



Steel

BFEX, FCStone to develop steel voucher trading

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By Philip Burgert

CHICAGO -- Birmingham Futures Exchange Inc. (BFEX), Birmingham, Ala., has signed a letter of intent with commodity risk management firm FCStone Group Inc., West Des Moines, Iowa, to develop a steel price hedging platform based on steel vouchers.

Under the agreement; FCStone will research and, if viable, develop a trading platform for steel vouchers, a concept developed by steel risk management brokerage BFEX. This could include forward sales, options and over-the-counter swaps.

Jonathan C. Putman, BFEX's chairman and chief executive officer, described steel vouchers as being similar to prepaid coupons acceptable at each issuing steel mill as payment for base steel, including surcharges.

Each participating mill will define base steel as it always has and negotiate extras for gauge, width, quantity and other factors that can be paid separately, he said. The hedging platform will allow vouchers to serve as "a proxy for steel coils as a deliverable" and allow steel producers to continue to set their own price, he added.

The Iowa-based company plans to evaluate a variety of methods for distributing pricing information to the market, including e-mail and an Internet-based continuously updated forward price curve, executives said. Such a platform would be regulated by the Commodity Futures Trading Commission (CFTC).

FCStone will "make sure all the details of the project are in compliance with the CFTC," Putman said, adding that BFEX will act as an introducing broker. "Our job is to put together buyers and sellers and bring them to FCStone," he said.

Initial products to be developed for the steel voucher exchange would include hot-rolled, cold-rolled and galvanized steel coils traded in North America. However, both BFEX and FCStone plan to expand use of the vouchers to include other steel products, scrap metal and other steel-related products, along with overseas producers.

BFEX and FCStone also plan to pursue development of steel futures contracts denominated in vouchers with other commodity exchanges, executives said. BFEX will collect royalty fees from the steel voucher market and have marketing rights on market data.

The vouchers are expected to form the foundation of a company program to be a steel price hedging specialist as steel futures grow to a projected global notional value of \$25 trillion, Paul G. "Pete" Anderson, president and chief executive officer of FCStone, said in a statement.

The company, which realized sales of \$1.3 billion in 2006 and operates 18 domestic and international offices, currently handles risk management in renewable fuels, agriculture, energy, foods, forestry and currency exchange.

BFEX is still working to line up mills and other commitments that would allow the planned North American flat-rolled coil voucher exchange (AMM, Sept. 19) to begin operation within about six months, Putman said.

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