The Global Commodity Trade Finance Industry Report 2020

TXF
RESEARCH

Foreword

I am delighted to present to you the 2020 edition of the TXF Research's Global Commodity Finance Industry Report.

Through a difficult 2020, the TXF Research team has worked tirelessly to continue to invest in and bolster our research, and to make this survey not only more inclusive but as reflective of the fluctuating market as possible.

The commodity market since the end of last year has probably been through one of the toughest times we have seen in recent years. From my point of view, not since 1998 have I witnessed so many negatives impacting the market as a whole. At the end of 2019 we saw problems emerging with some of the smelters in China, but this was then totally dwarfed by the impact of the collapse of some of the local Singaporean commodity traders – most notably Agritrade International and Hin Leong. Then we also saw the dramatic collapse of Phoenix Commodities in Dubai.

The market has been hit by fraud and alleged fraud cases, which have impacted a significant number of banks considerably. There are many lawsuits in progress, and probably many more in the pipeline. Legal firms will be inundated. The impact has been significant, and a number of banking commodity units have closed, and numerous job losses have occurred at several leading banks.

Beyond this, earlier this year we saw the dramatic collapse in the crude oil price, and elsewhere dramatically increased volatility in commodity prices overall. In addition, commodity flows and prices continue to be impacted by the US-China trade war, sanctions, the random imposition of tariffs and of course China's purchasing appetite. Some of these trends are revealed within this research report. But many other factors have also come to the surface.

As many people work remotely through the Covid-19 restrictions, compiling this report has arguably been challenging. Nevertheless, we have had some excellent responses across the commodity spectrum. Some 130 respondents have provided input, along with qualitative insights from 10 interviewees and market data using the TXF Data tool.

Thank you to everyone who spoke to us and took the time to input into the survey this year. Commodity finance is a niche business, but we at TXF have always felt that there is an opportunity for the product to play a more central role to a range of institutions, policy makers and the real economy in general.

With its independent position within the market, TXF continues to hone the intelligence it can provide, and ensure it is business critical information for our clients and the market in general.

Please do get in touch with your thoughts, and together we can continue this journey, and ensure commodity finance is publicised, scrutinised and analysed to an increasingly high standard in the years to come to help you take your business forward successfully.

We hope you enjoy the report.

Jonathan Bell

Editor-in-Chief & Director

TXF

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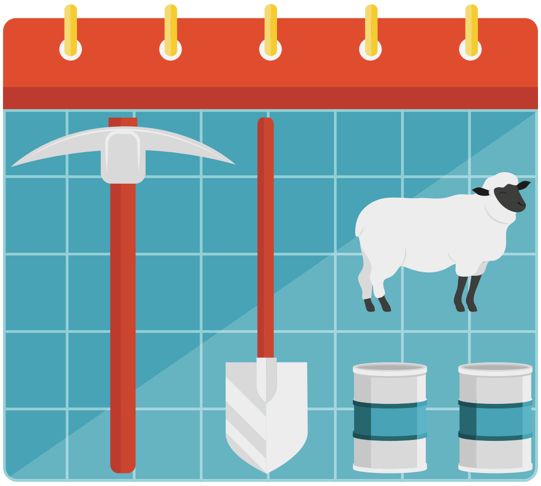
Executive summary

The Global Commodity Trade Finance Industry Report 2020 is based on data collected using a mixed methods design that combines quantitative data from 130 survey respondents spanning advisers, banks, brokers, law firms, private insurers, traders and producers with qualitative insights from 10 interviewees.

1

Over the next 12 months, 62% of the respondents said that they are going to become more active in the metals and mining industry, compared to 27% in agri/softs and energy/petrochemicals.



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Views on sustainability are somewhat divided, with nearly half of the banking respondents, and a third of the traders and producers, showing an unwillingness to sacrifice economic returns in favour of ensuring deals remain sustainable.

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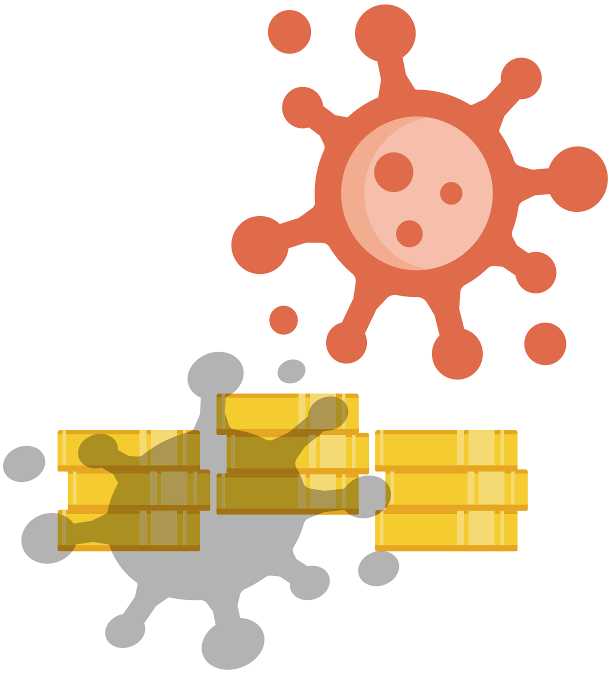
Awareness of the new risk-free rates replacing LIBOR is relatively poor. Additionally, 53% and 57% of the total sample are unaware of the latest Securities Financing Transactions Regulations and EU Benchmarks Regulation, respectively.



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85% of the total sample think that Covid-19 will lead to a reduction in the availability of credit, with 68%, 56% and 54% of the sample citing cost of bank debt increases in agri/softs, energy/petrochemicals and metals and mining, respectively.

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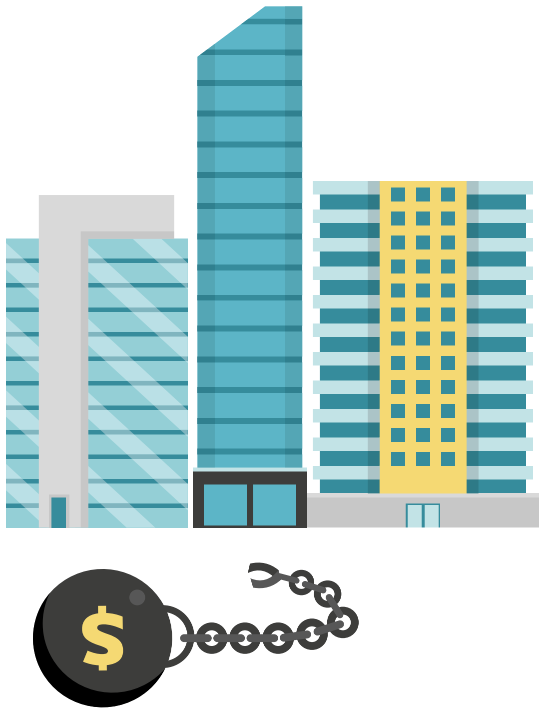
Structured commodity trade finance facilities are set to see a small increase over the next 12 months, particularly in pre-export financing, borrowing base loans, prepayment financing and reserve-based lending.



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51% of the traders and producers noted that they are currently accessing alternative forms of finance, driven by an inability to access bank debt or because the cost of bank debt is too high.

Introduction

The perfect storm

"The commodity trade finance sector in 2020 has been hit by the perfect storm. Wave after wave of Covid-19, fraud, oil prices plummeting below $0 and a liquidity crisis have smashed the industry… I imagine that no one will emerge unscathed from it."

It is not normal practice to start a report with a qualitative quote from someone who took part in the research, but this year has been anything but normal. So much has been written on the trials and tribulations of the commodity trade finance industry in 2020, with adjectives such as 'uncertain' and 'unprecedented', exhausted across the ether. But the quote by the trader neatly sums everything up in one phrase – a *perfect storm*

Unexpected high-profile fraud cases, including Hin Leong, Agritrade International, ZenRock Commodities and Phoenix Commodities, have sent shockwaves through the industry. Hin Leong – arguably the most notorious collapse – ultimately led to ABN Amro, one of the stalwarts of the industry, retreating altogether – a move that exacerbated the growing liquidity crisis (Howse, 2020).

And then we have Covid-19, one of the most destructive pandemics of a generation. First and foremost, it is a humanitarian crisis, one which to date, has claimed the lives of more than one million people worldwide[1] (European Centre for Disease Prevention and Control, 2020), and it is important to place this report into the context of the loss of life. However, from an industry perspective, global disruption in supply chains, coupled with massive shock in demand too, makes, for many, the current situation far more damaging for commodity trade finance than the 2008 financial crash – a largely demand-specific shock that was driven by systemic problems in the credit markets, leading to a liquidity crunch and the repricing of risk assets that spread across many financial markets.

To compound matters, the cessation of LIBOR at the end of 2021, the looming implementation of Basel IV, and a wave of new compliance and regulatory changes are all making the commodity trade finance industry an increasingly more stringent and challenging place to operate.

The banks still left in the market are also having to contend with the emergence of alternative finance funds too – non-financial institutions that are less restricted by regulation, operate faster and with greater agility, and often have access to the latest technology that streamlines the supply chain and reduces the risk of fraud. The rise of funds makes it more important than ever to understand which are the best performing commodity trade finance banks.

Having spoken to the market over the past six months, this report tackles all of these issues and presents the most in-depth primary research available to any individual or organisation active in the commodity trade finance industry.

For clarity, this report will use the term *commodity trade finance* when grouping the different types of financing available to borrowers. Commodity trade finance is an umbrella term that captures structured and unstructured (vanilla) financing.

In this report, structured finance includes pre-export financing, pre-payment financing, borrowing base loans and reserves-based lending[2] where financing is tied to a physical asset. Unstructured (vanilla) financing includes revolving credit facilities (RCFs), transactional commodity trade finance[3], unsecured debt and bonds – all of which are not generally tied to any sort of underlying asset.

[1] Data quoted from the 11th October 2020.
[2] We acknowledge that reserves-based lending is more niche than the other types structured finance but it has been included as it is still used by some commodity trade finance teams.
[3] We acknowledge that transactional commodity trade financing can be structured, but for the purpose of this report, it is assumed that is mostly unstructured debt that facilitates day-to-day operations

Aims and objectives

There are two primary aims of this report:

1. To present a detailed overview of the commodity trade finance industry over the past 12 months, focusing on activity, the impact of Covid-19, compliance and regulation, the banking sector and the views of traders and producers.

2. To present a heatmap that compares the top 10 commodity trade finance banks across nine different attributes. The data that make up this heatmap comes from the clients (traders and producers) of the banks.

To meet these aims, the following objectives were undertaken:

• A quantitative survey of alternative financiers, banks, brokers, law firms, private insurers, producers and traders active in the commodity trade finance industry.

• Qualitative interviews with consenting participants to better understand the latest trends.

Methods

This report uses a mixed methodology research design that combines quantitative survey data with qualitative interviews.

The survey

The quantitative data were collected using an online platform (SurveyMonkey) with data being collected between March and September 2020. The survey was designed so that the respondents only answered questions that were relevant to them and their company. Consequently, 'background and demographics', 'a focused look at the commodity trade finance industry', 'compliance and regulation' and 'the impact of Covid-19' were answered by all respondents, the banking industry section was answered by the banks and the final section was for traders and producers only.

