

# **EMM Market Risk Strategy in 2010**

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# Main Component

This report discusses the major strategy of EMM market risk control, and provides reference for the enterprises of improvement and innovative management methods.

**Report is primarily divided into three parts:**

1, in 2010, the risk of EMM market is complex

2, the major strategy for risk control of EMM market

(1) Professional industry information collection and analysis system

(2) Authoritative hedging of the electronic trading platform

3, risk control service agency of EMM industry



**In 2010, the risk of EMM  
market is complex**

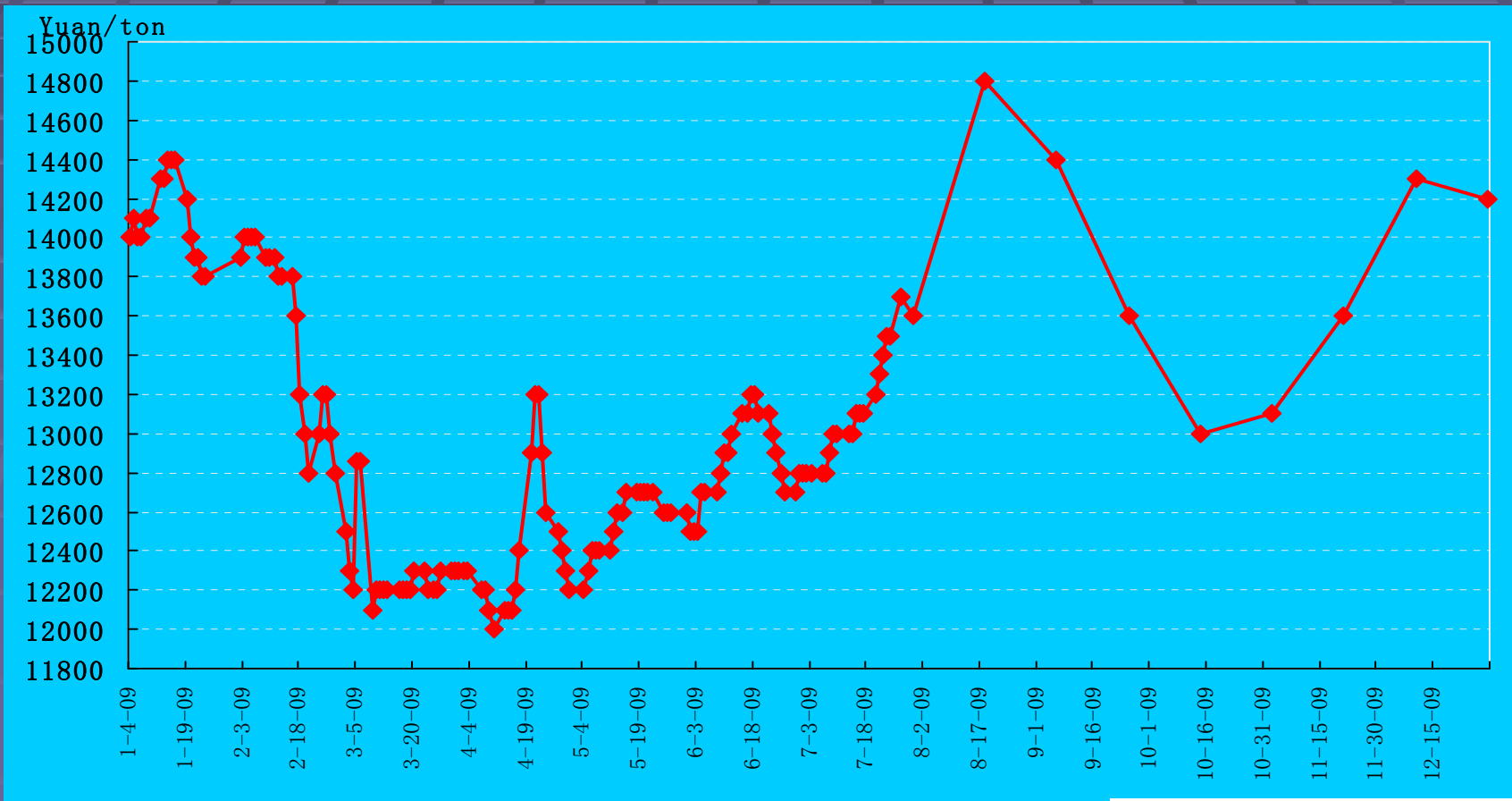


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## First, the risk of EMM market is complex in 2010

EMM prices is alternate during 12,000-14,800 Yuan/ton. Market volatility frequency has increased , and it greatly increased the risk of production and operation.



