



COMMODITY TRADING IN A DIGITAL AGE

DIGITALISATION IS TRANSFORMING THE WAY HYDROCARBONS ARE TRADED, SAYS IAN EVANS, MD FOR MEA AT EKA SOFTWARE SOLUTIONS



There is a new era for oil & gas traders in the Middle East, where digitalisation is not only desirable but becoming increasingly critical to manage a changing market landscape. Oil prices have fallen, in part due to a strong US dollar, increased supply, and decreased demand. The industry can no longer rely on personal relationships and a small numbers of large contracts in order to survive. Instead, sustained lower oil prices have forced traders to look for new markets and improve efficiency to protect profit margins.

Some of the largest oil companies by volume are based in the Middle East. These companies know a new era of trading has arrived and they need to be more dynamic and fluid to quickly react to market changes. These businesses are adopting the latest and best technology to give them an advantage in the marketplace.

Rather than relying on a few large customers, these companies are now typically trading with 150-200 customers – including spot contracts. These require more careful management which, in turn, requires better use of the data that is influencing markets. Collaborations, partnerships, better market and cost control and improved control over the complete supply chain have all become important areas of consideration in this segment.

Complex trades require sophisticated solutions

Legacy Commodity Trading and Risk Management (CTRM) systems run on relatively simple cycles and are not designed to handle the new market conditions. They can only look at previous purchases and leave traders with the challenge of manually analysing costs to determine where optimum pricing levels can be found. This cumbersome process can take up to two or three days – time which may ultimately result in lost opportunities for traders.

The legacy CTRM solution within a business will depend on the size of the company. Smaller organisations that



are relatively new to the market tend to use spreadsheets or basic accounting systems to monitor and log trades. Larger, longer-established companies may have a legacy CTRM. Unfortunately, the architecture of these systems means that trying to make them work for modern market conditions is cost prohibitive or simply not possible. The appeal of upgrading them is further tainted by the need for many internal resource hours to define and explain to the original supplier the new functionality required. A modern solution, on the other hand, is 'ready to go' and its design already based to meet current and future demands of traders.

Using modern technologies, the latest CTRM solutions offer a much more dynamic and flexible way of operating. They can function using Artificial Intelligence (AI) and Machine Learning (ML) and can offer pre-trade analytics, producing a 'heat map' of the best trade opportunities in as little as a few seconds. This gives traders a huge advantage and increases the chance of securing a better deal and having the right product for sale.

Another issue with legacy CTRM systems is their fixed capacity. Any expansion required can be very costly and, once purchased, there is no opportunity to contract again as markets change. Pushing the system too far will either incur large costs for new hardware or completely slow it down, leaving traders frustrated – and data volumes are only going to increase.

Data, data, everywhere...

Commodity trading markets will never stop producing and collecting data. In order to make the best use of this data, and to transform it into valuable, strategic information, digitalisation is required. Modern technology offers a way to react quickly to market changes, respond to demand, capture opportunities, reduce risk and increase profits.

Digitalisation about more than managing data efficiently, it is also about capturing new data sources to improve decision making processes – whether that be ocean data, weather forecasts or something we haven't even thought of yet. Legacy systems are simply not designed to do this without heavy investment and considerable integration work. Modern solutions, such as Eka's platform driven CTRM solution, use open connectors that are pre-built, making it easier and less time consuming to link to multiple information providers. Any information from the 'data lake' can be added immediately and is always accessible.

The best CTRM solutions on the market today provide unlimited opportunities to use data and automate processes. They enable growth, with dynamic expansion within a cloud-native platform that inherently allows the addition of new markets, different types of products, new data streams and bigger volumes.

When trading conditions are poor, this could help protect falling margins. When markets are strong, they will help

increase efficiency and profits. They bring together disparate data sources and translate them into real-time, predictive views of trading conditions, thereby enabling deals to be worked out quickly and cleverly to give the trader a fast advantage to get the best possible deals for their shipments.

A more complex trading environment

The strength of the oil industry in the Middle East means contracts can cover a wide variety of products, customers, and locations, complicating the process of getting the best deals. While the number of customers producers are interacting with offers a great deal more opportunities, it also increases the chance of a mistake. The number of customers can be 40 or 50 times more than producers were historically dealing with, and complex logistics and pricing between buyers increase the risks, and even the smallest mistake on a \$200m shipment can be very costly indeed.

As new types of fuels enter the market, pressures on pricing will continue to increase and traders will need to be even more efficient. Selecting a solution that is easily scalable and inherently adaptable to new requirements offers a way of future-proofing investments.

Modern CTRM solutions not only offer pre-trade analytics to give clear market pictures, but also structure the whole sales process by incorporating purchasing, selling, and optimising supply chain logistics. Their use can therefore enable traders to get new (and more) customers more profitably.

Having a broader base of customers in wider locations presents more opportunity for improved margins. Products can be blended to respond to demand and shipment costs monitored and optimised. What's more, by using a cloud-native system, traders can access the information they need from mobile devices wherever they are in the world. Indeed, within the Middle East, Eka has found that both a cloud-based and mobile solution are in the top four criteria for oil traders.



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Fast market, fast system

Static data becomes quickly outdated and of lower value to traders. A mobile CTRM platform means that data is current and live, and traders are well placed to capture opportunities, even while out of the country. Data in the Cloud is continually updating and the best CTRM platforms can analyse and deliver the impact of the information straight to the trader's phone in a matter of seconds.

Summary

Like a perfect storm, a series of events is producing a paradigm shift in CTRM.

On one hand, low oil prices, more diverse products, emerging markets and a greater need to maximise profit margins are changing the way traders need to operate. On the other hand, latest technological advances offer a solution that takes control of the increasingly sophisticated trading picture. The best CTRM platforms give traders a more complete picture of costs and opportunities from seas of ever-changing and growing data streams. They deliver live information to their fingertips, wherever they are, de-risk trades and provide a single system of record to ensure total visibility of all parts and variables within the supply chain. We are in a new era where CTRM solutions need to offer traders the agility and adaptability to efficiently manage changing market conditions. Making use of the latest technologies, such as the Cloud, AI, ML and blockchain, these breakthrough systems are changing the commodity trading landscape. Traders in the Middle East are quickly catching on to the benefits of this revolution in CTRM and, by adopting the latest technologies and best of these systems, they have a distinct advantage in the marketplace to protect and optimise margins and fuel business growth.