No duplicate data from the same institution were included. If more than one respondent answered from the same institution, the scores were aggregated and then averaged. This approach ensures that every institution is weighted equally.

To provide additional context, closed deal data from TXF Data are included. TXF Data captures around 30% of all commodity trade finance deals. Consequently, where TXF Data is referred to, conclusions should be interpreted with a degree of caution, as the data is a partial snapshot of the market – much of which remains bilateral or hidden/confidential.

The interviews

To explain the quantitative trends, in-depth, semi-structured telephone interviews were conducted with 10 consenting respondents to understand ***why*** the quantitative trends occurred. Participants were identified through the survey.

The topic guide for each interview was based on their survey responses to ensure the conversation remained focused. Interviews were conducted between June and September 2020, lasted between 17 and 35 minutes, and were audio recorded for accuracy and further analysis. Any qualitative data used throughout this report has been anonymised to protect the identity of the interviewees.

Findings

- Background and demographics
- A focused look at the commodity trade finance industry
- Getting to grips with compliance and regulation
- The Covid-19 catalyst
- A forensic look at the commodity trade finance banks
- An insight into the traders' and producers' world

Background and demographics

A total of 130 respondents took part in the survey.

Figure 1: *Type of institution*

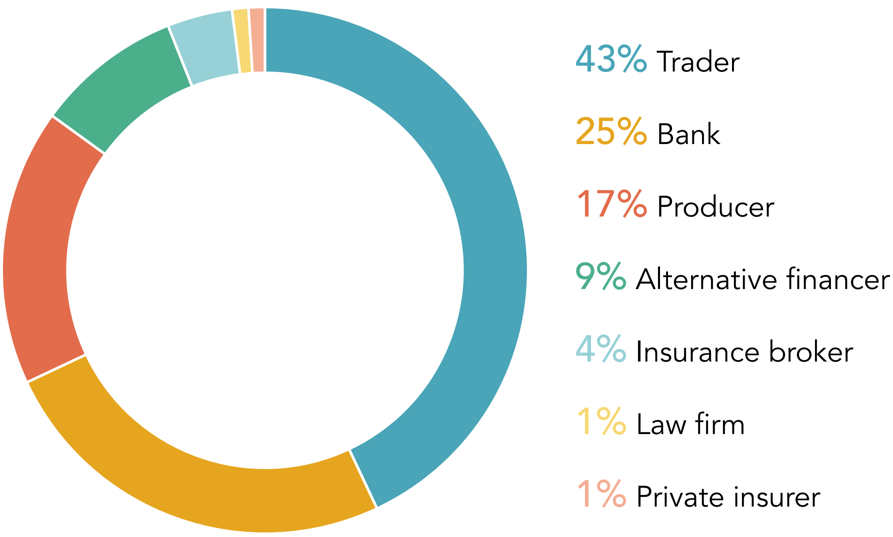


Figure 2: *Seniority of the respondents' role in their organisation*

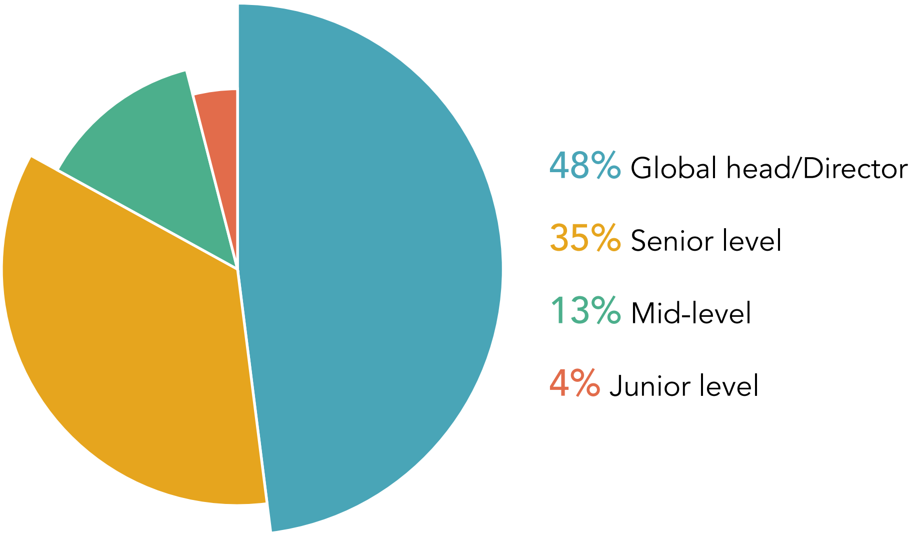


Figure 3: *Location of the company headquarters*

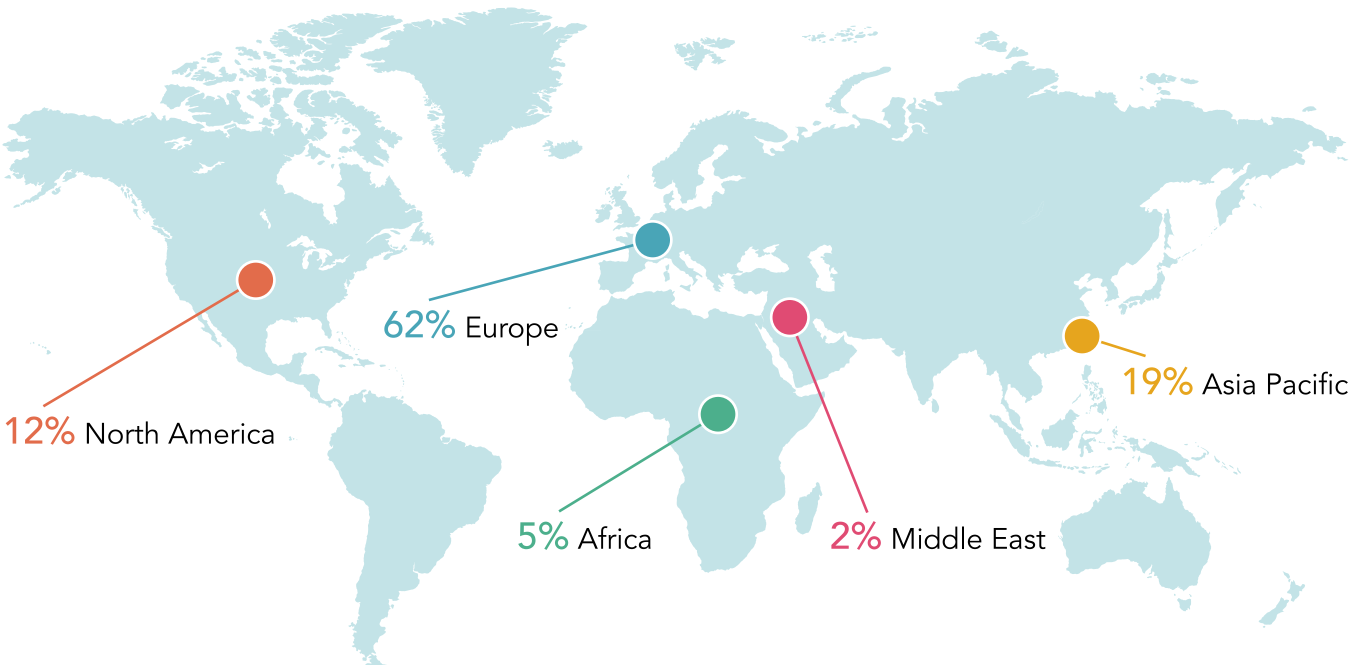


Figure 4: *Number of full and part time staff working in the commodity trade finance team*

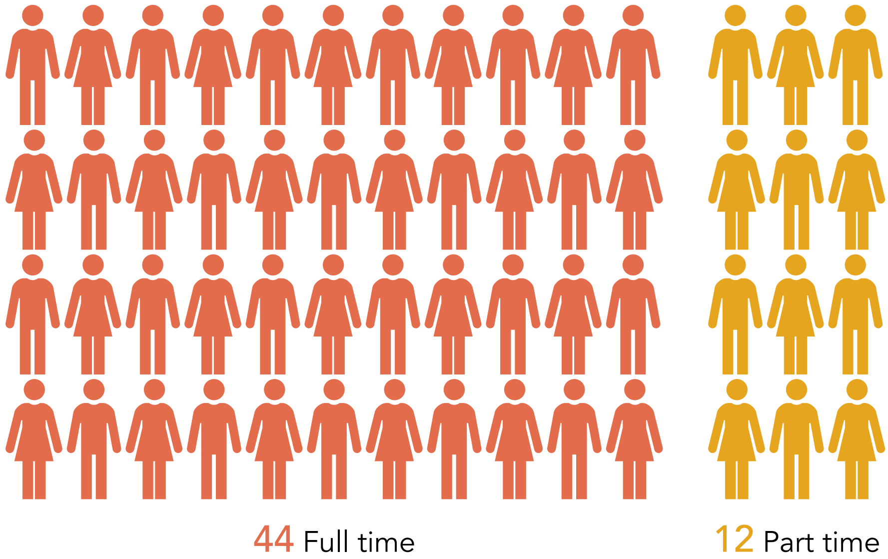


Figure 5: *Most used currencies by the respondents in commodity trade finance*

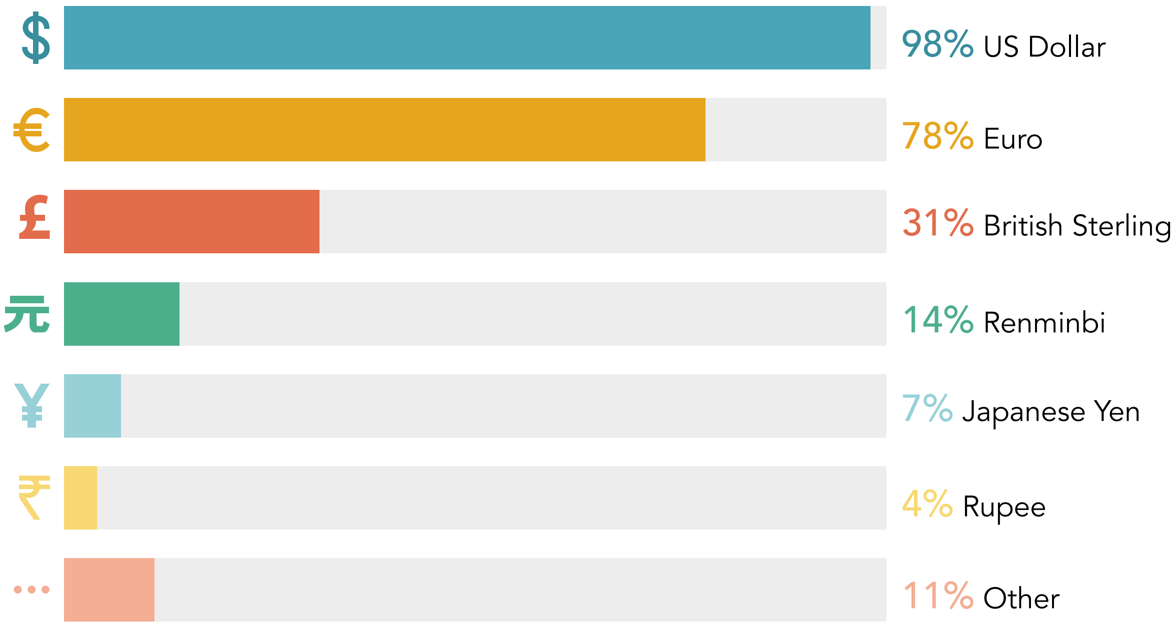
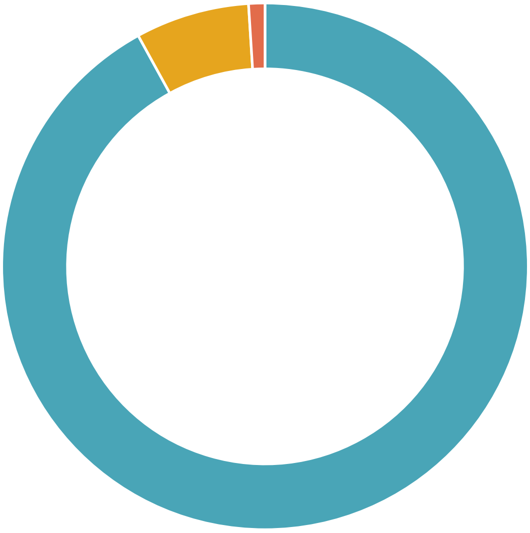


Figure 6: *Geographic footprint of the respondents' organisations*



92% Global (operating across all continents)

7% Regional (across the continent within which you are located e.g. Asia-Pacific Europe, North America)

1% Just local (your home country and surrounding countries)

Figure 7: *Average rating of the current state of the commodity trade finance industry*

A focused look at the commodity trade finance industry

- Past and present activity
- Sustainability: climate change or climate colonialism?

