

RECLAIMING THE TOP SPOT



The 2010 Risk/Energy Risk Commodity Rankings reveal which companies have been able to prosper despite the difficult conditions of 2009. [Lianna Brinded](#) analyses the results and talks to key market participants about their views

Last year began as a very difficult one for the energy markets but ended with firm signs of recovery. Towards the end of 2009 there was a return of liquidity to most sectors, and a major re-entry for institutional investors with an increased appetite for risk. In a year of such turmoil, it's not surprising some companies fared better than others and that there were some fairly significant changes in the *Energy Risk/Risk Commodity Rankings 2010*.

Goldman Sachs reclaimed its crown as the top player for energy and commodities overall, rising from number five last year and pushing Morgan Stanley into second place after two years at the top. In other interesting moves, Credit Suisse and BNP Paribas entered the top 10 for the first time in oil, at sixth and eighth places respectively. EDF Trading also performed well in 2009 rising from tenth to seventh place in the top-10 overall energy players.

As the markets enter the new decade, the worst of the financial crisis looks to be behind them and companies are looking forward to growth, particularly from Asia. In 2009, Wall Street's major players began paying back the US government's \$700 billion Troubled Asset Relief Program (TARP) loan more quickly than had been expected, bringing about more confidence in the banking sector. Additionally, leading economic indicators began forecasting economic recovery.



"In Q4 2009, we definitely saw a pick up in activity from institutional clients, which includes hedge funds, pension funds and even sovereign wealth funds," says Isabelle Ealet, head of global commodities at Goldman Sachs. "We saw people willing to commit capital for riskier assets in general. In commodities there has been a much more positive outlook."

Overcoming hurdles

However, the year wasn't without its hurdles.

"At the beginning of 2009, we were still feeling the aftermath of the year before but by the end of the year this had disappeared," says Ealet. "Throughout the year, we saw continued market volatility and a strong correlation between commodities and macro-economic / equity markets, which was initially difficult to track from a pricing point of view."

Although investors started to return to the markets, it was evident things had changed since September 2008 and they now had extra needs, especially around credit and counterparty risk. Being able to

address these needs is how Morgan Stanley has been able to uphold a consistent position in the rankings, believes Boris Shraye, global head of marketing of commodities at Morgan Stanley.

"Clients needed more solutions that involved funding," he says. "Combining our involvement in physical commodities, funding and derivatives risk management solutions allows us to provide something unique to our clients."

The price volatility of 2009 also brought about opportunities, points out Paul Newman, managing director at Icap Energy in London. "Price volatility can often bring with it the possibility of superior investor returns through structured and intelligently creative investor products," he says. "During 2009, the City found plenty of elegant ways to repackage volatility, and to use it to create attractive investor returns."

Other notable performers in this year's rankings were Credit Suisse, JP Morgan and Société Générale. Credit Suisse flew straight in to sixth position for best oil dealer, after only completing one full year of investing

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Isabelle Ealet, head of global commodities, Goldman Sachs



in the oil business. JP Morgan climbed five positions into fourth place in the overall top energy dealers, while Société Générale secured the number-one dealer slot for oil.

Restoring market confidence

“Confidence definitely started coming back into the market in the second half onwards, as investors were less worried about the credit situation of counterparts,” says Edouard Neviaski, global head of commodities markets, at Société Générale. “One of the main reasons that we would attribute our success to, in terms of our ranking in oil, is that we expanded in the US and Asia and broadened the level of services, reaching further for the customer.”

JP Morgan, which moved up three places in the overall oil rankings, is also looking to expand and hopes to duplicate its success in China and Australia by onshoring more people in other regions, led by Catherine Flax, CEO of global commodities for EMEA at JP Morgan.

“I have recently moved to London in order to lead a large push into Eastern Europe, the Middle East and North Africa, and of course to capitalise on the existing business in more developed countries,” she says.

“In 2009 we were still emerging from the post-Lehman crisis but we started to see the fruition of JP Morgan’s framework and various acquisitions we made over the years,” says Michael Camacho, global head

T1. Top 10 dealers overall –energy

2010	2009	Dealers	%
1	5	Goldman Sachs	10.7
2	1	Morgan Stanley	9.4
3	4	Société Générale	9.3
4	9	JP Morgan	8.2
5	3	Deutsche Bank	7.3
6	2	Barclays Capital	7.1
7	10	EDF Trading	6.7
8	6	BP	6.6
9	8	Citi	5.6
10		E.ON Energy Trading	5.1

of commodity sales and non-energy trading, JP Morgan. “Combining this with organic growth and the expansion of our operations across different geographical areas, such as Asia, we did see a transformation in the commodities business.”

Smaller players gain share

Other banks with smaller positions in energy believe they benefited in 2009 from the difficulties facing the larger players, which enabled them to gain new traders and market share. Notable here is Credit Suisse, which smashed straight into sixth place in the top-10 oil dealers category for the first time.

“We only started investing in the oil business in 2008, with hires across sales and trading,” says Alexander Toone, head of commodities sales at Credit Suisse.

Michael Camacho, global head of commodity sales and non-energy trading, JP Morgan



T2. Top brokers energy

Brokers	Total points*
Icap	93
GFI	89
Tradition	74
Tullett Prebon	55
Spectron	17

“To rise up the rankings in our first full year is pleasing.”

