

# The Perfect Marriage of DCE and BMD with Soy Oil



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### A historic milestone of the Asian derivatives market

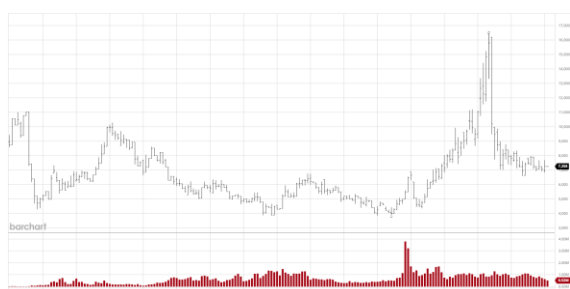
On 2<sup>nd</sup> November 2023, during the 17th China International Oils and Oilseeds Conference, Bursa Malaysia Derivatives and Dalian Commodity Exchange have officially signed an agreement for the licensing of Soybean Oil Futures settlement price. This collaboration marks the first time in the Chinese futures market that an Asian exchange is authorized to directly use Chinese commodity futures delivery settlement prices for new product development. It also represents the first instance in the Malaysian futures market of using overseas commodity futures prices as the reference for cash settlement.

Under the agreement, DCE has authorised BMD to use the settlement price of DCE Soybean Oil Futures as the basis to calculate the cash settlement price of its upcoming new product, FSOY. With that, the underlying asset of the FSOY contract will mirror that of the DCE Soybean Oil Futures. The product is targeted to be launched by Bursa Malaysia on 18<sup>th</sup> March 2024.

### Long-term partnership started with palm oil in 2007

DCE stated that since signing a memorandum of understanding with BMD's parent company, Bursa Malaysia, in 2006, the cooperation between DCE and BMD has continued to expand. In October 2007, palm oil futures were listed on the Dalian Commodity Exchange.

Palm oil is one of the major vegetable oils in the world. Malaysia is a major producer and exporter of palm oil, while China is a major importer and consumer. With the inclusion of DCE RBD palm olein futures in 2007, both exchanges have benefited from this collaboration. DCE continues to attract the participation of its physical traders, and BMD has seen a gradual increase in its volume since 2007.



DCE RBD Palm Olein Futures Source:barchart



BMD Crude Palm Oil Source:Tradingview

### Win-win through palm oil collaboration

Although China dominates the international palm oil consumer market, it is significantly influenced by Malaysia in determining the price of palm oil. For Malaysia, RBD palm olein futures listed on the DCE further promote trade and commerce between China and Malaysia, extending the influence of the BMD in key sales areas across Asia. For China, DCE RBD palm olein futures serve the function of

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hedging and strengthen the ability of domestic enterprises and individuals to mitigate market fluctuations and uncertainties. In some sense, this enhances China's ability to elevate its position in the international palm oil trade.

RBD stands for refined, bleached, and deodorized palm olein, DCE RBD palm olein is commonly used in cooking oils, margarine, and various food products. Whereas BMD crude palm oil is the unprocessed, raw form of palm oil extracted directly from the fruit of the oil palm tree. Crude oil is commonly used for various industrial purposes. Though both contracts are not identical, they are very closely related, meaning they are unlikely to deviate too much from each other, and the pricing should be in tandem.



DCE RBD Palm Olein Futures Source:barchart

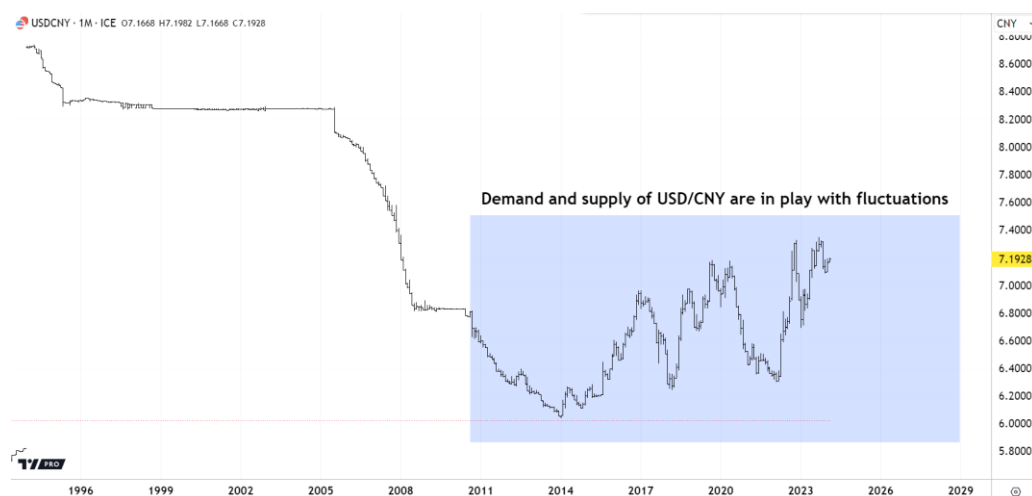


BMD Crude Palm Oil Source:Tradingview

The attributes of such inter-market listing increase liquidity, provide arbitrage opportunities, enhance market efficiency, offer global access, facilitate risk management, and all of these contribute to price discovery, especially benefiting physical traders and end consumers.