Past and present activity

Figure 8: *Commodity trade finance activity over the past 12 months and predicted activity over the next 12 months, by sector*

	Past 12 months		
	Very active	Somewhat active	Less active
Agri/softs	[illegible]	[illegible]	[illegible]
Energy/petrochemicals	[illegible]	[illegible]	[illegible]
Metals and mining	[illegible]	[illegible]	[illegible]
	Next 12 months		
	Very active	Somewhat active	Less active
Agri/softs	[illegible]	[illegible]	[illegible]
Energy/petrochemicals	[illegible]	[illegible]	[illegible]
Metals and mining	[illegible]	[illegible]	[illegible]

Figure 9: *Commodity trade finance activity over the past 12 months and predicted activity over the next 12 months, by region*

	Past 12 months		
	Very active	Somewhat active	Less active
Africa (the whole continent)	[illegible]	[illegible]	[illegible]
Asia-Pacific	[illegible]	[illegible]	[illegible]
Central and South America	[illegible]	[illegible]	[illegible]
Europe (inc. Turkey and Russia)	[illegible]	[illegible]	[illegible]
Middle East	[illegible]	[illegible]	[illegible]
North America	[illegible]	[illegible]	[illegible]
	Next 12 months		
	Very active	Somewhat active	Less active
Africa (the whole continent)	[illegible]	[illegible]	[illegible]
Asia-Pacific	[illegible]	[illegible]	[illegible]
Central and South America	[illegible]	[illegible]	[illegible]
Europe (inc. Turkey and Russia)	[illegible]	[illegible]	[illegible]
Middle East	[illegible]	[illegible]	[illegible]
North America	[illegible]	[illegible]	[illegible]

Sustainability: climate change or climate colonialism?

Figure 10 shows the expected level of operation in the future, by the banks and traders and producers in the different sectors.

Figure 10: *Anticipated level of sector involvement in the future, by institution type*

	Banks		
	Continue operating as normal	Reconsidering	No longer work in these sectors
Agri/softs (grains/food/fibre)	[illegible]	[illegible]	[illegible]
Agri/softs (livestock and meat)	[illegible]	[illegible]	[illegible]
Coal (thermal)	[illegible]	[illegible]	[illegible]
Coal (metallurgical)	[illegible]	[illegible]	[illegible]
Forest products (hardwood/softwood pulp)	[illegible]	[illegible]	[illegible]
Metals and mining (industrial/commons metals e.g. copper, lead and zinc)	[illegible]	[illegible]	[illegible]
Metals and mining (precious metals e.g. gold, silver and platinum)	[illegible]	[illegible]	[illegible]
Other (palm oil, wool and rubber)	[illegible]	[illegible]	[illegible]

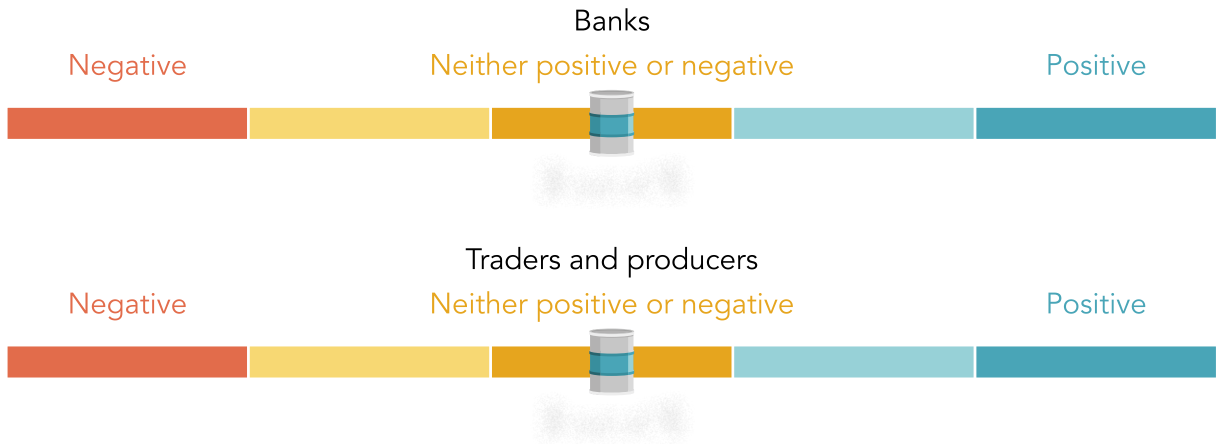
	Traders and producers		
	Continue operating as normal	Reconsidering	No longer work in these sectors
Agri/softs (grains/food/fibre)	[illegible]	[illegible]	[illegible]
Agri/softs (livestock and meat)	[illegible]	[illegible]	[illegible]
Coal (thermal)	[illegible]	[illegible]	[illegible]
Coal (metallurgical)	[illegible]	[illegible]	[illegible]
Forest products (hardwood/softwood pulp)	[illegible]	[illegible]	[illegible]
Metals and mining (industrial/commons metals e.g. copper, lead and zinc)	[illegible]	[illegible]	[illegible]
Metals and mining (precious metals e.g. gold, silver and platinum)	[illegible]	[illegible]	[illegible]
Other (palm oil, wool and rubber)	[illegible]	[illegible]	[illegible]

Figure 11: *Willingness of the banks to provide more attractive financing and of traders/ producers to pay more for green products*

Figure 12: *Respondents' views on sustainability*

	Banks		
	Strongly agree	Somewhat agree	Disagree
Compliance and regulatory change are the driving force behind sustainability	[illegible]	[illegible]	[illegible]
Sustainability is not a new concept but one that requires a redirecting of existing resources	[illegible]	[illegible]	[illegible]
Sustainability is a cultural and behavioural change concept that must address socio-economic, eco-economic and socio-environmental issues	[illegible]	[illegible]	[illegible]
Sustainability is a way of life that every institution must adopt	[illegible]	[illegible]	[illegible]
Sustainability is not important for me	[illegible]	[illegible]	[illegible]
	Traders and producers		
	Strongly agree	Somewhat agree	Disagree
Compliance and regulatory change are the driving force behind sustainability	[illegible]	[illegible]	[illegible]
Sustainability is not a new concept but one that requires a redirecting of existing resources	[illegible]	[illegible]	[illegible]
Sustainability is a cultural and behavioural change concept that must address socio-economic, eco-economic and socio-environmental issues	[illegible]	[illegible]	[illegible]
Sustainability is a way of life that every institution must adopt	[illegible]	[illegible]	[illegible]
Sustainability is not important for me	[illegible]	[illegible]	[illegible]

Figure 13: *Influence of sustainability on decision making*



Getting to grips with compliance and regulation

- No more LIBOR
- Securities Financing Transactions Regulations
- EU Benchmarks Regulations
- Senior Management Certification Regime

No more LIBOR

The London Interbank Offered Rate, better known as LIBOR, refers to a series of reference rates that are currently estimated to underpin $350 trillion dollars' worth of contracts, including derivatives, bonds and loans (UK Finance, 2019). LIBOR is currently quoted in five different currencies (US Dollar, UK sterling, Euro, Japanese Yen and the Swiss Franc) and seven tenors (overnight/spot next, one week, one month, two months, three months, six months, and one year) but it is scheduled to end in December 2021 (Financial Conduct Authority, 2020).

Historically, LIBOR has been calculated based on banks' submissions of their own interbank borrowing rates. However, following substantial market regulatory changes in the wake of the 2008 financial crash and the infamous LIBOR manipulation scandal, these submissions have drastically reduced in number. More recently, LIBOR has been based on banks' judgement concerning their cost of borrowing, rather than transactional data, leaving it exposed to abuse (FCA, 2020).

LIBOR will be discontinued altogether in December 2021 and is set to be replaced by currency-specific risk free rates (RFRs). With this impending shift, it is encouraging that

