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INSIGHTS

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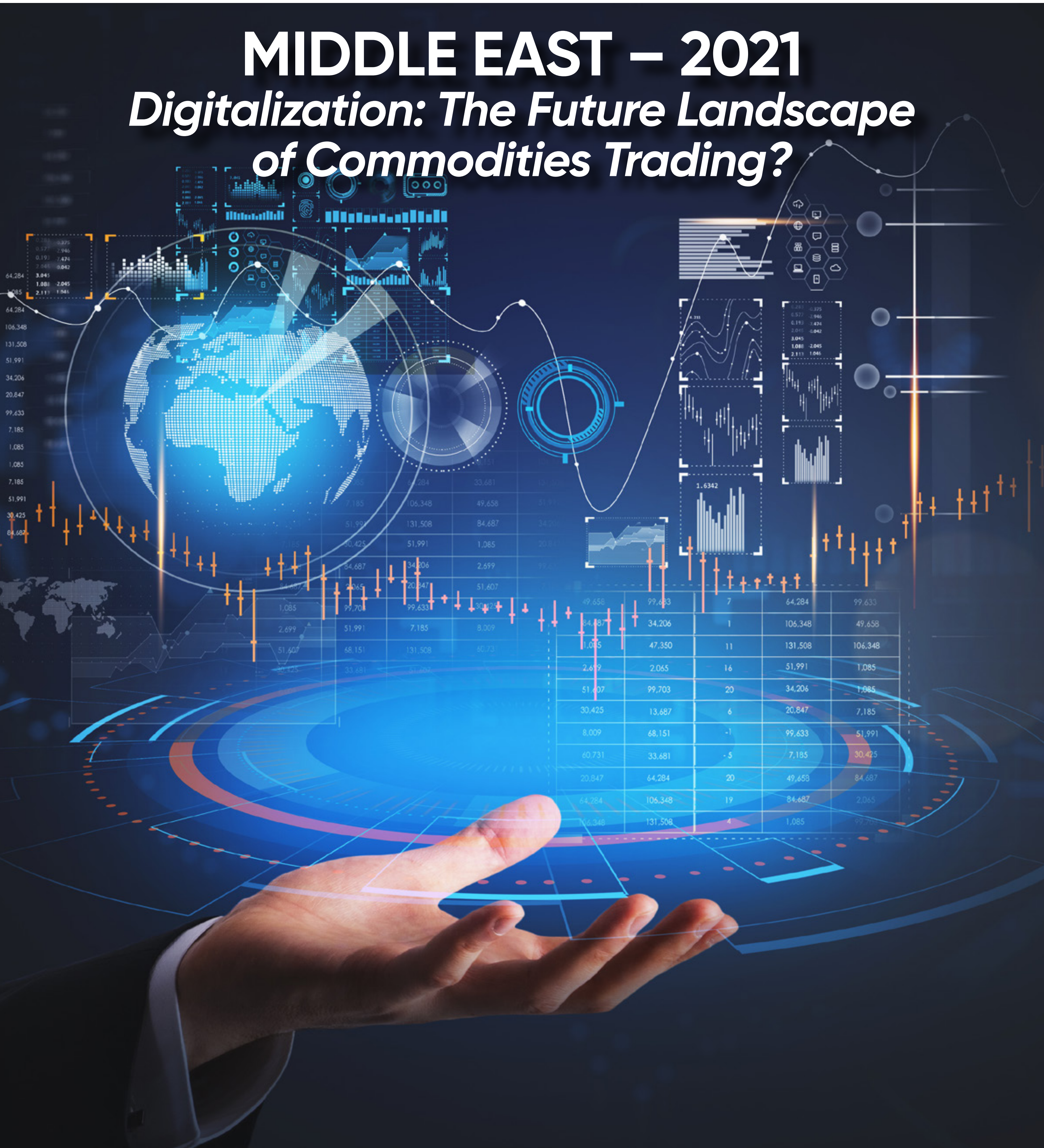
Digitalization: The Future Landscape of Commodities Trading?



SOURCE
These exclusive insights are some of the key takeaways harvested from a webinar hosted by Mashreq Bank in June 2021. The esteemed participants have more than a century of knowledge of regional trading markets between them:
• Badar Chaudhry, Senior Vice President Sector Head – Energy, Mashreq Bank
• Peter McGuire, Chief Executive Officer, XM Australia
• Dr.-Ing. Stephan van Aaken, SVP Digital Trading Development & Operations, Uniper Global Commodities SE
• Morgan Eldred, Managing Partner, Digital Energy
• Moderator: Dyala Sabbagh, Partner, Gulf Intelligence
Please click HERE for free access to the webinar recording.

Digitalization: The Future Landscape of Commodities Trading?

A wide-ranging rally in commodity prices this year has sparked talk that markets may be on the cusp of a new super cycle. At the same time, the digital transition is rapidly changing the status quo across commodities' entire business matrix. Traders, financial institutions, regulatory bodies, and many others in the ecosystem must quickly adapt. Amid this plethora of opportunity, how can market players use digital tools as a springboard for more speed and accuracy – and lock in even greater returns this year?

Digitalization is not a silver bullet for success in commodities – but it will become a non-negotiable tool as tradeable volumes and complexities intensify. The forerunners in commodity trading who are already leveraging artificial intelligence (AI), big data, and complex predictive algorithms are benefiting from real-time analyses that give them a coveted head start. Those on the front line of this positive digital disruption – and perhaps a commodity super cycle – are better able to manage costs, efficiency, and capture more opportunistic business, speakers pointed out. This does not mean digitalization should rewrite the entire rulebook of commodity trading, but instead it modernizes the business for 21st century dynamics.