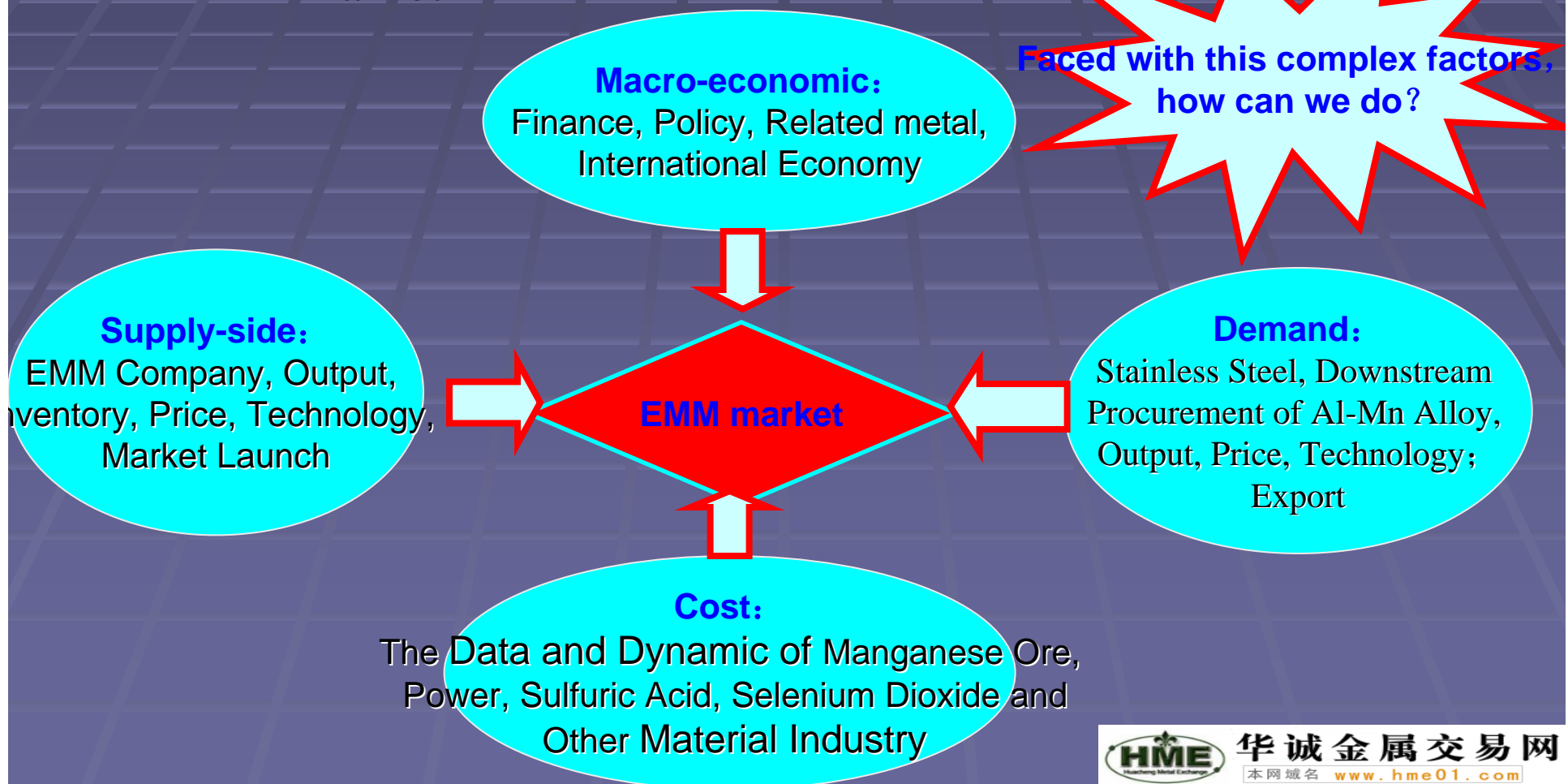
## First, the risk of EMM market is complex in 2010