Figure 14: *Banks', traders' and producers' awareness of the cessation of LIBOR*

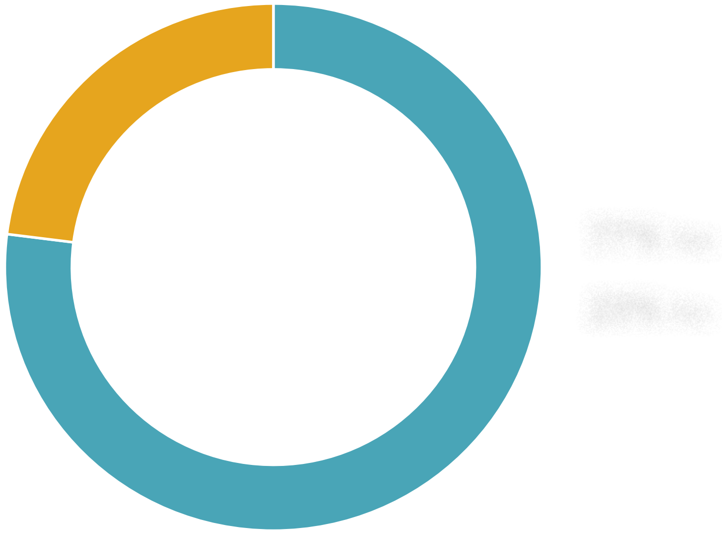
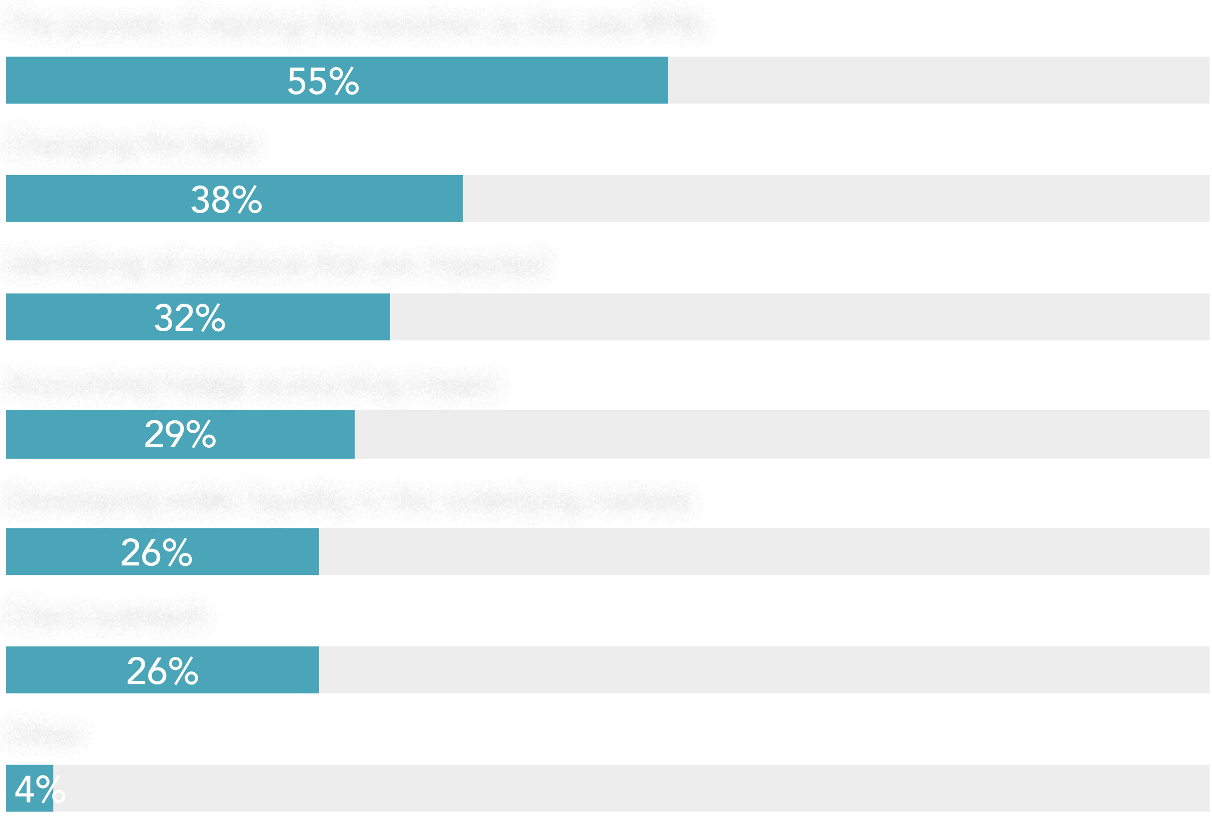


Figure 15: *Banks', traders' and producers' awareness of the different risk free rate systems*

	Banks, traders and producers	Traders and producers
Canadian Overnight Repo Rate Average (CORRA)	[illegible]	[illegible]
Secured Overnight Financing Rate (SOFR)	[illegible]	[illegible]
Sterling Overnight Interbank Average Rate (SONIA)	[illegible]	[illegible]
Swiss Average Rate Overnight (SARON)	[illegible]	[illegible]
Tokyo Overnight Average Rate (TONAR)	[illegible]	[illegible]
Euro Short-Term Rate (ESTER)	[illegible]	[illegible]

Figure 16: *Greatest challenges to transitioning to the new RFRs (banks, traders and producers only).*



Securities Financing Transactions Regulations (SFTR)

The SFTR is a piece of legislation that is designed to increase transparency across securities financing transactions in the EU. It is designed to:

"Compel market participants to report all SFTs to an approved trade repository and to radically restructure their data architecture – integrating numerous, and often disparate, data sources to enhance transparency." (European Commission, 2015)

Financial counterparties, non-financial counterparties, EU-based entities including their non-EU-based branches and non-EU entities where the transaction is concluded by an EU-based branch, all must comply with SFTR.

Figure 17: *Ability to provide all necessary data to be compliant with SFTR reporting*

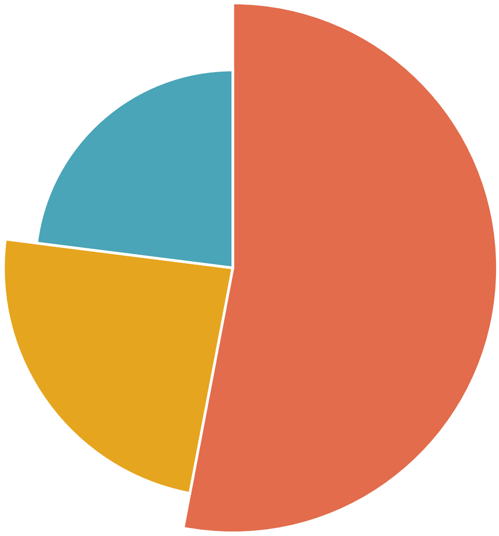
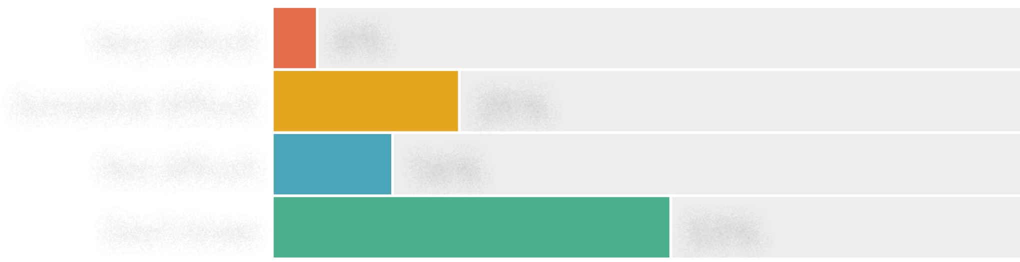


Figure 18: *Perceived difficulty in providing all necessary data to be compliant with SFTR reporting*



EU Benchmarks Regulation

The EU Benchmarks Regulation (BMR) came into effect in 2018 to combat the manipulation of certain benchmark indices, as evidenced by the LIBOR and EURIBOR scandals. The BMR is defined as:

"Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds." (FCA, 2016).

Its aim is to restore confidence in the accuracy and integrity of benchmarks by ensuring that pricing accurately reflects the actual market or economic reality they are intended to measure (Ashurst, 2018).

Consequently, a 'benchmark' refers to any index that is regularly determined by the application of a formula, calculation, assessment, or is based on the value of an underlying asset. For example, regulated data benchmarks such as the FTSE 100 index, commodity benchmarks or an interest rate benchmark are examples of accepted indices. Under the new BMR, only authorised entities can be a benchmark administrator or contributor (Ashurst, 2018).

Figure 19: *Impact of the new benchmark regulations to*

Figure 20: *Possibility for price reporting agents to have non-transparent index prices of commodities after the introduction of the new BMR system*

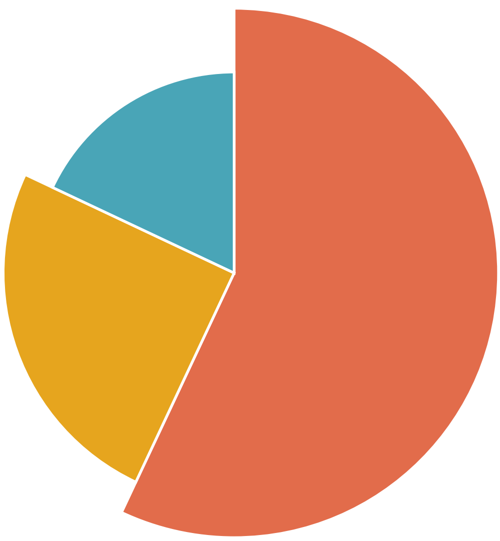
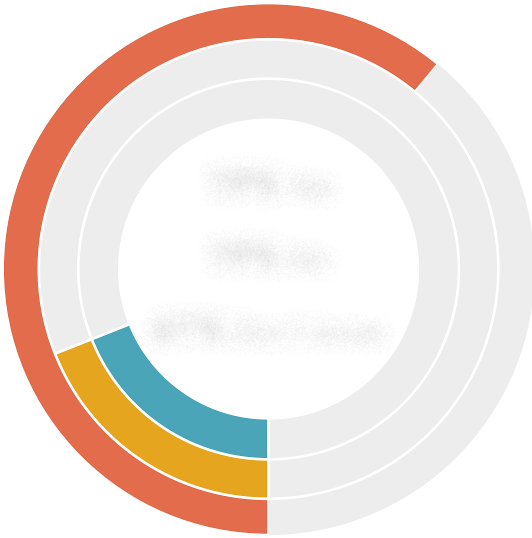


Figure 21: *Likelihood of respondents' continuing to use an index which does not fall under the scope of the new BMR system to finalise the price of commodities*



Senior Management Certification Regime (SMCR)

The primary goal of the SMCR is:

"Reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold people to account." (FCA, 2019).

It is for FCA-regulated companies only and aimed at people defined as 'senior managers' – those defined as the most senior people in the company who have the potential to do most harm (FCA, 2019). Of the total sample surveyed, 24% of the respondents identified as working in a company that is FCA regulated (figure 22) and, encouragingly, the introduction of this piece of governance-focused legislation is not making most of these companies reconsider their position as an FCA regulated company (figure 23).

The main goal of SMCR is to hold people accountable for their actions. It is difficult to speculate how a comparable piece of legislation in Singapore and the Middle East might have influenced the actions of senior personnel at Hin Leong, Agritrade International, ZenRock Commodities and Phoenix Commodities, but what is certain, is that the legislation would hold the responsible people to account.