And the domino effect of modernization – notably greater speed and accuracy – is urgently needed as commodity markets face major change. One is the need to become increasingly diverse amid the global push for greener markets in support of the Paris Agreement. Pinning down the digitally proven carbon footprint of a commodity product will become a normal part of businesses and consumers' wish-list over the next decade. Plus, the globalization of commodity markets is also heightening. The same applies to overall demand forecasts as the planet will be home to 25% more people by mid-century.

These drivers are triggering both opportunities and complications, as well as more "mind-blowing" market volatility, speakers agreed. The unprecedented volatility in oil prices serves as a stark reminder of how sharply trends in commodity markets can turn. For example, US crude oil futures fell to -$37.63/bl in April last year – a "monstrously big move" that saw the oil price plummet into negative territory for the first time in history. Arguably, better utilization of digital tools going forward can help market players identify potential chokepoints in supply and demand sooner, with this increased visibility then easing turbulent pricing trends.

"Financial institutions are trying to map out customers' experience and requirements end-to-end. This is where the value of digital tools is being witnessed, as these are making it possible to create real-time solutions – be it account opening or facilitating the activities carried out with counterparties"

Badar Chaudhry, SVP Sector Head – Energy, Mashreq Bank

"The commodity super cycle never went away – it just went on a bit of a vacation. This decade will be beyond our imagination in terms of base metals and overall demand. Then if you throw an extra one billion people on the planet in the next 12-15 years into the mix, it adds even more demand."

Peter McGuire, Chief Executive Officer, XM Australia

POTENTIAL ABOUNDS

The gap between digital adopters and laggards in commodity markets has dramatically narrowed in the last year, as the economic turbulence spurred by the Covid-19 pandemic has market players eagerly seeking ways to maximize efficiency and profit. Plus, regulators increasingly and publicly saying they want to create an entirely seamless banking system spurs commodity players' confidence that the market can build into a super cycle. This would be the first time since the early 2000s, amid the rise of BRIC – Brazil, Russia, India, and most powerfully, China. Today's very strong demand for commodities is also being propelled by substantial government-led and pandemic-related stimulus packages, as the world recovers from what the International Monetary Fund (IMF) calls the worst economic squeeze in 90 years. This is working: tens of trillions of dollars being spent globally, speakers said.

TRADERS' PERSPECTIVE

Greater efficiency than ever lies at the heart of maximizing the potential of these growing market volumes. Symbiotic AI, quantum computing and machine-learning are the three tools that speakers highlighted as priorities out of the broader basket of the 4th Industrial Revolution (4IR) in the commodity markets. All give traders a far more focused eye, enabling them to better navigate the "the nuts and bolts" of trades, especially amid volatility.

Previously, traders using such tools were considered ahead of the curve. But it must be the norm going forward, with those more reluctant likely to find themselves overrun by the tsunami of data and accelerated speed of trading demands. This means all traders will likely need to reskill or upskill; they will become smart choreographers of algorithms while technology handles the details. Humans can simply not process the gargantuan volumes of data that digitalization in commodity markets will generate. For example, the amount of data created over the next three years will be more than the data created over the past 30 years, the International Data Corporation (IDC) flagged. Unsurprisingly, this paradigm shift is driving the appetite of trading firms, financial institutions, commodity companies, and others to lock in rare talent – those with knowledge of both digital and commodity markets. Another route companies are exploring is hiring clever, knowledge-hungry individuals who have a penchant for creativity, and training them to support other digitally enabled commodity traders of the future. Whatever the route, the need to embrace digitalization is unavoidably clear and the clock to lock in maximum economic potential will only tick faster if a super cycle is realized later this year.

"The growth in data scientists and data engineering roles to manage data pipelines is very interesting. Some people are shifting away from physical commodities to the knowledge-based aspect of trading, using technologies more and more."

Morgan Eldred, Managing Partner, Digital Energy

"Traders are increasingly in a position where failing to use technologies of the future puts them at risk of falling behind or being overrun. There is so much data and so much information now, that traders, as humans, simply can't digest it all on their own."

Dr.-Ing. Stephan van Aaken, SVP Digital Trading Development & Operations, Uniper Global Commodities SE

Big vs small

Established players are typically slower digital adopters and will be challenged by faster-moving upstarts who are not burdened by legacy infrastructure or bureaucratic hurdles. The advantage of bigger companies is that they have large data stores – not necessarily all high quality or organized – but certainly voluminous. Some of this intel is also "hidden" in the minds of experts, rather than stored numerically on machines. Still, the market should expect a rise in skilled individuals equipped with just laptops who are able to conjure innovative and profitable ideas for commodity markets. This will likely become easier as well as the push to open up data systems gains pace, such as the energy market's Open Subsurface Data Universe (OSDU) Data Platform. Free from compliance oversight, these individuals can achieve true transformation – or at least templates for true transformation – far quicker. Eventually, some of this independent talent will be soaked up by big entities via mergers and acquisitions, but that will take time. So, in the meantime, it makes sense for both camps to collaborate and accelerate overall market progress.

25%
growth in the global population is anticipated by 2050, from 7.9bn today to 9.9bn people, according to the UN. The demands of each person feeds into driving the commodity cycle.

32%
of data available to enterprises worldwide is put to work, according to Seagate. The remaining 68% goes unleveraged – a significant waste when businesses urgently need intel to sharpen their competitiveness.

15%
annual growth in global cybercrime costs over the next five years could cost $10.5trn per year by 2025, warned Cybersecurity Ventures – potentially the greatest transfer of economic wealth in history. Commodity players must be alert.

1/ www.zawya.com/mena/en/wealth/story/Why_investors_in_the_Middle_East_may_have_a_head_start_in_ESG_investments-ZAWYA20201022154429/

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