

With copper options, China steps up challenge to London, New York rivals



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BEIJING, Sept 20 (Reuters) – The Shanghai Futures Exchange (ShFE) will launch copper options trading on Friday, aiming to take a slice of a \$270 billion global market in one of its biggest challenges yet to London and New York rivals.

The product, which follows the launch of sugar and soymeal options last year, comes as the exchange also considers opening its flagship copper futures to foreign investors, and is a major step in China's prolonged effort to develop its derivatives industry.

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Options help metal consumers, producers and traders manage price exposure. A contract gives the buyer the right – but no obligation – to assume a futures position at a specified price.

Over the past decade, the Shanghai bourse which was set up in 1999 has carved out a bigger share of the global copper futures market, challenging the London Metal Exchange's (LME) near dominance as China's economy boomed and retail investors flocked to commodities futures trading.

Now it wants a part of the burgeoning options business.

Volumes of copper options traded on the LME totaled around \$265 billion last year at current prices, up 0.3 percent on a year earlier, while Comex copper options traded on CME Group almost tripled to 104,490 lots in 2017, worth about \$7.3 billion.

Some Chinese copper firms already trade options on the established London and New York markets, but others are not able to stump up the foreign currency required as collateral for trading. The ShFE copper contract is denominated in yuan.

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Hedging in China rather than overseas may also better reflect the domestic market for local players, said Qiu Guoyang, assistant general manager at Shenzhen-based brokerage Jinrui Futures.

He expected the ShFE launch to eventually have an impact on options volumes on the LME, which was founded in 1877, although not in the short term.

In an emailed response, the LME said it sees the Chinese market as a complementary trading system “stimulating arbitrage flow and helping to grow the market as a whole.”

CME global head of metals, Young-Jin Chang, also welcomed the new product and noted that 20 percent of its volume originates outside U.S. trading hours, pointing to demand in Asia.

Going global

Underscoring its determination to support the options contract, the ShFE has lined up 18 market makers, to fuel activity, far more than the handful that is usual for international exchanges.

Those include a unit of Jinrui Futures, a subsidiary of Jiangxi Copper Co., one of China’s biggest copper smelters, and state-run diversified metals firm China Minmetals Corp.

Swiss commodity trading house, Trafigura, which has a China-based trading unit, will also be involved in the first day of trading, a spokesperson said.

Success may depend on whether smelters and fabricators use the home product for hedging or if it becomes a playground for speculative investors, who often dominate other Chinese futures markets, like iron ore and coal, and cause wild volatility in prices, analysts said.

Launching an options contract will also help ShFE garner more traction with international players as it prepares to open its copper futures contract to foreign investors.

ShFE has not given a date for the internationalisation yet.

The exchange launched a crude oil futures contract [o#ISC:] in March that aims to compete with rival global benchmarks and the Dalian Commodity Exchange opened its iron ore futures [o#DCIO:] to outside investors in May.

(Reporting by Tom Daly; Additional reporting by Josephine Mason; Editing by Josephine Mason and Richard Pullin)