Figure 22: *Proportion of respondents working in an FCA regulated company*

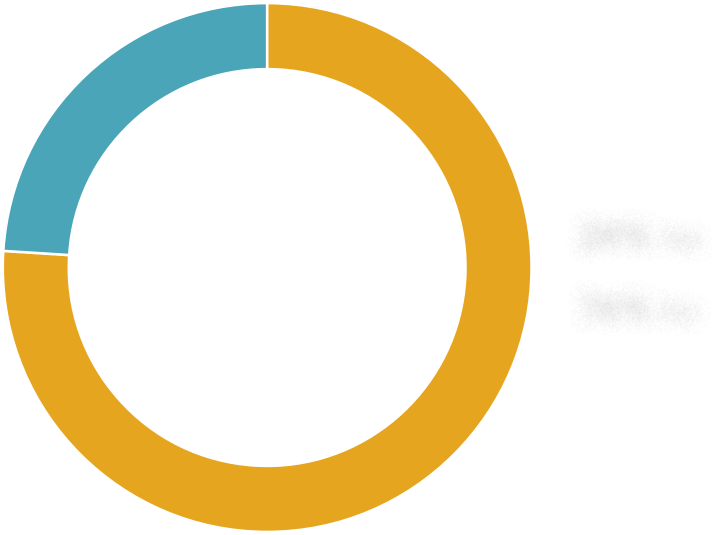


Figure 23: *If yes, will the introduction of the Senior Management Certification Regime (SMCR) cause you to rethink your position as an FCA regulated company?*

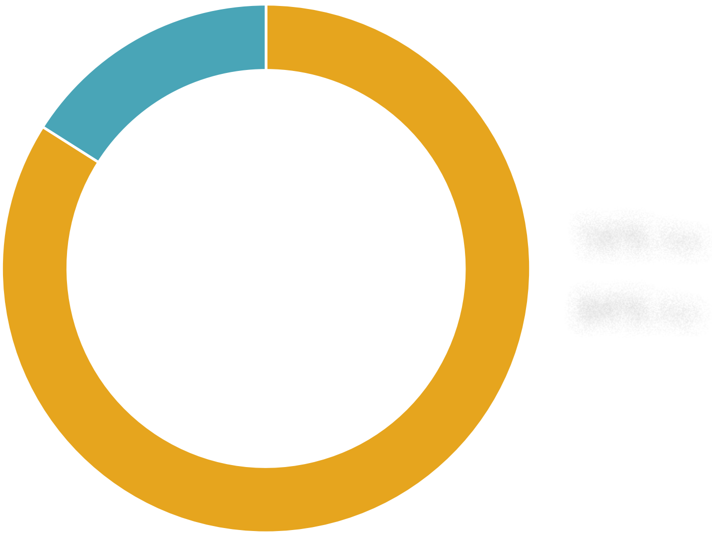
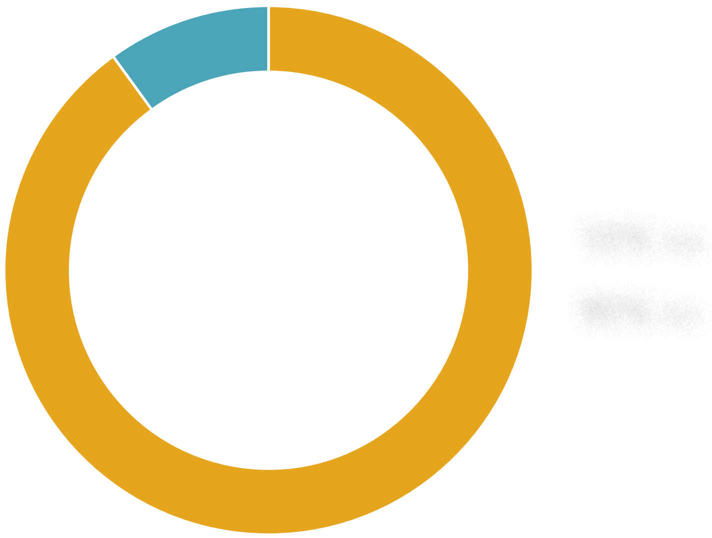


Figure 24: *If no, will the introduction of SMCR make you think about becoming an FCA regulated company?*



The Covid-19 catalyst

- "Uncertain, unprecedented and unbelievable"
- The impact of Covid-19 on the commodity trade finance banks

"Uncertain, unprecedented and unbelievable"

More than two-thirds of the sample believe that the Covid-19 pandemic is worse than the 2008 financial crash, principally, because every part of the demand and supply chain has been impacted (figure 25). One interviewee notes:

Figure 25: *Will the covid-19 pandemic be worse than the 2008 financial crash for the commodity trade finance sector?*

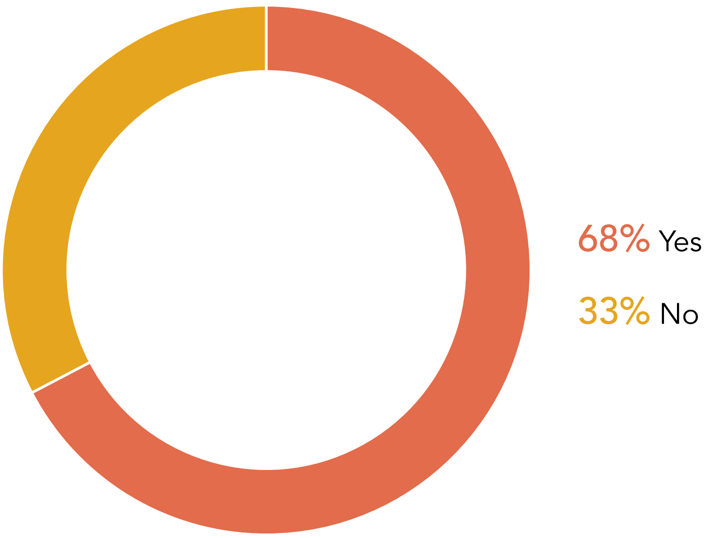
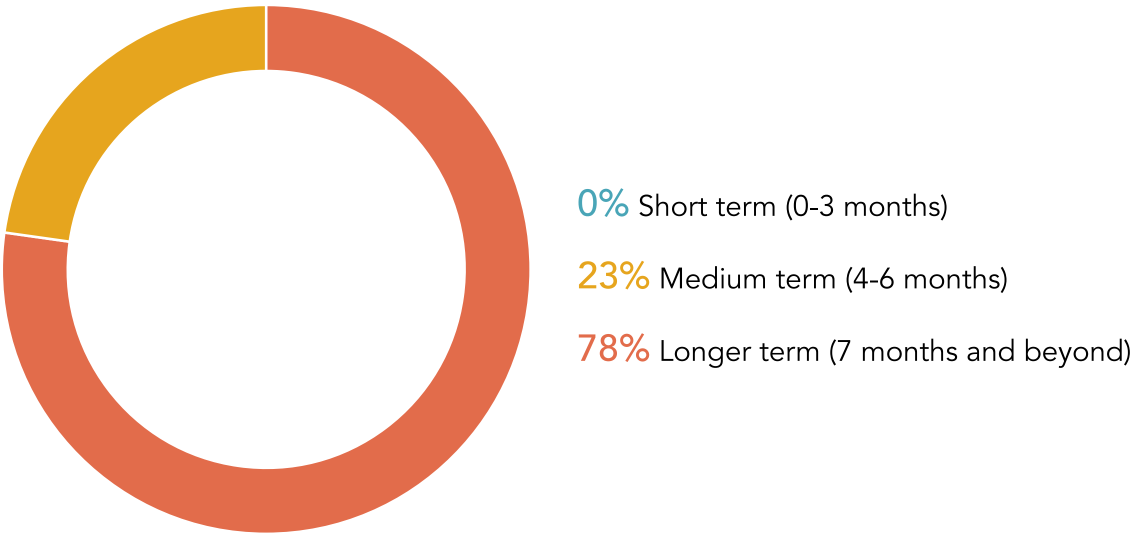


Figure 26: *Perceived impact of Covid-19 on the commodity trade finance industry*

Figure 27: *Length of time that Covid-19 will impact the commodity trade finance industry*



Looking in more detail at how Covid-19 will impact the different sectors,

Figure 28: *Impact of Covid-19 on each sector*

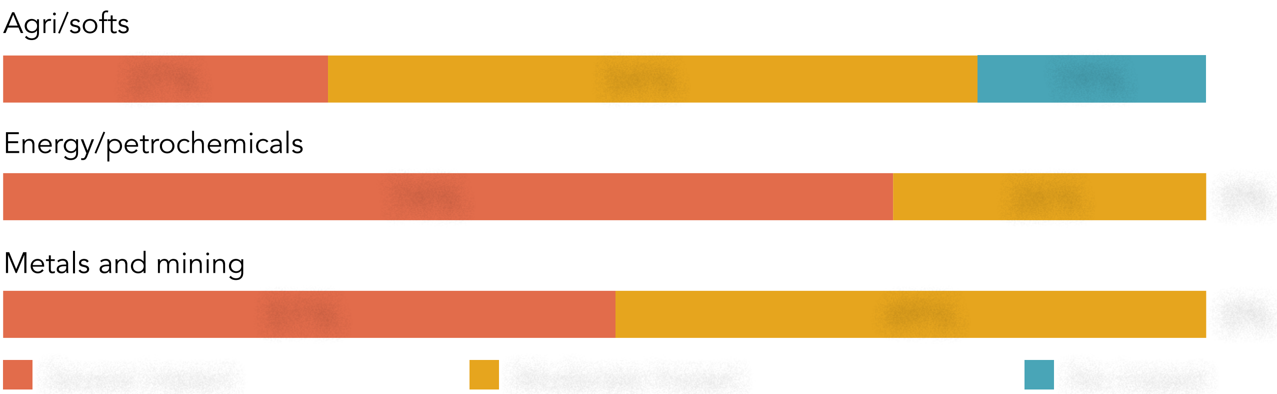


Figure 29: *Impact of Covid-19 on the credit availability of the banks*

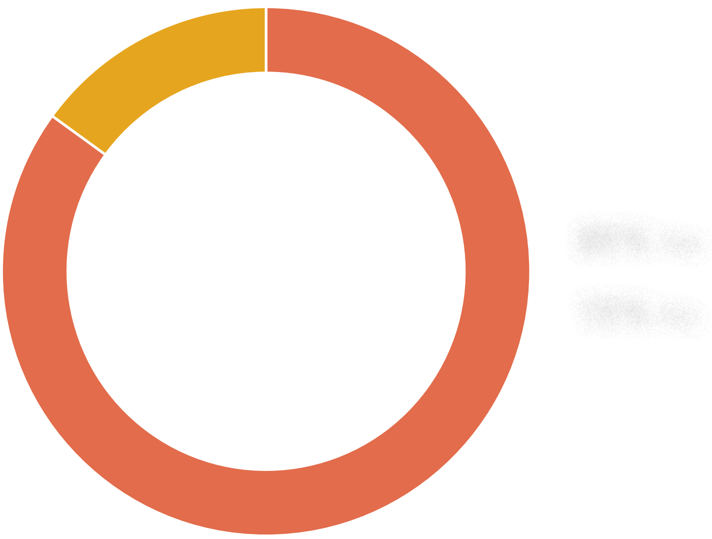
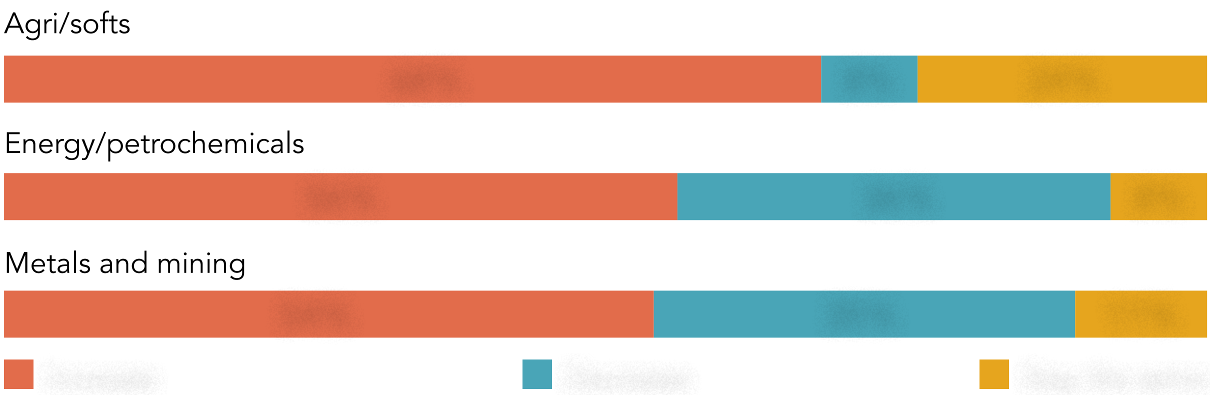
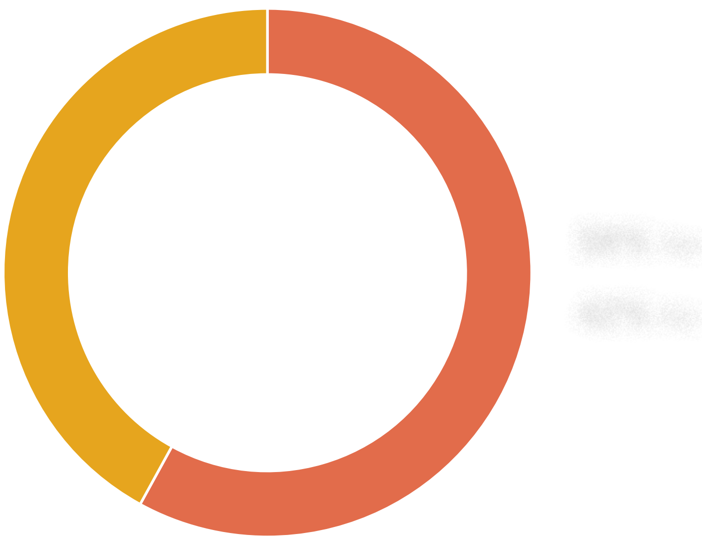