### China's determination to open up

In recent years, China has shown a strong commitment to opening up its trades and markets, as evidenced by its price behavior, depicted in the following chart, and its liberation of the Yuan since 2010. This was achieved through the relaxation of restrictions on currency conversion, enabling the yuan to float more freely in the foreign exchange market, and broadening its usage in international transactions. It is my understanding that this initiative has been in development for over a decade, initially aimed at fostering a fair exchange of currencies to create a level playing field between buyers and sellers. Over time, the focus has transitioned to enhancing trades and markets.



Dollar / Yuan

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By allowing the Yuan to float more freely in the foreign exchange market, its value can better reflect market fundamentals, potentially leading to more balanced trade relationships between China and its trading partners. As China potential becoming the largest economy of the world, trading partners will benefit from this growth.

### Soybean oil and duplicating crude palm oil success in crude palm oil

Soybeans are a crucial part of the global food chain, particularly as a source of protein in the production of hogs and poultry. Soybean oil is one of the world's major edible oil products, and soybean oil futures were the first oil futures listed by DCE, with market functions being fully realized since 2006. DCE's soybean oil futures have been widely utilized by industrial enterprises. Currently, soybean oil crushing by oils and oilseeds companies participating in DCE accounts for over 90% of the national total.

#### The Top 9 Commodities by Traded Volume in 2023

Here are the most popular commodities for 2023 by traded volume:

Commodity name	Symbol	Type	Exchange	Volume (in contracts)
WTI crude	CL.1	Energy	New York Mercantile Exchange	389,406
Gold	GC.1	Precious metal	Commodities Exchange Centre	158,269
Natural gas	NG.1	Energy	New York Mercantile Exchange	120,340
Soybean	S.1	Agriculture	Chicago Board of Trade	99,978
Corn	C.1	Agriculture	Chicago Board of Trade	94,059
Brent crude	LCO.1	Energy	Intercontinental Exchange Europe	76,286
Sugar	SB.1	Agriculture	Intercontinental Exchange US	73,305
Silver	SI.1	Precious metal	Commodities Exchange Centre	60,053
Wheat	W.1	Agriculture	Chicago Board of Trade	48,960

*\*Data based on commodity futures tracked by CNBC as of 04/09/2023.*

Since the trade war started in 2018, security concerns have been escalating on all fronts, including food security. China has the largest domestic consumption of soybean oil, followed by the United States, Brazil, and India. China is also the largest producer of soybean oil, followed by the United States, Brazil, and Argentina. With the trade war with the United States far from over, China has been building bridges with trading partners, especially regarding food security.

### The perfect marriage of DCE and BMD with Soy Oil

Building on the success of the BMD crude palm oil futures and DCE RBD palm olein futures from 2007 until today, both exchanges are joining forces to collaborate on another commodity, enhancing price discovery and stability in the marketplace. It is exciting to witness the outcome, a win-win-win for all stakeholders; between countries, between exchanges and between producers and consumers.

As China continues to measure and pace its opening, DCE has actively promoted institutional opening-up to the outside world. A spokesperson of Dalian Commodity Exchange said, "Since the signing of the memorandum of understanding with Bursa Malaysia Berhad (the holding company of

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Bursa Malaysia Derivatives) in 2006, the collaboration between DCE and Bursa Malaysia Derivatives has grown from strength-to-strength. In recent years, DCE has been proactively and systematically moving towards internationalisation under the guidance of the China Securities Regulatory Commission. The cooperation with BMD marks a pivotal opportunity for both exchanges to share business practices and innovative ideas, thereby enhancing the connectivity of both our markets. Through this cooperation, we aim to better serve the international oil and fats industry, facilitate bilateral trade, and contribute collectively to the 'Belt and Road' Initiative to achieve mutual benefit and success.”

Datuk Muhamad Umar Swift, Chairman of Bursa Malaysia Derivatives and Chief Executive Officer of Bursa Malaysia Berhad said, “As the leading commodity derivatives marketplace in ASEAN, Bursa Malaysia Derivatives continually develops products to help market participants navigate the complexities of international markets and discover trading opportunities. Through this cooperation, we are proud to offer an innovative solution that simplifies market access and empowers industry players to effectively manage cross-market risks.”



Source: Bursa Malaysia

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