- **Industrial environment is more complex:**
- **Macro-economic environment:** 2009 was a difficult year! 2010 is a complex year! Domestic asset bubble, economic stagnation and inflation, the three major crises are lurking. In international market, the exchange rate war, trade war and the cost war led by the U.S. has been ignited!
- **Market demand:** The overcapacity is serious, and EMM market has changed from a seller market to buyer market. The diversity of market demand increases difficulty of judging the EMM demand.
- **Raw material supply:** Inadequate supply of raw materials, the main raw material and energy power prices are continued to rise, and raw material costs eroded the meager profit margins of enterprises.
- **Production techniques:** The application of new technologies continues to accelerate, EMM production costs being changing, and enterprises will also continue to adjust pricing standards.
- **Industrial policy environment:** Changes in the policy environment is speeding up, and new policy of environmental protection and eliminate backward will continue to affect the supply of EMM market.
- **Alternative to competing products:** Low-carbon and micro-carbon ferromanganese and foreign EMM continuously take place of our EMM market, and the shares of the market demand are changing.



## First, the risk of EMM market is complex in 2010

- EMM as the basis of metallurgical raw materials, there are many factors associated with upstream and downstream, so any changes of these factors will cause dramatic changes in EMM market!

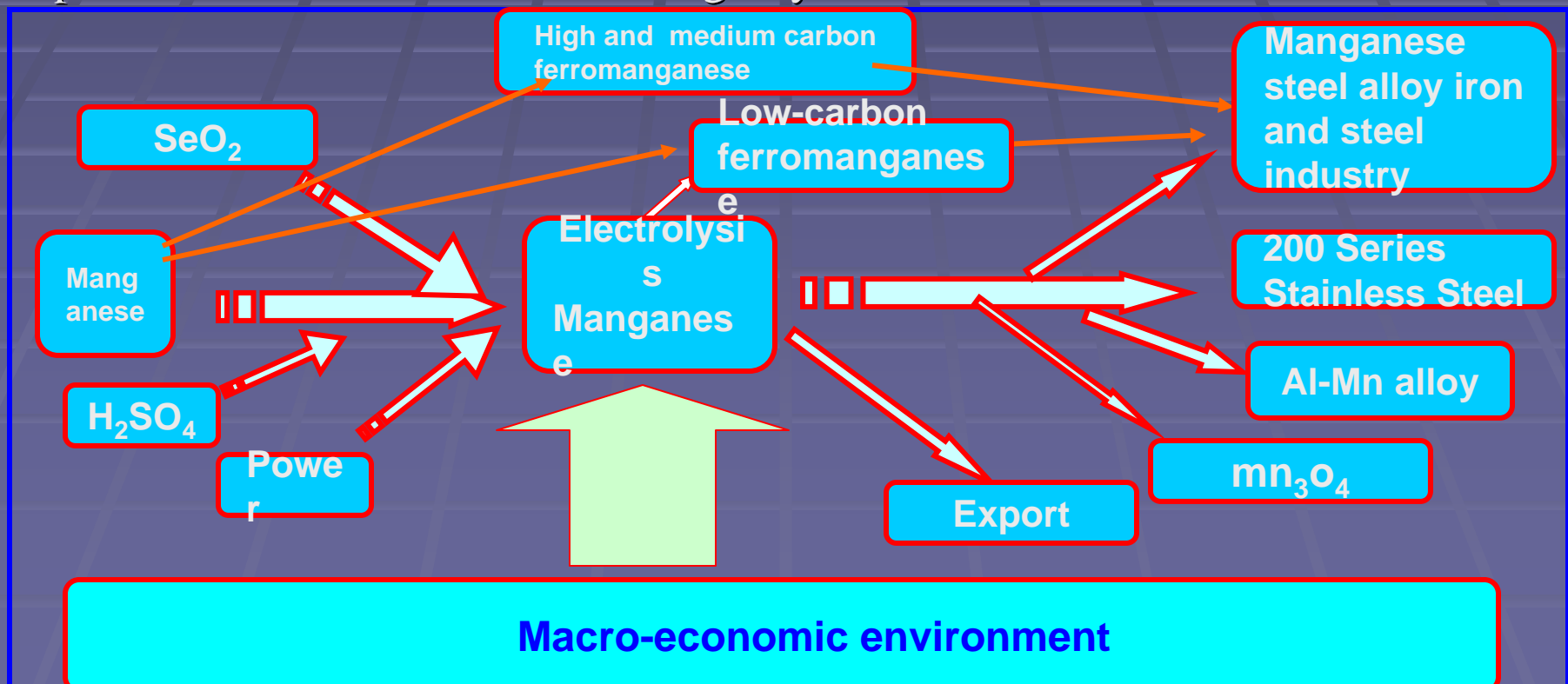


## Strategy 1: Establish professional information collection and analysis system for the market

### Step one: Information collection channels construction

Market information collection system covers various sectors of the upstream and downstream information and data of EMM industry chain. It is need to keep up collection and tracking against all aspects of information and data.

