other trading platform.

They cite Indium as an example, claiming that more than 90% of Indium is now traded through the FANYA Metal Exchange, and that warehouse stockpiles amount to more than 2,800 tonnes (six times Chinese annual output and four times world annual output). This warehouse facility is a double edged sword for players in the specialty metals space. It certainly makes the exchange more credible but at the same time gives the formerly opaque business of estimating stocks or supplies an added piquancy. The first reaction is to say it enhances transparency but then thinking about the way stocks in Chinese warehouses have been brutally and cynically exploited to send out "mood" signals on the market for certain metals (copper comes to mind) we wonder whether the statistics on movements into and out of FANYA's warehouses might indeed be "garbage in, garbage out" to bamboozle the foreigners moving in the specific metals that China dominates.

FANYA also claims to have the largest amount of clients' assets under management on its spot trading platform, though that is a statistic that is not only unverifiable but surely also subject to fluctuation. FANYA's website states that "clients' assets under management increased to more than RMB

42.5 billion, and more than RMB 32.7 billion has been injected into real economy”. They also claim that newly added clients’ assets are increasing at a rate of RMB2 billion per month.

As for turnover and “membership” the Exchange asserts that, by the end of October 2014, the accumulated turnover had been more than RMB 290.3 billion and there have been more than 160,000 “members” nationwide. The total commodity trading volume has been nearly 350,000 tons of listed commodities.

The Mechanism

Finding out information on the costs of doing business on this new exchange is not as easy as one might imagine for a group that wants to be taken seriously as the “go to” place for trading in the metals mentioned above. What we do know is:

Membership Fees (for brokers we presume): RMB 1,000,000 (US$ 161,290)

Daily Storage Charge of RMB 0.0008 per kg

Warehouse Entry Charges

- RMB150/t Bulk Unloading Fee (including Unloading, Weighing, Sampling, Packaging fees)
- RMB40/t Pallet Uploading Fee (Forklift, Weighing, Sampling, Packaging fees)

Warehouse Out Charges : RMB20/t, Loaded Fare (Including Forklift, Handling Fees)

These numbers were presented to an audience at the Antimony Congress in Madrid which I attended back in March. The presentation cited one market participant who revealed that if antimony price rose by above 6%, then he covered his holding cost at the warehouse.

Critiques

Originally we had heard that this was going to be a market for trade players. However it would appear that in true Chinese fashion it has morphed into a playground for the notorious Chinese penchant for gambling. Chinese retail players seem to be pouring in to “play the ponies” in the form of Indium and Tellurium. While these are certainly exotica, the fact that holding costs are purportedly around 6% meaning that there needs to be a decent move in the price of the commodity to even break even. Indium is scarcely a commodity that is the word on everyone lips and short of a great new application the demand for it should putter along. This is a good thing but scarcely the grounds for a big speculative gain.

Moreover the size of the stockpiles being built up must be worrying. Four years’ worth of global consumption is an awful lot of any metal. The Zinc numbers at the LME are measured in weeks of consumption. We wonder how much of the other specialty metals are stashed away here.

Apparently Chinese authorities are concerned about the situation. What seemed like a good way of getting the retail hordes to sterilize their savings in a “useful” commodity besides gold may end up sabotaging the Chinese goal of appearing to control these metals if one of the all-too frequent rushes to the exits by panicked small investors results in masses of product being tipped out into the waiting arms of bargain hunting foreigners or forcing State-owned Enterprises to step in and soak up metals sales in a panic situation.

Conclusion

It is said that an Australian will bet on two flies walking up a wall, however they look like rank amateurs when it comes to gambling when compared with the Chinese.

What started out as a good idea at FANYA with the government probably looking on benevolently has gone from being the crowning statement of China’s dominance of specialty metals to a potential embarrassment. The government could well end up with egg on its face if the retail crowd are allowed to blow up the exchange with their surging mood swings and rapid in and out movements in relatively short periods of time in excessive quantities of metals that are usually traded “by appointment only”. Nothing will break China’s dominance of a particular metal like looking like it doesn’t really have a grasp on the trading of the metal within its own borders and jurisdictions.

That the world needs some transparency in specialty metals is a given (though many resisted the LME launching contracts in cobalt and moly a few years back). FANYA was a step along that road. Being the biggest thing (in terms of churned turnover) is not necessarily as useful to all concerned as being a quality market matching producers and end-users. The structure for potentially achieving this is here, now it just needs some of the *sturm und drang* removed from the equation.