Borrowing base and structured commodity finance

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The borrowing base facility

The large and medium-sized trading houses rarely finance their business transaction by transaction. They use revolving credit lines whose available amount is determined by a borrowing base: the value of eligible inventory and receivables, each multiplied by an advance rate that reflects its liquidity and the volatility of its price. A trader holding crude oil worth 100 million dollars in tanks and receivables of 50 million dollars from first-class buyers might be allowed to draw, say, 85 per cent of the value of the oil and 80 per cent of the receivables. Receivables from defaulting or doubtful buyers, goods of uncertain title and stock held by related parties are excluded. Reference works give advance rates of 75 to 85 per cent for receivables, while commodities with a liquid market can be financed at up to 90 per cent, reduced as price volatility rises.[1]

The facility gives the trader flexibility. It can buy, store and sell within the limit without negotiating each transaction, while the limit rises and falls with the value of its stock. The bank receives security over a revolving pool of assets and regular reports on its composition. The quality of the facility depends entirely on those

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reports. Lenders that relied on borrowing base certificates prepared by the trader itself, without independent verification of stock and receivables, discovered in 2020 how fragile that reliance can be.

Inventory, tank storage and repurchase financing

Singapore's oil trade stores large volumes in independent terminals on Jurong Island and in floating storage off the southern islands. Inventory finance allows traders to hold these stocks for blending, for sale in a later month or for a contango trade in which forward prices exceed spot prices. The bank takes security through warehouse or tank receipts, through an attornment by the terminal operator or through a collateral manager who controls the goods on its behalf. Each method depends on the integrity of the storage provider and on the bank's ability to verify that the stock exists.

A variant is the repurchase arrangement. The trader sells inventory to a bank or another trader and agrees to buy it back later at a higher price, so that the difference represents the cost of financing. Repurchase structures can be legitimate. They can also disguise debt as sales and inflate turnover, especially when the same goods circulate repeatedly between related counterparties. The Code of 2020 lists turnover that has been sold or discounted, including "buy-back or repurchase arrangements", and turnover from transactions that involve no physical movement of goods among the information lenders should request in their due diligence.[2] The emphasis reflects the experience of 2020, when lenders found that circular trades and repurchases had concealed losses and multiplied financing.

Prepayments and pre-export finance

Structured commodity finance in the narrower sense links the financing to the production of the goods. In pre-export finance a bank lends to a producer, such as a mine, a refinery or a plantation group, which repays the loan from the proceeds of future exports sold under offtake contracts with creditworthy buyers. In a prepayment the trader pays the producer in advance for future deliveries and refinances the advance with banks, often on a limited recourse basis. These

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structures allow traders to secure supply, especially from producers in Indonesia, Africa and the former Soviet Union, and give producers access to credit they could not obtain on their own.

The scale can be considerable. The Geneva volume cites the prepayment of 8.32 billion dollars signed in March 2013 between Rosneft and a pair of trading houses as an example of the largest transactions of this kind.[3] Transactions of this size are booked in London, Geneva and Singapore. Sanctions have since removed Russian producers from the market for Western banks, a development examined in Chapter H.IV. In Asia the main users of pre-export finance are Indonesian coal and nickel producers and palm oil groups, whose regional ties with Singapore are discussed in Chapter I.IV.

Syndicated facilities of the large houses

The largest traders finance their working capital through syndicated revolving credit facilities raised from dozens of banks. These facilities are unsecured and rest on the borrower's balance sheet, so that they belong to corporate finance more than to transactional finance. They are nevertheless used to fund inventories and receivables. Their pricing and size are watched as indicators of bank appetite for the sector.

Singapore has become one of the principal markets for these facilities. On 1 October 2026 Trafigura Group Pte Ltd, the trading group's Singapore company, announced facilities of about 4.4 billion dollars, upsized from an initial target of 3.5 billion dollars. They comprised a 365-day revolving credit of 1.1 billion dollars, a one-year offshore renminbi term loan equivalent to 1.6 billion dollars, a three-year term loan of 1.5 billion dollars and a five-year revolving credit of 0.2 billion dollars. Forty financial institutions took part, with strong participation from Chinese banks. OCBC acted as global coordinator, and BBVA, DBS, OCBC and Standard Chartered Bank (Singapore) as active mandated lead arrangers.[4] The structure of the deal illustrates three features of the market: the leading role of Singapore banks, the weight of Chinese lenders and the use of the offshore renminbi as a financing currency.

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Hedging and the lender's control of positions

A bank that finances a commodity carries a price risk, since a fall in the market reduces the value of its security. Lenders therefore require traders to hedge financed stock on futures exchanges or with swap counterparties. The hedge account becomes part of the collateral. Margin calls on the hedge can drain the trader's liquidity at the moment when the physical stock has lost value, a mismatch that destroyed several traders during the oil price collapse of 2020.

The Code of 2020 recommends that lenders enter into tripartite agreements with the trader and its broker where the trader hedges financed goods.[5] Such agreements give the bank visibility of the hedge and, in some structures, a claim to the margin account. They also make it harder for a trader to run speculative positions in the name of hedging. Hin Leong's founder revealed to the lenders that the company had written off about 800 million dollars of futures trading losses, a figure that shows what was at stake.[6]

Notes

1. Wikipedia, "Borrowing base" (accessed November 2026): advance rates of 75–85 per cent for accounts receivable, 25–60 per cent for inventory generally, and up to 90 per cent for commodities, reduced by price volatility; exclusion of receivables more than about 90 days past due; recalculation moving from monthly to weekly or daily. ↩

2. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Appendix 3, items 4 and 5: information on turnover sold or discounted "including but not limited to buy-back or repurchase arrangements" and on transactions "which do not involve any physical transfer or movement of such goods". ↩

3. Ressos, *Genève, place financière internationale*, partie H, chapitre I, footnote citing TXF, "The Rosneft prepayment: Deal of the Year 2013": prepayment of US$8.32 billion signed in March 2013 for Glencore (70 per cent) and Vitol (30 per cent) with twelve lead banks. ↩

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4. Trafigura, "Trafigura secures USD4.4 billion Syndicated Revolving Credit Facility and Term Loan Facilities", press release dated Singapore, 1 October 2026: borrower Trafigura Group Pte Ltd; upsized from USD 3.5 billion; tranches of USD 1.1 billion (365-day RCF), USD 1.6 billion equivalent (one-year CNH term loan), USD 1.5 billion (three-year term loan) and USD 0.2 billion (five-year RCF); 40 financial institutions; "strong participation from Chinese banks"; OCBC as Global Coordinator; BBVA, DBS, OCBC and Standard Chartered Bank (Singapore) as Active MLABs. ↩
5. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Appendix 4, item 9: lenders should enter into "contractual arrangements (e.g. tri-partite agreements)" with the trader and broker where the trader hedges financed goods. ↩
6. Wikipedia, "Hin Leong" (accessed November 2026): in a meeting with lenders, Lim Oon Kuin "revealed that the company had written off $800 million in futures trading losses". ↩

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