Enterprises can use the various components and industrial chain, establish the cooperation mechanism, to access the information and data, or co-operate with professional information services agency to access to information and data.



## Second, the major strategy for risk control of EMM market



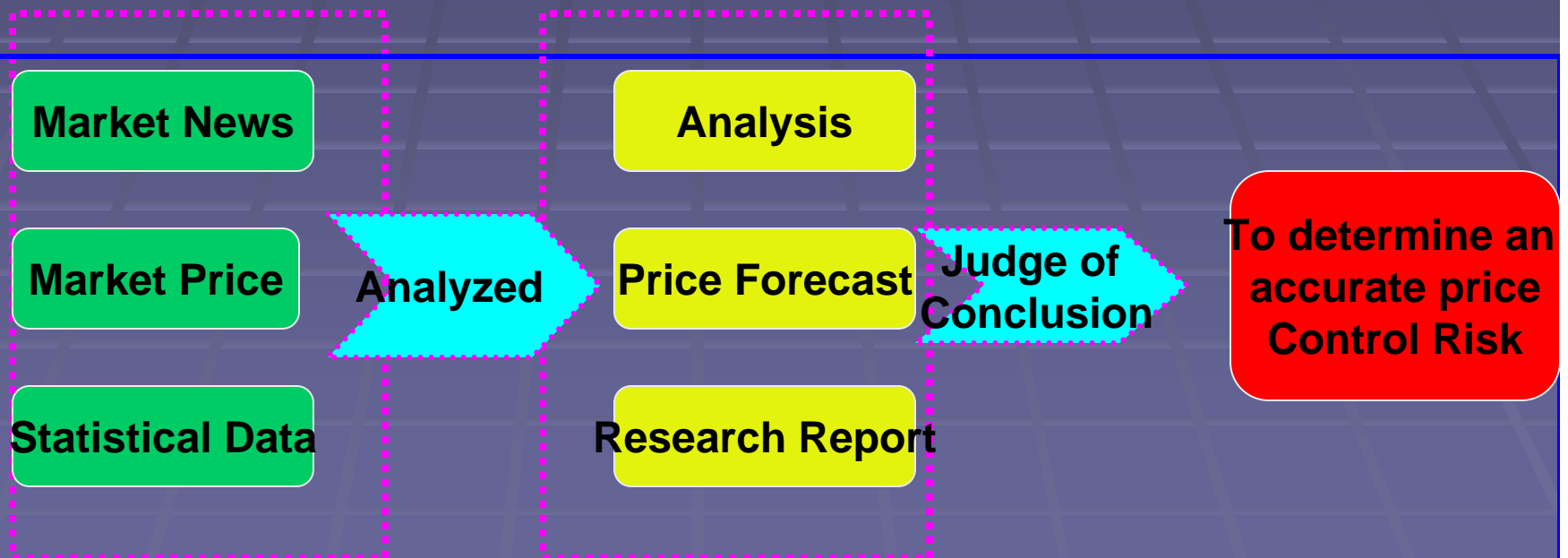
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## Strategy 1: Establish professional information collection and analysis system for the market

### step two: Establish an information analysis system

For the collected mass of EMM market information and data, to collate, classified, Logical analysis and modeling analysis, form professional and accurate analysis findings and research reports. Provide price trend information, controlling risk, and provide enterprises the reasonable plan of the management of production, reducing the business risk.



## Strategy 2: Use the authoritative hedging electronic trading platform

### Control risk mechanism for hedging trading platform:

Using electronic trading platform, do the opposite trade of two transactions of traditional and long-term spot trading, and thus, establish a mechanism to offset profits and losses between the two markets. As one profitability of a market to make up losses in another market, to achieve the purpose of lock-in costs and stable income.

