

Case study

INTEGRATED METAL PRODUCER

Streamlining hedging and risk management processes to increase sales and profitability.

This case study is based on an integrated metal producer company who found the optimal solution in Brady and benefited from an increase in flexibility, a decrease in operational risk and an improvement in counterparty and position management. Return on investment was achieved within one year.

Executive overview**Scenario**

Matching and monitoring the time congruency between production, shipment and final customer pricing are key strategic imperatives for this refined metal producer.

To achieve its strategic goal of increasing the sale of value added products, the business needed a simple solution to manage metal financing agreements in a scalable way.

Existing systems did not permit them to control their positions, P&L, broker exposure or margins in an accurate and timely manner. Therefore the effectiveness of their hedging programme was limited and management of risk was insufficient.

With no single solution or interface, the business had to rely on Excel spreadsheets and manual processes to support the obsolete existing system.

There was no interface/integration nor proper backup to the company's accounting system.

Incorrect data resulted in lack of accuracy in position reporting.

The associated risks

- ❖ Transparency risk – Data was Excel-based, manually captured, with no back up available.
- ❖ Financial risk – The reliability of the financial results was questioned as a result of the potential errors in the hedging position financials.
- ❖ Single user profile risk – Reliance on a single user for reporting impacted the efficiency of the department and potentially resulted in misleading inaccuracies as a result of manual input errors.
- ❖ Unhedged sales could not be reported.
- ❖ No centralised data warehouse.
- ❖ No hedge linkage between physical trades and hedging transactions.
- ❖ Inability to run required reports such as appropriate and reliable P&L, exposure reports or any data analysis.

Objectives



Offer more customer flexibility in terms of pricing options, without occurring extra risk themselves.



Generate reports in a timely fashion.



Provide analysis of the hedging programme.



Automate processes wherever possible to minimise potential errors through reliance on manual input.



Replace a legacy unsupported trading platform, various spreadsheets, a paper trade blotter and emails.

Resolution

In order to improve customer satisfaction, the business recognised the need to re-evaluate its risk and portfolio /position management processes. Following a review of its legacy solution, the company concluded that a new solution would be required.

Users of the system would be based in multiple locations in the hedging, accounts and finance departments and would require access to the core data. The company then researched the CTRM space, focusing on potential suppliers that offered proven expertise and presence in the trading and risk management space for industrial metals. After detailed analysis, the company concluded that the sophistication, completeness and maturity of Brady's offering, along with Brady's deep domain expertise within metals, provided the best solution for their business.

The company engaged Brady and implemented the Brady solution to manage its hedging operations. This incorporated internal and external hedging covering a range of listed products including futures, averages, swaps, options and TAPOs.

The Brady solution now provide the integrated metal roducer with real-time visibility of their metal position, automates reconciliation with their brokers, automates price upload, mark-to-market and confirmations, as well as calculating margin requirements for brokers. The company uses the software to track metal price exposure from its physical contracts and hedge this to achieve its target price for each month, regardless of how the client contracts are priced.

Benefits

- ✓ The solution has enabled the company to increase its annual hedging tonnages from 300,000 tonnes to 1.5m tonnes.
- ✓ Management reports from position, P&L and risk which previously took 2 days to compile are now available within seconds, reducing manual effort and providing senior management with up-to-date and accurate information in real time.
- ✓ Comprehensive report generation and analysis.
- ✓ Rolling positions with brokers has become much more efficient, saving half a day per roll every time this is needed.
- ✓ Broker margin requirements can be proactively managed, reducing margin calls and making better use of broker limits.
- ✓ Full transparency of hedging results and financial reporting.
- ✓ Seamless interface to SAP.
- ✓ It was clear that with the additional pricing flexibility and the subsequent increase in traded volumes, that the return on investment of such a project would be more evident and would significantly speed up the payback period through increased margin.
- ✓ Accuracy of position reporting has been improved, saving time and allowing quicker decision-making based on correct, up-to-date information.
- ✓ Using Brady allows this integrated metal producer company to manage the price risk of consignment stocks much more closely, with the flexibility to roll positions to any date, rather than just to the third Wednesday. Using Excel was just not an option.
- ✓ Trade capture, processing and reconciliation with brokers is now far more automated, saving on average 10 minutes per transaction over the transaction lifecycle.
- ✓ Input errors have been significantly reduced, saving manual effort and reducing operational risk.
- ✓ This pricing optionality will also result in an increase of traded volume.
- ✓ The company is now able to offer more flexible pricing to their clients, both fixed and floating, ranging from M-1 to M+5, and manage the associated hedges efficiently and accurately. This will support its strategy to pursue its marketing of its value added products.



Brady benefits at a glance

To effectively benchmark and improve risk management, a sophisticated and robust system is required to capture, control and analyse any deviations from the expected benchmark plan.

A major benefit that simplifies and ensures accuracy in:

- ✦ Trading activity in the Front Office.
- ✦ Back Office administration.
- ✦ Trade entry and verification, counterparty reconciliation.
- ✦ Emulating the processes of the futures exchange: trade blotters, transaction databases, position aggregation, marking to market to the hedger's business
- ✦ View slices: by company, counterparty, broker, prompt date, portfolio valuing spread risk
- ✦ Priced and to be priced contracts and physical/hedge matching
- ✦ Cashflow projection, open position statements, and sensitivity analysis
- ✦ P&L reports, per slice: by company, counterparty, broker, prompt date
- ✦ Quantify risk, a smelter must be able to build a risk profile from forecasted tonnages and market prices
- ✦ There should be the ability to measure the financial consequences of the profile based on three scenarios
 - ✦ Historic price series
 - ✦ Current forward market curve
 - ✦ Exposure to price sensitivity, spreads, and opportunistic trading

Brady can demonstrate clear value to metal producers, by streamlining their hedging processes, reducing risk, helping to provide flexibility in pricing on client contracts and increasing sales, providing up-to-the-minute positions, P&L and risk reports for risk managers, finance and management in a robust and automated framework.



Evaluation process

On the basis of the following key findings, the team's recommendation to the board was to select Brady based on the following key findings:

- ✦ Market leader
- ✦ Strong knowledge and expertise in base metals and LME
- ✦ Referenceable customers
- ✦ Strong scoping practice prior to starting the project
- ✦ Localised support
- ✦ Interface to SAP
- ✦ User-friendly
- ✦ Fully compliant with risk management standards and hedging requirements

About BRADY

Brady PLC is the largest independent provider of trading and risk management software to the global commodity markets with leading expertise in metals.

We have over 30 years of expertise in commodity markets with more than 10,000 users at over 200 companies worldwide, who depend on our software solutions to deliver mission critical business transactions across their global operations.

For commodities, we offer solutions for end-to-end trading lifecycle management of derivatives, physicals, raw materials and concentrates, together with hedging and risk management, logistics and inventory management, accounting and finance, for base and precious metals, raw materials, agriculture and softs and oil markets.

We are committed to keeping our customers ahead of the curve by keeping abreast of the latest market developments to drive innovation in our software, coupled with the deep knowledge and expertise of our people.

Speak to a Brady Metals Expert today and discover how Brady's software suite can support your commodity trading activity.

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