Figure 30: *Will a reduction in credit availability lead to an increase in the cost of bank debt over the next 12 months?*



The impact of Covid-19 on the commodity trade finance banks[4]

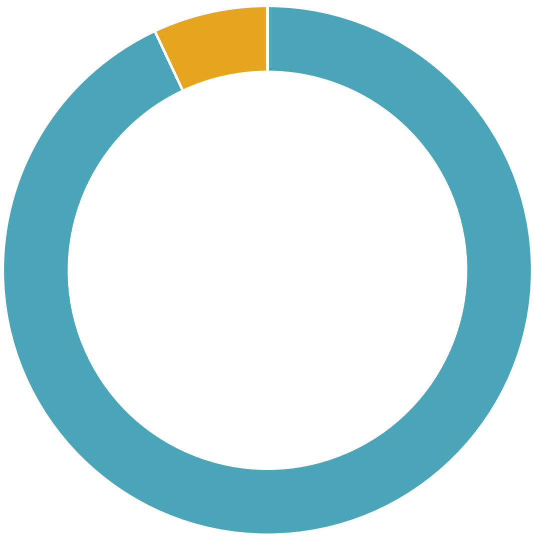
Figure 31: *Banks' perception of Covid-19 being used as a smokescreen for already failing businesses*



[4] The figures in this subsection are based on data provided by the banks only.

Figure 32: *Proportion of clients who*

Figure 33: *Willingness of banks to provide temporary waivers to all clients that default payment*



A forensic look at the commodity trade finance banks

- A closer look at the financials
- Basel and the banks
- A growing threat from alternative finance?
- Or a threat from global traders?

A closer look at the financials[5]

Figure 34: *Commodity trade finance banks' portfolio breakdown over the past and next 12 months*

	Proportion of banks using each type of facility over the past 12 months	Proportion of banks using each type of facility over the next 12 months
Transactional commodity trade finance	[illegible]	[illegible]
Revolving credit facilities	[illegible]	[illegible]
Pre-export financing	[illegible]	[illegible]
Borrowing base loans	[illegible]	[illegible]
Prepayment financing	[illegible]	[illegible]
Unsecured debt	[illegible]	[illegible]
Reserves-based lending	[illegible]	[illegible]
Bonds	[illegible]	[illegible]

[5] The data in this section is based on banking respondents only.

Figure 35: *Anticipated changes in loan loss provision (LLP) over the next 12 months*

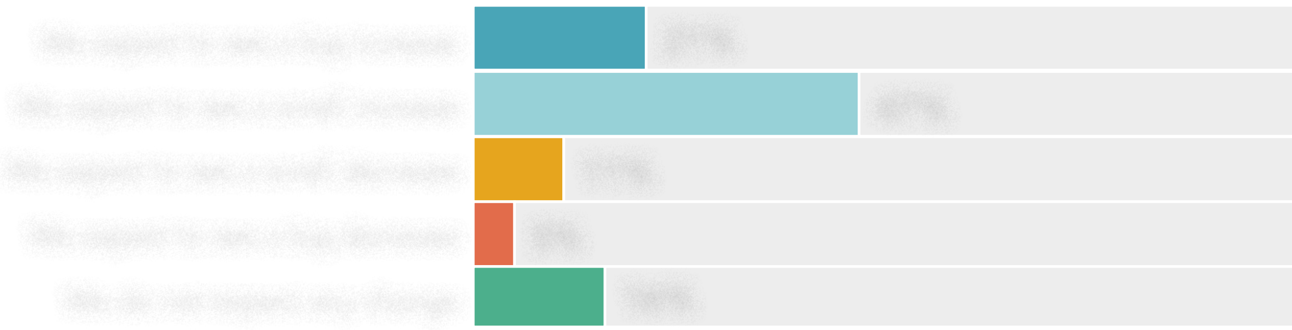
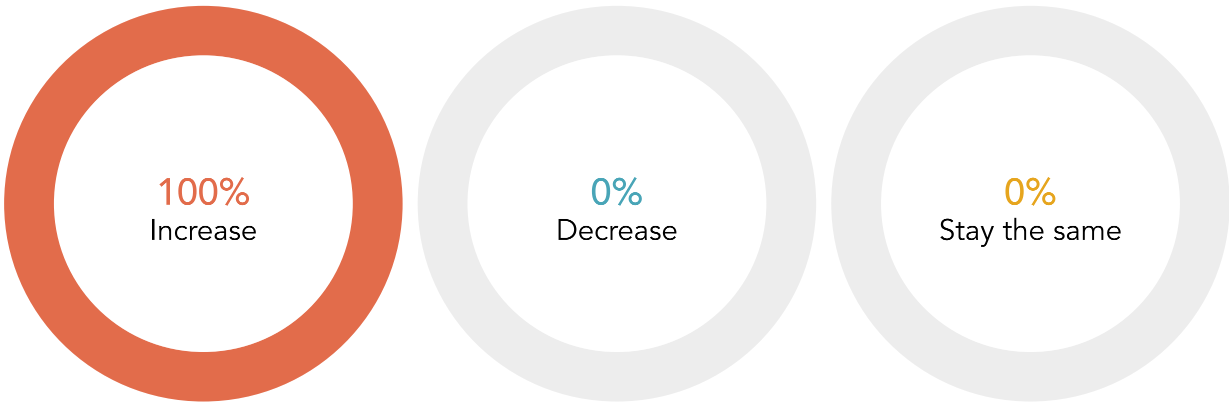


Figure 36: *Anticipated changes in the banks' margins and fees over the next 12 months*



Basel and the banks

The 2008 global financial crash caused shockwaves throughout the financial world, with most banks experiencing huge financial and reputational damage. In the wake of the crisis, the Basel accords have sought to prevent a repeat of the banking collapse by introducing a raft of increasingly stringent regulatory, compliance and governance structures, that mandate banks to have sufficient levels of capital to withstand extreme levels of stress.

The latest risk-based Basel IV reforms to credit, market and operational risk, the output floor and the credit valuation adjustment, will increase the weighted average Tier 1 minimum risk-based capital requirement of international EU banks and global systemically important banks (G-SIBs) by 23% and 26%, respectively (KPMG, 2018).

Figure 37: *Perceived impact of Basel IV on bank resilience and confidence in the commodity trade finance banking industry*