### The main advantage of hedging electronic trading platform

	<b>The use of hedging electronic trading platform</b>	<b>Traditional spot trading</b>
<b>Transfer risk, and lock the price</b>	To avoid the risk of price changes, lock the expected cost or profit.	Passive bear the risk of price changes.
<b>Funds used</b>	10-20% of pre-paid guaranteed payments and turnover are quick, and occupancy of costs is small.	Full all-cargo section
<b>Transaction costs</b>	The use of electronic trading platform, expand trading channels, and dramatically reduce the trade cost.	Require sales staff and transport costs, and the trade costs and human costs are high.
<b>Credit guarantee</b>	Community-based credit system, strict compliance; guarantees payment system and the daily settlement system being very well constrained business practices and reputation.	Individual reputation and compliance is not strict implemented.

## Strategy 2: Use the authoritative hedging electronic trading platform

### Case 1: The midstream and downstream EMM enterprises buy the hedge

On November 28, 2008, Jishou EMM spot price was 11.9 thousand Yuan/ton, and one electronic trading price was 12,000 Yuan/ton. A non-ferrous metal enterprise was worried that price would rise with the coming of spring. Wanting to buy 500 tons of EMM, however, because of a temporary cash-flow poor, they could not purchase in advance. So they used electronic ordering guarantee deposit system (20% of the orders guarantees to buy 100% of the goods) to buy the hedge. As 12,000 Yuan/ton, bought 500 tons of contract in May. On December 19, the effect of hedge:

At this situation, a loss of the spot market just has been offset by the profitability of electronic trading platform. For the spot traders, it has reduced or even removed from the storage spot for early accumulation of insurance and other expenses.

	Spot market	E-marketplace
November 28	11,900 Yuan/ton	12,000 Yuan/ton, Buy 500 tons
December 19	14,500 Yuan/ton	14600 Yuan/ton, sell 500 tons Liquidation
Changes of profit and loss	$(11,900-14,500) * 500 = -1,300,000$	$(14,600-12,000) * 500 = 1,300,000$
Total gains and losses	$1,300,000-1,300,000=0元$	

## Strategy 2: Use the authoritative hedging electronic trading platform

- **Case 2: The upstream and midstream EMM enterprises sell hedge**

On September 19, 2008, Jishou EMM spot prices was 19.1 thousand Yuan ton, and electronic trading price was 19.7 thousand Yuan/ton. One dealer expected a worsening economic crisis, and EMM plats were overcapacity, the stock pressure being large, and the post-market price would decrease. In order to prevent 500 tons of inventory devaluation, the trader sold the contract of 500 tons EMM in the electronic platform . By October 23, the price dropt, the dealer's profits and losses were as follows:

- At this situation, the dealer did hedging operations through the electronic trading platform, making a profit of 3.85 million Yuan. Not only avoided losses caused by falling prices, but also received 20 million profits in excess.

	Spot market	E-marketplace
September 19	19, 100 Yuan/ton	19, 700 Yuan/ton, sell 500 tons
October 23	11, 800 Yuan/ton	12, 000 Yuan/ton, buy 500 tons Liquidation
Changes of profit and loss	$(11, 800 - 19, 100) * 500 = -3, 650, 000$	$(19, 700 - 12, 000) * 500 = 3, 850, 000$
Total gains and losses	$3, 850, 000 - 3, 650, 000 = 200, 000$	

### Case 3 : The cross-hedging between the two species of EMM and related

Although the 201 Series stainless steel and EMM are different, the factors of price that affect them are same . We can calculate the correlation between the two prices to set up a certain proportion of hedging, and thus operate the hedge by using electronic disk.

On September 4, 2009, a trader holding 1,000 tons of 201 high-copper hot-rolled coil of one south factory, and the spot price was 9,300 Yuan. At this point, EMM electronic trading price was 14.1 thousand Yuan/ton. Traders worried about the weak demand in the next week, and the holding 201 steel prices would decrease. In order to prevent the devaluation of 1,000 tons of inventory, the traders sold 870 tons of EMM contract on electronic trading platform. On October 10, the price was sure to decline, the dealer's profit and loss position are:

■ Cross-product operation of cross-hedging, make 522,000 Yuan profit on the electronic trading platform. Not only succeeded to avoid losses caused by the steel price, but also received 12.2 million Yuan excess profits.

