

A turning point in CTRM for metals

Commodity trading and risk management in metals is witnessing renewed interest with new entrants and enhancements from established system providers, writes Gregory DL Morris

Commodity trading and risk management (CTRM) in base and ferrous metals appears to be at an inflection point. Allegro Development, a major provider of CTRM for energy and agriculture, is about to plunge into the metals sector. Fendahl, a firm that started as a consultancy eight years ago, has grown from writing custom pieces of software to writing a whole new code base. Three other vendors – Triple Point, OpenLink and Aspect Enterprise – have been acquired by Ion Investment Group.

Meanwhile, established CTRM supplier Brady Plc is enhancing its product. And SAP, the ubiquitous global provider of enterprise resource planning (ERP) software, has been putting considerable effort into enhancing its CTRM capabilities.

“I am excited to confirm that Allegro Development is moving into the metals market, which we will be formally announcing in a few short weeks,” said Frank Brienzi, CEO. “In my conversations with metals industry participants, I have noticed two common themes: One, their current CTRM solutions are not meeting their needs in today’s market; and two, they are enthusiastic about Allegro’s recent acquisition of FEA, the world leader in quantitative analytics.”

Brienzi believes that now is an excellent time for his firm to enter the metals sector. The



system is called Allegro Horizon, and has tools for smart trading, enhanced operational risk management, and improved position visibility, with the ability to handle growth.

“Allegro brings to the metals market the heritage, pedigree, platform, scalability, and vendor stability acquired from over 30 years of delivering commodity trading to the world’s largest international trading companies,” said Brienzi.

Brian Collins, managing director of metals, noted, “Allegro has hired some of the metals industry’s top experts to drive our initiative. Over the past year, our team has been validating market requirements with companies across the industry, including one of the world’s largest metal producers and a leading metals manufacturer.” That focus on meeting current market requirements extends across the

entire metals value chain, he added.

The Allegro metals CTRM system is built on the same platform as has been in service in other asset classes and used by many international trading firms, according to Allegro. It is fully integrated as part of the main core platform and brings with it the same coverage and functions.

Reda Bahri, managing director of Atum Consulting, remarked that, “Considering today’s digital landscape and market volatility, the metals market is in desperate need of flexible commodity trading and risk management from an established vendor. I believe this market is underserved. It requires analytics that will provide metals companies with the tools necessary to enhance their portfolio management and capitalize on growth opportunities.” Allegro noted that it “also leaned on the

expertise of Atum Consulting for industry trends.”

New code

“All of the existing CTRM software is based on old code,” said Henry Thornalley, account director at CTRM provider Fendahl. “Most of it was developed in the US for oil and gas, and over the years was adapted for agricultural commodities and metals. The time was ripe for a new generation of CTRM with new code. We wrote Fusion CTRM from the ground up for multiple commodities.”

At the end of the day, all of the CTRM software tries to do mostly the same things, Thornalley explained. “The key is how efficiently it does them. Past systems could be inefficient in their operation, and very expensive to install. Implementation could easily cost twice as much as the licensing fee. Cost was becoming prohibitive, especially for smaller users.”

As an example Thornalley noted that because legacy systems were accreted over many years and many modifications, “There were lots of screens to click through. We designed Fusion for minimum clicks through minimum screens.”

As a relative newcomer, Fendahl has scored some notable wins, including a contract with Blue Quest Resources, a Swiss firm with mines in South America. That was announced in May. The firm is hopeful of another contract with a top-20 mining firm, possibly to be awarded by the end of the summer.

Metals-specific

Part of the difficulty that CTRM has had in gaining traction in steel and metals by contrast with other commodities, particularly for ferrous metals, is that they do not have the level of global exchange volumes of trading that energy and agricultural commodities do. Nevertheless, precious metals and some base metals have robust global

Technology spotlight: Trading software

markets in physical and financial contracts.

“Concentrate is a market that has trading-like capabilities already,” said Patrick Reames, managing partner of Commodity Technology Advisory. “But metal markets are maturing, and there are opportunities opening.”

CTRM systems are most useful where there is an index from which buyers and sellers can make a basis adjustment, Reames explained. “After that you can create custom price curves and start to trade look-alikes for non-exchange traded commodities.”

Multiple parties influence choices of CTRM. “So far the decision to go with CTRM is not so much at the operational level but the corporate office, particularly the financial officers,” seeking more transparency and data for risk management at the organizational effort, said Reames.

He sees CTRM at an inflection point, with a few new entries, and an active consolidator. “Ion is a roll-up strategy,” Reames noted. “Nickel is a strong point for them,” he added, and Ion is particularly active in oil and refined products. They are adding some notable capabilities, said Reames. “Aspect has a multi-tenant cloud, and OpenLink has strong risk-management and analytics,” he summarized.