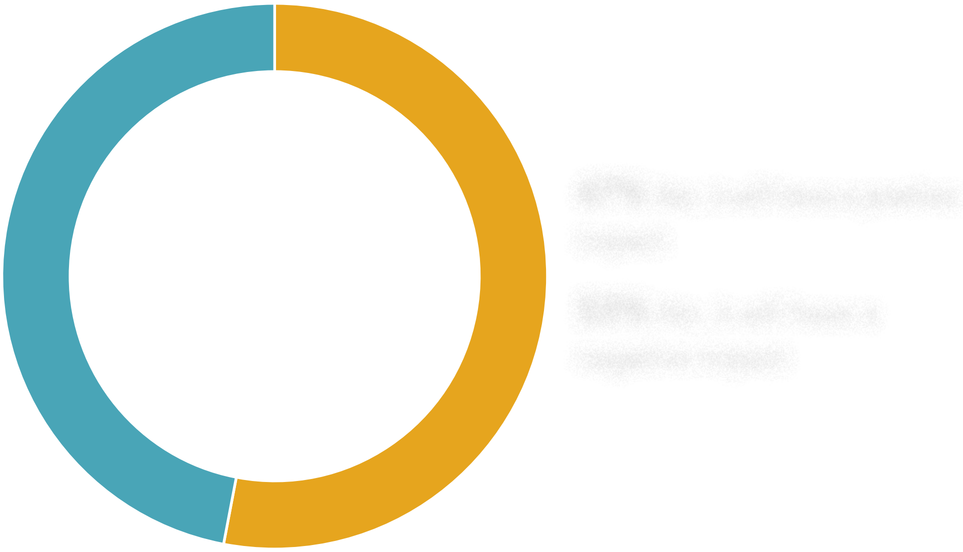
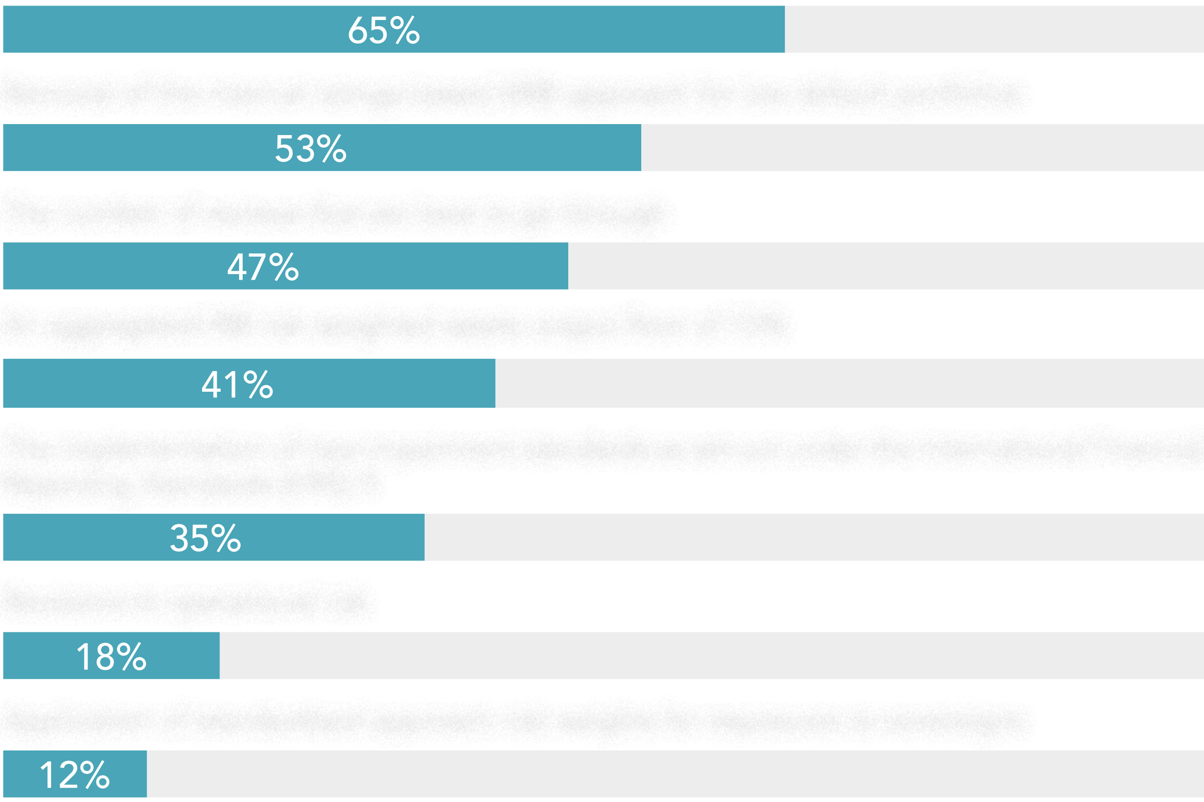
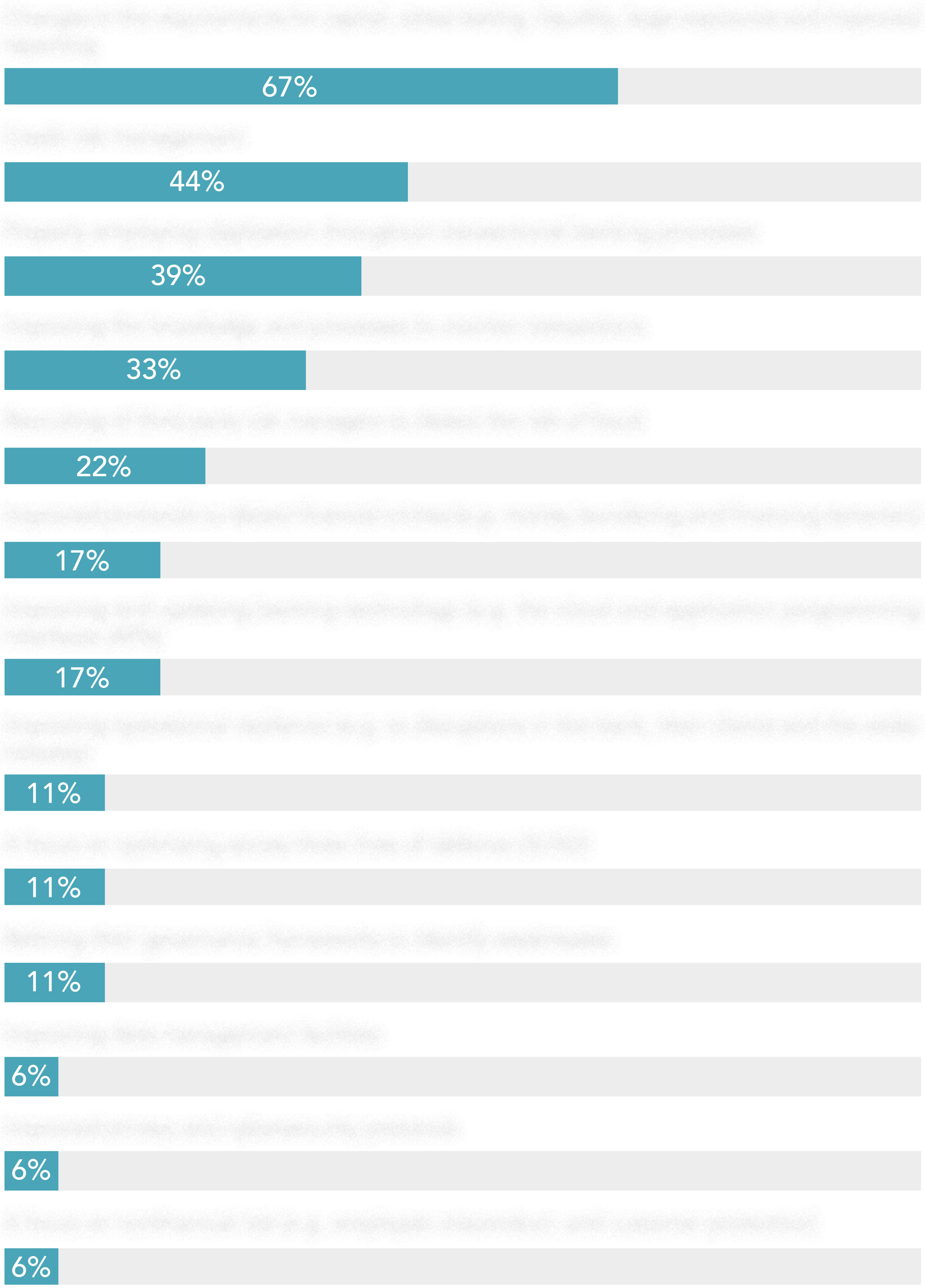


Figure 38: *Banks' perception of the most challenging Basel IV initiatives for commodity trade finance banks to negotiate*



A recent news article published by TXF points to digitisation fast becoming a mainstay on the commodity trade finance world, with a growing number of banks, corporates and insurance companies adopting the SWIFT MT 798 standards; a move that will improve connectivity and the exchange of large amounts of information and data (Katsman, 2020).

Figure 39: *Banks' perception of the most important factors to focus on over the next two years*

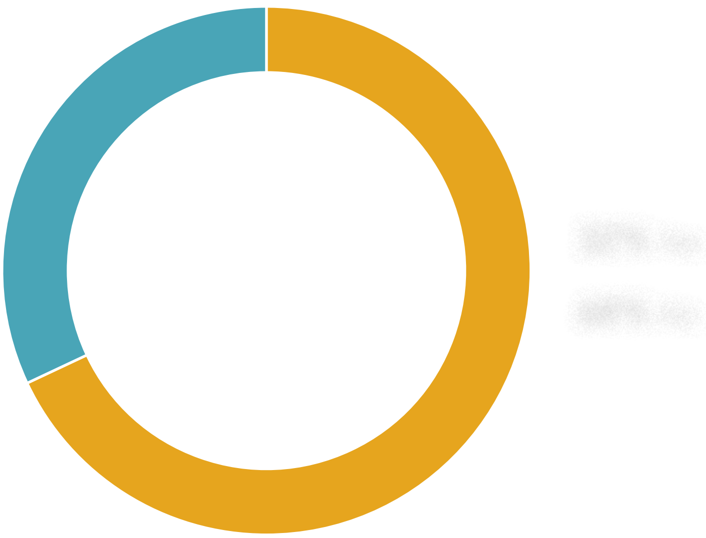


A growing threat from alternative finance?

With banks scaling back, reviewing their role or retreating altogether from the commodity trade finance industry, the trade finance liquidity gap is growing, with the latest estimates placing it between $2 trillion and $5 trillion (World Trade Organisation, 2020).

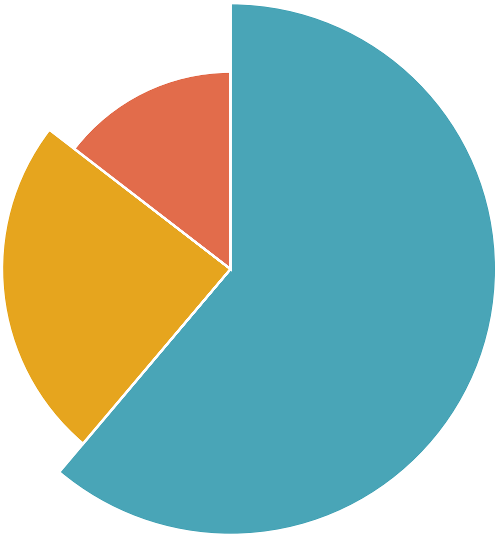
Alternative trade finance is gaining momentum as a viable way to fill at least part of the gap, with recent estimates suggesting that alternative investments have grown from just 6% ($4.8 trillion) of the global investible market in 2004, to 12% ($13.4 trillion) in 2018, and a predicted 18% to 24% (approximately $20 trillion) by 2025 (Chartered Alternative Investment Analyst Association, 2020). While these figures extend beyond commodity trade finance, they do highlight the growing role of alternative finance.

Figure 40: *Are you seeing increased competition from alternative sources of financing?*



[6] The survey did also ask about a number of other types of alternative finance options, including hedge funds, private equity direct investments, mutual funds, and funds of funds but they all scored 0%.

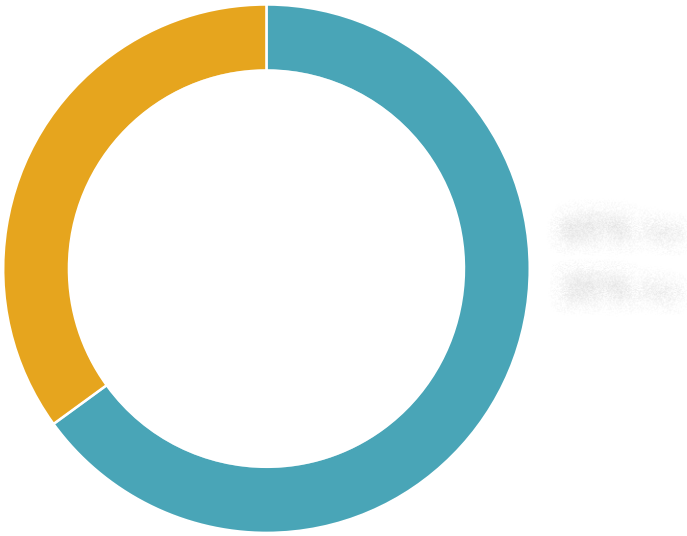
Figure 41: *Banks' perception on the most prevalent sources of alternative finance in the commodity trade industry*



Or a threat from global traders?