	Stainless steel spot market	Manganese E-marketplace
September 4	9,300 Yuan/ton, holding 1,000 tons	14,100 Yuan/ton, sell 870 tons
October 10	8,900 Yuan/ton, sell 1,000 tons	13,500 Yuan/ton, buy 870 tons Liquidation
Changes of profit and loss	$(8,900 - 9,300) * 1000 = -400,000$	$(14,100 - 13,500) * 870 = 522,000$
Total gains and losses	$-400,000 + 522,000 = 122,000$	

## Strategy 2: Use the authoritative hedging electronic trading platform

### Case 4: Manganese traders using electronic disk return on investment case

On July 15, 2009, Jishou EMM spot price was 13,000 Yuan/ton, and electronic trading price was 13.1 thousand Yuan/ton. As the better economic situation, A and B, two dealers were expected that post-market prices will rise. A chose the traditional trade patterns, and B selected the electronic trading platform. On August 17, electrolytic manganese prices raised as expected. A and B dealer's profit and loss situation is contrasted:

At this situation, B dealers through the operation of electronic trading platform, although the amount of B's profit was the same as A, the traditional trader, however, the use of 20% security deposit only took the equivalent of 1 / 5 input costs of A. And because eliminated the need for warehousing, logistics, labor and other expenses, greatly increased its rate of return on capital investment.

	A trade at spot market trading	B trade at spot market trading platform
July 15	13,000 Yuan/ton, buy 500 tons	13,100 Yuan/ton, buy 500 tons
August 17	14,900 Yuan/ton, sell 500 tons	15,000 Yuan/ton, sell 500 tons
Changes of profit and loss	$(14,900 - 13,000) * 500 = 95,0000$	$(15,000 - 13,100) * 500 = 95,0000$
The misappropriation of funds and costs.	6,500,000 + 25,000	1,310,000 + 1,965
Return on investment	$( (1.49 - 1.3) * 500 - 2.5 ) / 652.5 = 14.2\%$	$( (1.5 - 1.31) * 500 - 0.2 ) / 131.2 = 72.3\%$

## Second, the major strategy for risk control of EMM market

At present, the main strategy of EMM market risk control :

- (1) Establish a professional market information collection and analysis system to predict the development and changes;**
- (2) Using the authority hedging electronic trading platform, transfer the risk to the speculation or arbitrage.**
- (3) Strategy 1 + 2, achieve the ultimate risk control of EMM.**



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# Third, risk control service agency of EMM industry



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### Third, risk control service agency of EMM industry

Huacheng Nonferrous Metals Electronic Exchange Shanghai Ltd. (Huacheng) is approved by Shanghai Municipal Industrial and Commercial Bureau in May, 2005; in accordance with "Commodities Electronic Transactions Standard" as well as relevant laws and regulations to create the electronic trading market.

Huacheng metals trading networks [www.hme01.com](http://www.hme01.com), is the only EMM core professional network platform by both collecting information and electronic transactions as one.

Huacheng is focused on providing the most professional and personalized information and electronic transaction service solutions for supply and demand of EMM enterprises. And gradually build and improve the market price discovery mechanism, with the promotion of the orderly development of the industry.



## Third, risk control service agency of EMM industry

Shanghai Huacheng services 1: Market information collection and analysis system

### Information channels:

Shanghai Huacheng around the EMM various sectors of the upstream and downstream industry chain establish the information and data collection channels, including EMM, manganese, selenium dioxide, manganese alloy, steel, stainless steel and other industry representative enterprises, well-known financial websites and websites related industry.

### Products:

Shanghai Huacheng continue to get information and data from the various sources every day. Now, we have introduced Huacheng today's guide price 、 Huacheng 7 days' business index, timely dynamic, market prices and analysis. We will introduce industry data, special report and custom research reports and other information products, to adapt to customers' needs to determine the changing market.

### Service mode:

Shanghai Huacheng through the website, mobile phone, MMS, SMS, publications and other channels to provide customers with a full range of services.

## Third, risk control service agency of EMM industry

### **Shanghai Huacheng Service 2: Authority of the hedging electronic trading platform**

On January 18, 2010, Shanghai Huacheng long-term electronic trading platform has had a formal resumption of plate. Dealers under the convention of , both buyers and sellers can trade by pricing, bidding and auction-driven.

Shanghai Huacheng electronic trading platform for the spirit of "openness, fairness and impartiality" principle, adopt a technology-leading electronic trading platform for commodities, to provide a platform of hedge for manufacturers and dealers, and also provide a platform of risk-benefit for speculation and arbitrage.

Shanghai Huacheng long-term electronic trading platform has had a formal re-plate. For the manganese industry, to establish a electronic trading platform, provide the basic security facilities for traditional spot trading and long-term spot trading, and has made important contributions to construct EMM price discovery mechanism and promoting sustainable development of EMM.



