Commodities as the first link to the trading hub

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

Processing, grading and price discovery

The tin and rubber economies taught Singapore the functions that a commodity hub performs. The first is processing, which the Pulau Brani smelter performed by turning ore into a standardised product with a recognised brand, just as the rubber millers turned uneven smallholder sheets into graded exports. The second is grading and quality assurance. Huff describes how Singapore firms sold rubber under international grades and under their own house grades, which buyers learned to trust.[1] The third is price discovery, through the weekly rubber auction and the daily quotations of the brokers. The fourth is finance in the form of advances to producers, the discounting of bills and the financing of stocks in warehouses.

Each of these functions survives in the modern trading hub. Oil refining and storage, discussed in Chapter II of Part G, perform the processing role that the smelter once performed. Inspection companies certify the quality of cargoes, while Asian price benchmarks for oil and other commodities are assessed in Singapore. The trade finance banks examined in Chapter I of Part H finance cargoes and stocks

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as the exchange banks once financed tin and rubber. The modern businesses arose much later, yet they were built on habits, skills and institutions that the colonial commodity economy had created.

From the rubber auctions to SICOM and SGX

The rubber market illustrates the continuity. The Chamber of Commerce association of 1911 was later followed by the Rubber Association of Singapore, a statutory board that regulated and promoted the trade. In May 1992 its trading operations were privatised as the RAS Commodity Exchange, which focused on paper trading in rubber and was renamed the Singapore Commodity Exchange, known as SICOM, in February 1994.[2] The Singapore Exchange completed its acquisition of SICOM on 30 June 2008, making it a wholly owned subsidiary.[3]

Rubber futures traded on SGX are today a principal instrument for hedging the price of natural rubber. In May 2019 it launched the industry's first options contract on TSR20 rubber, which it called the global benchmark grade, after clearing more than nine million metric tonnes of rubber derivatives in 2018, an increase of 23 per cent on the previous year.[4] The line from the auction room of 1911 to the electronic futures market of today is direct.

The practical lessons for commodity finance

The commodity history of the colony is more than a prelude. It offers practitioners in today's trading and financial sector a set of lessons that the crises described in Parts G and H confirm. Commodity prices move in long cycles driven by supply that responds slowly to price, so that credit extended at the top of the cycle is the credit that fails at the bottom. Restriction schemes and buffer stocks can support prices for a time but tend to end abruptly. A currency anchored to the outside world protects investors from exchange risk, although it transmits external shocks into the domestic economy without cushion.

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Checklist for practitioners in commodity finance and commodity-linked structures:

- Test the borrower's position at cyclical low prices, since lending decisions taken at the top of a commodity cycle carried the heaviest losses in the 1870s, after 1920 and after 1929.
- Analyse the time lag between investment and production, which for tree crops and mines can run to several years and drives overinvestment.
- Assess any reliance on price support schemes, producer agreements or state intervention, and model the consequences of their failure, as the tin crisis of 1985 shows.
- Verify the existence, quality and grading of the goods financed through independent inspection and warehouse control, because collateral is only as good as the commodity behind it.
- Identify the currency of revenues and of debt service and the exchange rate regime behind each, since a fixed rate shifts risk from the exchange rate to domestic liquidity.
- Consider concentration risk at the level of the financial centre, because a hub dependent on a few commodities, as colonial Singapore was on tin and rubber, shares their cycles.

Notes

1. W.G. Huff, "The Development of the Rubber Market in Pre-World War II Singapore", *Journal of Southeast Asian Studies*, vol. 24, no. 2, September 1993, pp. 285–306, footnotes 18–19 (as displayed on Cambridge Core), on grading for overseas sales, including American codes and the fair average quality standard, and on Singapore firms selling under their own grades. ↩
2. Speech by George Yeo, Minister for Trade and Industry, 2004, National Archives of Singapore, press release 2004020604: SICOM "first started with the formation of the RAS Commodity Exchange in May 1992" following the

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privatisation of the Rubber Association of Singapore, then a statutory board; renamed the Singapore Commodity Exchange in February 1994. ↩

3. Wikipedia, "Singapore Commodity Exchange" (accessed November 2026): on 30 June 2008 SGX completed its acquisition of Singapore Commodity Exchange Ltd (SICOM), which became a wholly owned subsidiary. ↩
4. Hedgeweek, "SGX launches options on global pricing benchmark for natural rubber", 27 May 2019: SGX "has launched the industry's first options contract on TSR 20 rubber, the global benchmark grade"; "In 2018, SGX cleared more than 9 million metric tonnes of rubber derivatives, a 23% increase year-on-year." ↩

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