

LCQ19: Support for commodities trading

Following is a question by the Hon Frankie Yick and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (May 14):

Question:

In January of this year, the London Metal Exchange (LME), a subsidiary of the Hong Kong Exchanges and Clearing Limited, announced that it would include Hong Kong as an approved delivery point within its global warehousing network and accept applications from warehouse operators for approval. Last month, LME announced that it had approved applications to establish four LME-licensed warehouse facilities in Hong Kong. Furthermore, it has been reported that other warehouse operators are applying to become approved warehouses for the storage of LME-registered brands of metals. In this connection, will the Government inform this Council:

(1) whether it knows the following information about the four warehouses that have been approved by LME and those that are applying to become approved warehouses: (i) locations, (ii) storage capacities, and (iii) the timing of formal commencement of service; whether the authorities have estimated the number of warehouses and storage capacity needed to develop Hong Kong as a metal delivery point, and what the respective differences are as compared to the current supply and capacity of warehouses;

(2) as it has been reported that, to encourage more warehouse operators to apply to become approved warehouses of LME, the Government has stated that it will provide assistance on technical matters as appropriate, whether it knows the requirements for becoming an approved warehouse of LME; what assistance the Government has provided to address technical issues faced by warehouse operators; and

(3) regarding the creation of a commodity trading ecosystem, apart from developing approved warehouses, what further measures the Government has put in place to facilitate the robust development of local commodities trading-related services, so as to consolidate Hong Kong's position as an international financial, shipping and trade centre?

Reply:

President,

Our country is the world's largest consumer of industrial metals. Developing relevant commodity trading will drive the development of a financial, shipping and trade centre in Hong Kong. The Chief Executive's 2024 Policy Address proposes the creation of a commodity trading ecosystem which can be a starting point for attracting relevant enterprises to establish a presence in Hong Kong, turning our city into an operation centre for

international commodity trading, storage and delivery, shipping and logistics, risk management, and more.

In consultation with the Hong Kong Exchanges and Clearing Limited (HKEX), the reply to the three parts of the question is as follows:

(1) and (2) The London Metal Exchange (LME), a wholly-owned subsidiary of the HKEX, included Hong Kong as an approved delivery point within its global warehousing network in January this year, and began accepting applications from warehouse operators to become approved warehouses. The LME announced the approval of the first four approved warehouses to be established in Hong Kong in April this year. The total storage area and types of metal that can be stored in each warehouse are set out in the table below.

Warehouse location	Total storage area (square metre)	Types of metal that can be stored
Cheung Sha Wan	500	aluminium alloy, primary aluminium, copper, nickel, lead, tin and zinc
	500	
Tsing Yi	4 100	aluminium alloy, lead, tin and zinc
Yuen Long	4 062	aluminium alloy, primary aluminium, copper, nickel, lead, tin and zinc

The LME-approved warehouses are required to comply with relevant technical requirements, such as loading standards for metals. The four warehouse facilities have passed LME's initial inspection and are compliant with relevant standards in terms of transportation and logistics. Preparations including system connections are underway, and the facilities are expected to commence operations gradually as soon as July this year.

Before making the decision to include Hong Kong as an approved delivery point, the LME had assessed the feasibility of establishing warehouse facilities in Hong Kong, including the sustainability of business operations, cost, technical requirements, etc. In selecting suitable sites for the warehouses, the operators had to hold in-depth discussions with the relevant warehousing industry players and landowners, which mainly involved the circumstances of individual facilities (such as loading capacity and infrastructure requirements) and other business considerations. In the course of discussion, technical issues involving planning permissions, lease conditions, etc. were identified. The Financial Services and the Treasury Bureau (FSTB) in collaboration with relevant bureaux and departments has been maintaining communication with relevant industry players, and held meetings to provide relevant information and guidance.

The LME has indicated that there are other operators applying to become approved warehouses, and it is expected that more warehouses will be approved subsequently. Based on the implementation of the relevant market mechanism, the development of metal delivery destinations and warehouses will be

determined by market supply and demand. There is no specific quantitative target.

(3) In terms of base metals, besides facilitating the LME to establish approved warehouses in Hong Kong, to attract more trading and delivery, the HKEX will host LME Asia Week in May this year, inviting international and Mainland metal manufacturers, traders, buyers and sellers to participate in in-depth discussions and exchanges on industry topics, including the introduction of the latest LME approved delivery points, including Hong Kong.

In terms of financial trading of other types of commodity, the Chief Executive's 2024 Policy Address proposes to use gold as an entry point to develop the relevant commodity ecosystem. Specifically, it is the Government's goal to promote the development of world-class gold storage facilities, thereby attracting more investors and users from different economies, including the Middle East and Southeast Asia, to store gold in Hong Kong. On the basis of increased storage, we expect increased demand for associated support services in insurance, testing and certification, logistics, etc, while in parallel expanding related transactions including collateral, loan and hedging, hence creating a comprehensive ecosystem in a progressive manner. This will drive all-round multi-currency trading, clearing and delivery, as well as the development of the regulatory system, covering transactions using offshore Renminbi (RMB), thereby establishing a holistic gold trading centre with an industry chain. The FSTB established the Working Group on Promoting Gold Market Development (Working Group) in December 2024, comprising leaders of the financial industry, representatives of regulatory bodies and market participants, to comprehensively review all aspects relating to financial transactions of gold. The Working Group will formulate a plan this year to enhance storage facilities, optimise trading and regulatory mechanisms, expand exchange products, and conduct market promotion.

At the same time, the Qianhai Mercantile Exchange, a subsidiary of the HKEX, operates our country's only offshore spot trading platform for soybeans, thereby laying the foundation for the expansion of RMB-denominated commodity products, channeling off-shore RMB liquidity to the commodities market, promoting RMB internationalisation, attracting relevant traders to expand their business in Hong Kong, and establishing an ecosystem for the commodity.