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Professional information collection and analysis system;

Authority of the hedging electronic trading platform ;

**We are willing to work with you to create high-performance of the market risk control system!**

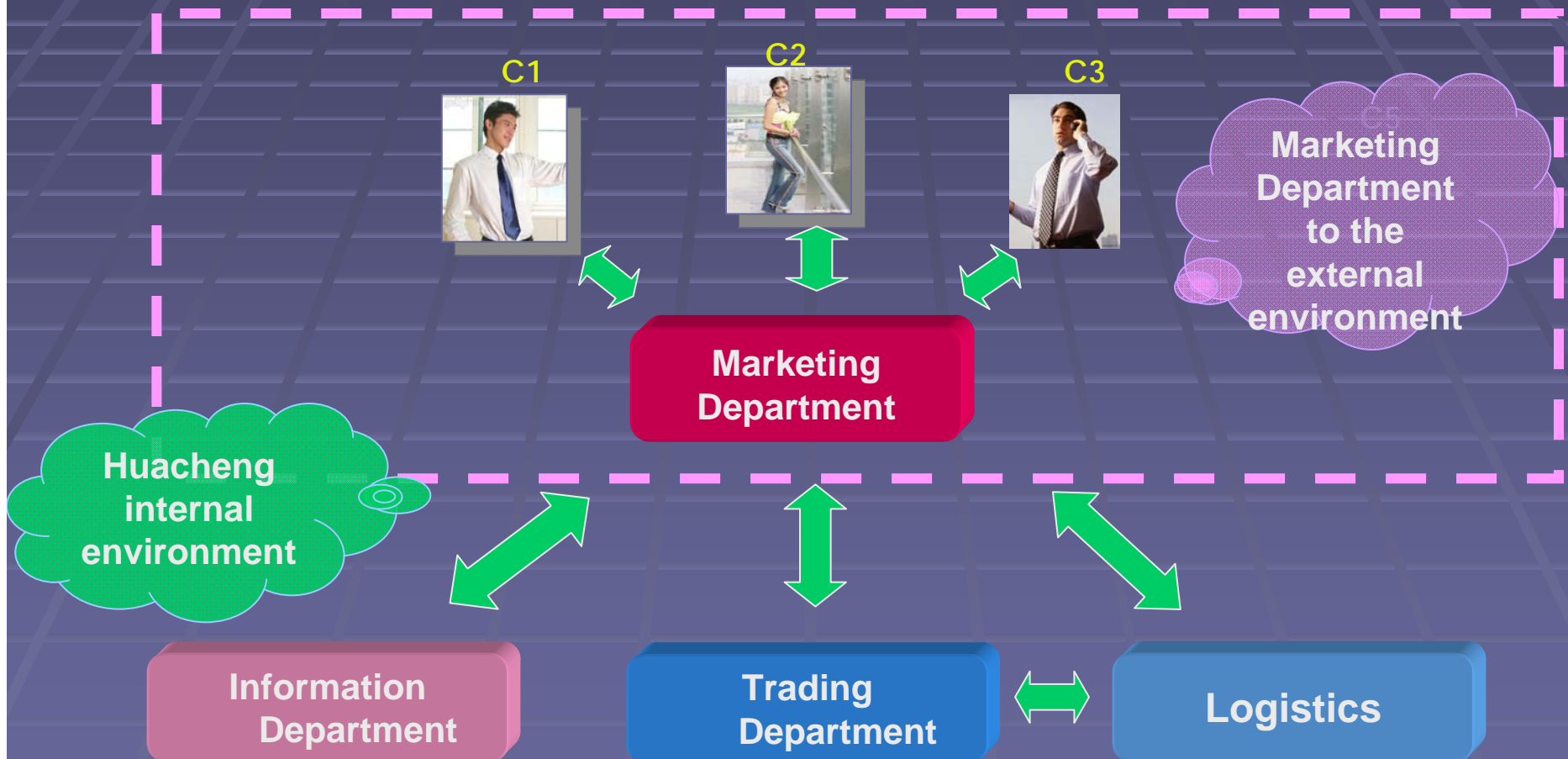


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# Third, risk control service agency of EMM industry

## Shanghai Huacheng efficient organizational structure



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**Thank you!**

**Huacheng Nonferrous Metals Electronic  
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