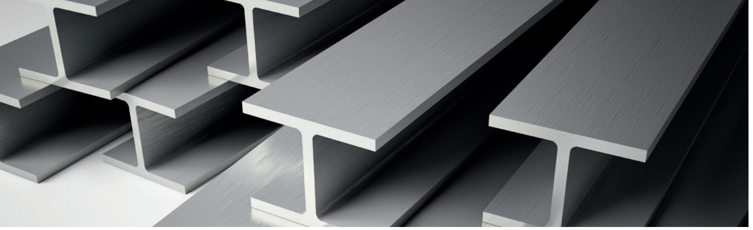

21strategies

How steel companies hedge spread risk with hedge21®

"If you're lucky, you can purchase a ton of steel 10 euros below market rate. That's a lot, but crucial and much more important is the timing of the purchase. Knowing we have to buy steel now, and so and so much of it, is of great help."

STEEL TRADING

Internationally operating steel traders are among the largest German SMEs. They buy steel on international markets. A variety of influencing factors, such as foreign currency exchange rates or governmental regulatory policies, affect the steel market as a whole.

ABOUT 21STRATEGIES

We support organizations making smarter decisions under uncertainty. To aim at our mission, we build and operate Enterprise AI. Our flagship product **hedge21®** protects a company's EBIT from losses of foreign currency and commodity price risk.

FOR MORE INFORMATION, CONTACT

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THE PROBLEM

Anyone who trades commodities is confronted with risks. Countries with geostrategic ambitions, governmental sanctions and climate measures effect scarcity and higher prices of commodities. This leads to spread risk—the risk that commodities are sold at a price which is below their purchase price. The 2020/21 steel market shone light on spread risk: From December 2020 until and including May 2021, steel prices for Rebar increased by ~47% from €554/t to €796/t. The negative effect: The operating margin of steel traders was shrinking, and losses were inevitable.

THE SOLUTION

When a steel trader commits to supply steel to his end customer at a price p, a spread risk—the "booked exposure"—arises. **hedge21®** is a cognitive machine to control such risk systematically through the optimal management of cash settled hedging contracts. **hedge21®** consists of a probabilistic forecast component for steel prices with a forward view of up to 6 months, the Recognized Market Picture® Steel (RMP). RMP® Steel fuses data from reliable sources such as Reuters, the LME, and the CME. It monitors steel rates in real-time and tracks the most likely future price development. The statistics of its price forecast are transmitted to the **hedge21®** control strategy. This strategy decides if, when and what to hedge by proposing the purchase of a cash-settled steel futures contract. Until maturity of the hedge contract, i.e. the time of delivery of the physical steel to the end customer, **hedge21®** manages the spread risk as profitably as possible and terminates its algorithmic recommendations when the exposure has expired, i.e., when the steel is delivered.

EFFECT: A CYBER-PHYSICAL STEEL BUSINESS

- RMP® steel is the only algorithmic steel price forecasting model to date. It creates transparency into the most likely development of future prices.
- A **hedge21®** control strategy calculates the optimal cash settled hedge based on both RMP® steel and the steel trader's corporate hedge policy, benchmarks, and risk appetite. It allows to hedge risk in a third way next to building physical inventories and maximizing working capital.
- **hedge21®** digitally transforms steel companies. A steel trader with physical trading only transforms into a cyber-physical entity, leveraging his steel expertise to the trade of cash settled steel futures.