Gaps in ERP

There has been fairly good adoption of CTRM around the metals sector, said Harry Knott, manager for metals at Brady. “It is not everywhere, but for most companies above a certain size there is a system of some description in place.”

There is an important differentiation between CTRM and ERP, Knott stressed. “ERP is more multi-purpose, including manufacturing lines, general ledger, and accounts-receivable and -payable. Those systems are not so strong on CTRM. Companies that buy raw

materials and turn them into finished- or semi-finished goods typically use ERP for their purchase and sale management, but that tends to leave gaps in their ability to hedge.”

To bridge that gap, he added, “They end up heavily customizing their ERP system. But that doesn’t really work. It is a quite expensive way to get a not-very-good system. Or they get CTRM.”

There are two further differentiations that bear mentioning. One is how CTRM needs vary between an extractive industry, such as mining, and a transformative industry, such as a steel mill. The other is between commodity markets with large volumes of fungible materials, such as crude oil, and a commodity market like steel or plastics where there are hundreds of different types and grades. The CTRM options and objectives are different in each case.

“Big manufacturers have very different requirements as compared to a speculative trader,” noted Knott. “In some industries such as mining, oil and gas, or power, the companies combine trading with their production activities. In effect, the marketing division is a trading company that buys the internal goods and sells them externally. That is compared to a transformational company that takes raw materials in and puts finished goods out.” Those differences go part way in explaining where and why there has been adoption of CTRM in the metals sector.

Brady has taken the approach of specializing in key segments. “CTRM has not been much adopted in the metals-concentrates business,” said Knott. “It is a small market, but is complex. We have had a niche offering in concentrates for quite some time, and in the last few years have brought that into our mainstream system.”

Precious metals tend to be most advanced in hedging, with base metals second and then ferrous metals. Knott noted that

“For there to be hedging there have to be counterparties and standard contracts or at least commodity indices. I expect there will be more of that in ferrous in coming years, but there remains a challenge in pricing.”

One of the reasons that mills and other operators try to modify their ERP systems to handle CTRM is out of concern that a separate CTRM system would not be able to communicate well with other systems.

“Sometimes people want the CTRM system to post down to a general ledger to generate things like invoices,” said Knott. “In other cases they want CTRM to post up to ERP for integrated inventory control. The first is easy. The second requires heavier weight integration because there are fewer standards. On the accounting side, things are fairly standard.”

In summary, Knott confirmed “The Brady side of any ERP interface is generic. We see a lot of SAP, and we can talk to most of the major systems.”

CTRM to the fore

CTRM is not new on the agenda for metals firms, said Stefan Koch, global lead for metals at SAP. “It faded a bit, and now is coming back to the fore. It is still a challenge but there is a lot of money involved,” so there is incentive for companies to make it a priority. “We have an updated tool for commodity management, as it is called now, that is built on top of our core ERP software,” said Koch. “It is not a separate package, it is integral to the system.”

“We have a lot of customers who face price risk in commodities. So far they have been working from a workbench,” Koch explained. Now CTRM has been made part of the main system. “It has been out of the business unit related to mining and is now across all industries, steel and aluminium as well as oil and gas and agriculture. There is a pricing engine running in the background.”

That generates comprehensive price curves for providing support to both buying and selling, inputs versus outputs. Those are integrated with the treasury functions of the ERP, Koch explained, along with market-to-market risk management. There are also important tracking and tracing as well as logistical functions embedded that are also linked to the ERP system. But there is not yet a real-time trading desk.

There was a sense among sources that the new focus by ERP vendors could be a tide that lifts all boats. Having large ERP providers talk specifically about enhanced commodity management means that there should be a renewed focus on the topic. Big mills that are already running ERP systems with modifications for CTRM may welcome new streamlined, fit-for-purpose capabilities. Others, wary of the costs and complexities of ERP, may opt for a dedicated CTRM system.

Knott at Brady said that CTRM has a role to play in the growing area of supply-chain management, both for efficiency and reliability. There are also advantages in compliance. “Certain technology can open more possibilities in tracing and auditing,” he said. “That can enhance the efficiency of the supply chain, and also help meet regulatory requirements.”

For example, there are increasing international requirements to validate customers as well as sources of supply. “That means we need to start further upstream and end further downstream,” said Knott.

How might distributed-ledger, or blockchain, technology affect this arena? “The principles of distributed-ledger technology are sound,” said Knott. “It allows counterparties to share information on a secure basis. That enhances tracking and tracing.” From there secure data can be used for supply-chain management or compliance.

“Blockchain will be big in CTRM in a few years,” Knott concluded.