Figure 42: *Banks' perception on whether or not global trading houses should lend to smaller traders and producers*

Figure 43: *The percentage of banks that current co-lend with traders, side-by-side, to other traders and producers (where you all sign the facility agreement as lenders)*



An insight into the traders' and producers' world

- A growing need for alternative finance
- The commodity trade finance banking heatmap

A growing need for alternative finance

Figure 44: *Traders' and producers' use of alternative funds*

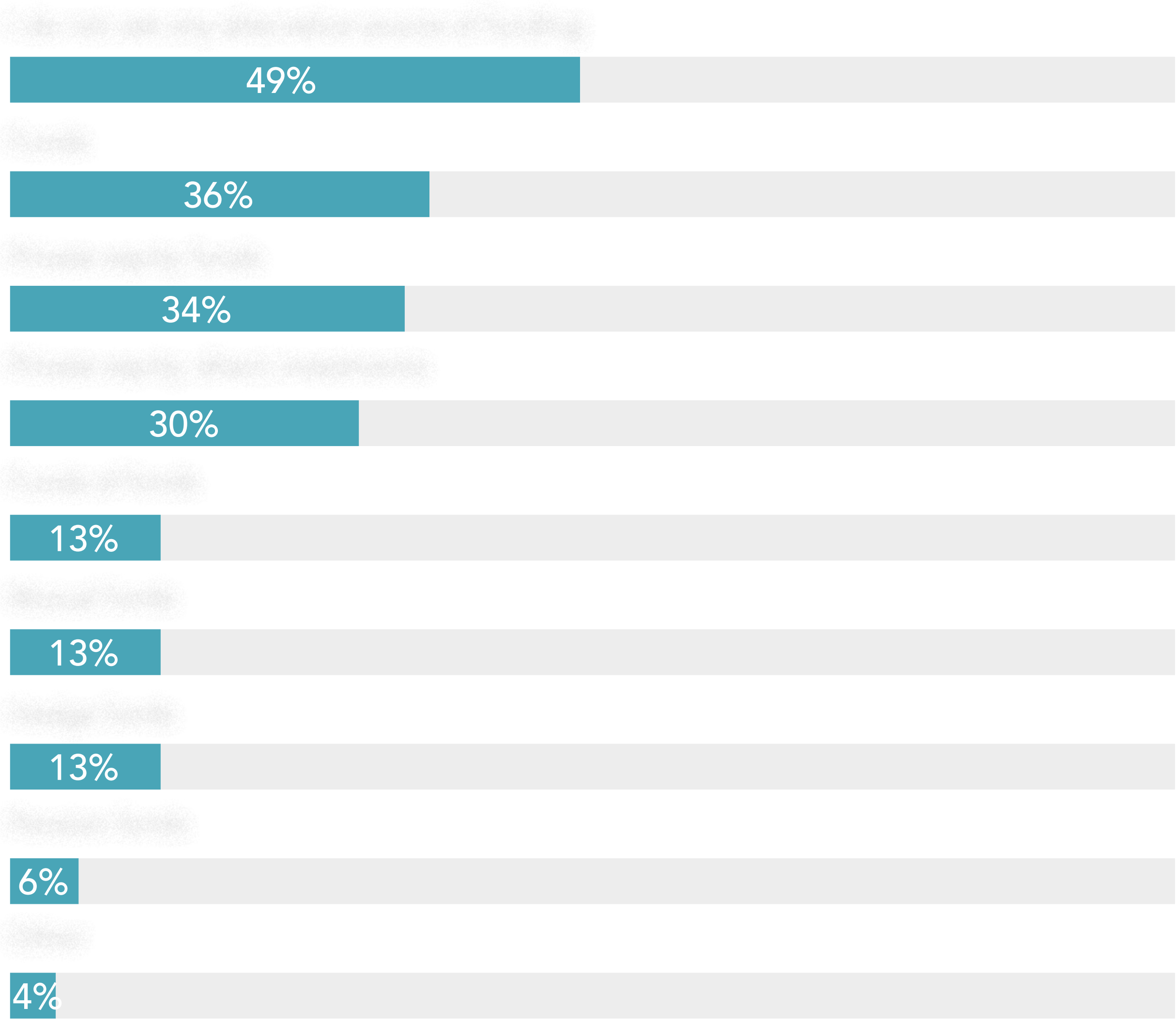


Figure 45: *Traders and producers currently utilising financing from global trading houses*

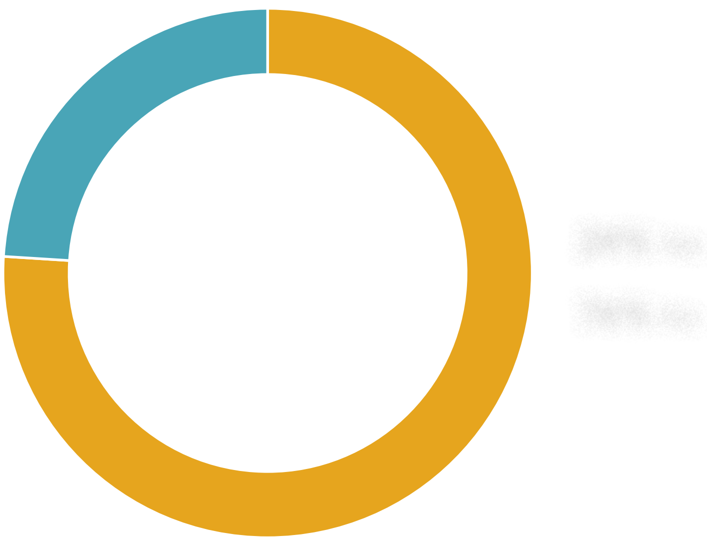
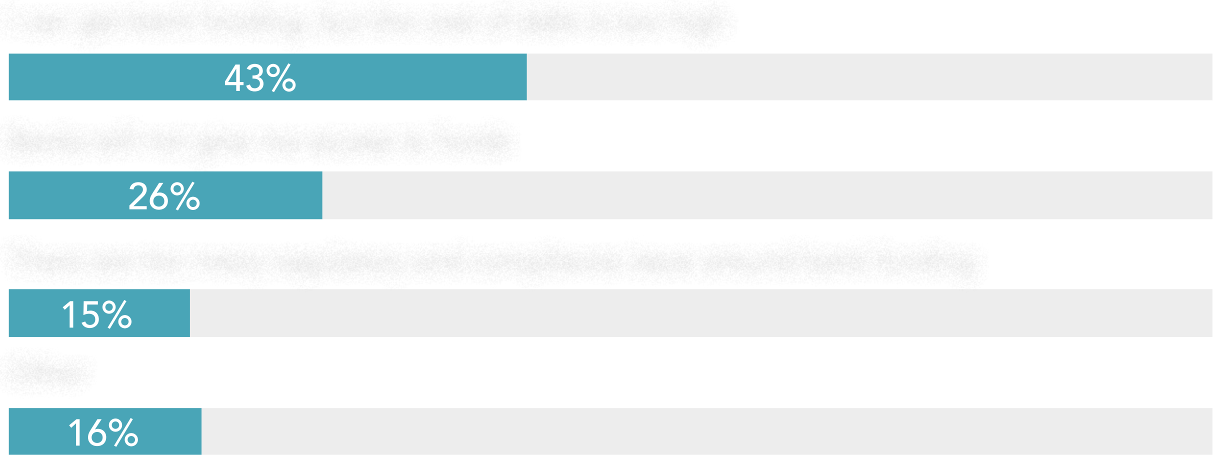


Figure 46: *Reason for accessing alternative funds*



The commodity trade finance banking heatmap

Of the traders and producers who took part in this report, the top three most used banks were UBS (54%), BNP Paribas (52%) and ING Bank (50%) (figure 47).

The banking heatmap[7] shows that across the commodity trade finance banks,

---

[7] The wider heatmap captured data on 31 commodity trade finance banks. However, many of these did not have enough data to be included in the heatmap. The banks shown in figure 57 are those that had a minimum of 20 survey respondents.

[8] Each of the commodity trade finance banks were rated on a scale of 1 to 5 across nine different attributes, where 1, 3 and 5 represented 'very dissatisfied', 'somewhat satisfied' and 'very satisfied', respectively. The respondents were asked to rate each bank based on their own experiences and how each bank compared with one another.

[9] In statistics, standard deviation is used to measure the variation of data from the mean (average). A small standard deviation means that the data is centred close to the mean. A large standard deviation means that the data is spread far from the mean. Neither should be interpreted as 'good' or 'bad' but as a description of how dispersed the data is.

Figure 47: *Most used commodity trade finance banks*

UBS
BNP PARIBAS
ING BANK
CREDIT SUISSE
Rabobank
SOCIETE GENERALE
HSBC
Deutsche Bank
UniCredit Bank
CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
citi
SMBC
J.P.Morgan
COMMERZBANK
ABN·AMRO
भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA
NATIXIS
Standard Chartered
MUFG
СБЕРБАНК Всегда рядом
MIZUHO
ICBC
ERSTE
中国银行 BANK OF CHINA
Bank of America Merrill Lynch
INTESA SANPAOLO
DZ BANK
NEDBANK GROUP
بنك أبوظبي الأول FAB First Abu Dhabi Bank
Westpac
Commonwealth Bank of Australia

Figure 48: *The commodity trade finance banking heatmap*

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	4.0	3.8	4.2	4.2	4.2	3.4	4.1	3.9	4.1	4.0	[illegible]
[illegible]	3.7	3.3	4.3	4.1	4.5	3.6	3.9	3.5	4.2	3.9	[illegible]
[illegible]	3.8	4.1	3.6	3.5	4.1	3.3	3.9	3.7	4.1	3.8	[illegible]
[illegible]	3.5	3.8	4.0	3.8	3.9	3.2	3.6	3.4	3.9	3.7	[illegible]
[illegible]	3.5	3.4	4.2	3.8	3.4	3.0	4.0	3.7	3.4	3.6	[illegible]
[illegible]	3.7	3.4	3.6	3.6	4.0	3.3	3.5	3.3	3.8	3.6	[illegible]
[illegible]	3.6	3.5	3.7	3.4	3.7	3.2	3.4	3.0	3.7	3.5	[illegible]
[illegible]	3.1	2.7	3.3	3.4	3.8	2.6	3.5	3.1	3.7	3.3	[illegible]
[illegible]	3.2	3.5	3.1	3.3	3.4	2.6	3.1	3.1	3.7	3.2	[illegible]
[illegible]	3.2	3.6	3.2	3.2	2.9	2.3	2.8	3.0	2.7	3.0	[illegible]
Difference between highest and lowest score	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Average score across the banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Top performing bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

Concluding comments and recommendations

The primary aim of this report was to present a detailed overview of the commodity trade finance industry over the past 12 months, focusing on activity, compliance and regulation, the impact of Covid-19, the banking sector and the views of traders and producers. It was also to present a heatmap that compares the top 10 commodity trade finance banks across nine different attributes.

Using a mixed methods design that combined quantitative survey data from 130 respondents spanning alternative finance, banks, brokers, law firms, private insurers, traders and producers, with 10 in-depth qualitative interviews, this report proposes the following recommendations for the commodity trade finance industry:

I started this report by stating that adjectives such as 'unprecedented' and 'uncertain' have been an almost permanent feature of anything written on the commodity trade finance industry over the past year. And while it might be true that Covid-19 is the first time that a humanitarian crisis is the cause of massive disruption to the industry, the uncertainty and wreckage it has left in its wake is nothing new to a highly resilient industry, as John Macnamara of Carshalton Commodities, explains:

"At the end of the 1990s, when we were looking back at the Sovereign debt crises of the 1980s, the Anglo-Saxon crisis of the early 1990s, the Asian crisis of 1996 and 1997, the Russian Moratorium of 1998, the Brazilian devaluation of early 1999, and the 'Emerging Markets Crisis', all saw massive price volatility across the commodities markets. But many of us have been here before.

What happened last time round? The world still needed oil, and copper, and sugar, and the prices all steadily started to creep back up. The lack of investment began to turn, then the pricing of financing also became firmer, and the financing structures got stronger. Then, after a few years, most regions recovered.

Today - timing is still everything. With margins getting better and structures very much in 'back to basics' mode, this is a very good time to re-enter the structured commodity trade finance markets. Just don't get mesmerised by the regulators' demands for forward looking balance sheet models, and instead use the latest fintech to make sure your collateral management & monitoring can really manage your fraud risks."

How the commodity trade finance industry will evolve and adapt over the coming months and years will be fascinating to see. It will no doubt encounter more hardships along the way but one thing that is certain, is that it will always bounce back.

List of figures

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