

Global Experiences in Commodity Exchanges

Auction Holdings Limited
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Development of Commodity Exchanges

- ① Urban markets
- ② Urban corn exchanges, cattle auctions etc
- ③ Exchanges for trade in physical commodities
- ④ Forward and futures exchanges

What a commodity exchange does

- ❖ Physical point of trade
- ❖ Concentration of trade
 - Price determination
- ❖ Standardisation
 - Ensures quality and eases price reference
- ❖ Forward or futures contracts
 - 'Hedging' of price risk

Potential of commodity exchanges

- ① Facilitate commerce, especially via intermediaries (traders)
- ② Establish a basis for market infrastructure
 - ❖ warehouses, delivery requirements etc
- ③ Establish and publicise known prices for standard form of a product
- ④ Establish norms of quality
- ⑤ Apply principles to variety of products
 - diversification

Requirements for success I

- ① Has to arise at important physical point of actual trade in a unified market
- ② Has to respond to actual need
 - ❖ Grow out of *domestic* needs and desires
 - ❖ 'A[n Ethiopian] commodity exchange would not aim to eliminate traditional markets around the country, but rather to build up [the] informal markets by adding technology and systems to bring more transparent, more efficient, and more reliable trading to all concerned.'
- ③ Works best if linked to established offtake, e.g. coffee export trade and WFP in Ethiopia

Requirements for success II

- ④ Expertise in this sort of trade
- ⑤ Costs of establishment, such as clearing, settlement and information systems
- ⑥ Financial and commercial infrastructure
 - ❖ E.g. quality control, warehouses, payment systems
- ⑦ Regulatory framework
 - ❖ To ensure honesty of trade and penalties for default
 - ❖ Avoid price manipulation and 'corners'
- ⑧ Adequate volume of business is essential
- ⑨ Generally, an exchange meets a *monopoly* need