Meindert Witteveen, head of trading for coal, freight, gas, emissions and steel at Credit Suisse adds: “We continue to grow our teams across the Americas, Europe and Asia. We have increased our presence in the mining and utilities sectors, as well as hedge funds. “We are emulating the success we have seen in coal in other markets, including expanding our European and US gas teams,” he says.

And while some banks moved forward with expanding their teams, Goldman believes a combination of their existing approach to trading and client base allowed it to reclaim the top spot overall, move back into second place in the oil rankings and regain first position in natural gas.

“We have been lucky to not lose headcount in commodities and the combination of high activity, strong market view and a diverse portfolio has moved us along nicely in 2009,” says Ealet. “It has been pretty volatile but there have been plenty of opportunities to offer clients what they need.”

Gas markets

Both the US and European gas markets were part of the commodities complex that saw price volatility and a resurgence of clients in the sector in 2009. Ealet said the quarterly changes in sentiment meant they had to change their strategy a little to address what their clients needed, while Neviaski agrees that they needed to be “flexible,” which meant “being able to provide the customer with what they need and not what we have to sell.” Société Générale rose from seventh place to second in overall natural gas.

JP Morgan entered straight into the overall natural gas dealer table at three this year, thanks in part to its acquisition of Calgary-based, UBS Commodities Canada in late 2008.

“Although the acquisitions have helped JP Morgan broaden its success in commodities, it was combined with the heavy groundwork we did prior to sealing the deal,” says Flax. “In natural gas, where we have a vibrant financial derivatives business, we have solid operations and controls in place, so when an acquired business is assimilated into the framework, it compliments and boosts the business, rather than needing to be grown from scratch.”

EDF Trading has also started reaping the benefits of its purchase



The big change we saw [in 2009] was in consumer behaviour. Clients had a much harder time figuring out the right hedges

Boris Shrayer, global head of marketing of commodities, Morgan Stanley

T3. Top 10 dealers overall - Energy & Metals

2010	2009	Dealers	%
1	5	Goldman Sachs	10.3
2	3	Société Générale	9.6
3	7	JP Morgan	8.8
3	1	Morgan Stanley	8.6
5	4	Barclays Capital	6.3
6	2	Deutsche Bank	6.2
7		Credit Suisse	5.8
8	6	BP	5.4
9		HSBC	4.6
10	10	Citi	4.5

of Houston-based wholesale energy transportation and gas storage business, Eagle Energy in October 2008. EDFT came eighth in natural gas from tenth last year.

“We are going to continue building on what we already have started, such as our North American business,” says Namesh Hansjee, head of cross-commodity trading at EDF Trading. “In markets like this, we have seen a rapid pace in growth and commercial activity and I believe this will continue into 2010.”

Electricity

In the US and European power markets, like other sectors in the energy complex, there was a surprisingly rapid resumption of liquidity and price volatility in the second half of 2009, says Hansjee.

While EDF Trading remains consistently in the top-10 dealers for electricity, it was Morgan Stanley’s strong physical and financial presence that dominated the top of the league table this year as last.

However, Shrayer points out that a change in investor sentiment made it more challenging to deliver what they needed.



Alexander Toone, head of commodities sales at Credit Suisse



Catherine Flax, CEO of global commodities for EMEA, JP Morgan

T4. Top brokers - Energy & metals

Brokers	Total points*
GFI	113
Icap	105
Tradition	82
Tullett Prebon	50
Spectron	17

“The big change we saw was in consumer behaviour,” says Shrayer. “Clients had a much harder time figuring out the right hedges. Due to the difficult economic environment if plants don’t know at what capacity they are running, how will they know what to hedge?”

Freight

Turning to the freight market, Goldman jumped straight in at number one for dry freight, pushing Morgan Stanley into third place. However, Morgan Stanley still retained its first position in the wet-freight market. While JP Morgan made a notable entry into dry freight, it was Credit Suisse that caught the eye.

The bank sealed a significant presence in the freight markets this year, by coming in second for dry freight and third for wet freight after an absence from last year’s tables. Witteveen attributes the bank’s success in freight to its achievement in the coal sector.

“We see ourselves as an innovator and are happy to look at new markets where clients need us,” says Witteveen. “Our success in coal complements our progress in the freight and emissions markets.”

The bank dominated the coal category ranking first in all five categories. The achievements seen in the overall commodities complex were helped by the number of hedge funds and pension funds returning to the market, says Witteveen.

Towards the end of 2009, dealers saw an influx of clients, across the board, that wanted to start taking risks again, albeit with caution, due to the number of regulatory changes the markets saw in 2009. In January this year, the US Commodity Futures Trading Commission (CFTC)

outlined a proposed regime to curtail concentrated positions in energy futures and options markets. And, five days later the Securities and Exchange Commission (SEC) released a proposal on risk management controls for brokers and dealers with market access.

Structured products

Despite the changing regulatory landscape, structured products remain an important area of interest for clients and banks. In this year's poll, Goldman took the number one position in structured hedging for corporates, and second for index and structured notes and exotics. Meanwhile Barclays Capital dominated the number-one spot in the other categories.

Emissions markets

Turning to the emissions markets, warnings had been sounded that 2009 could be the year of a slowdown. However, data from environmental market analysis company Point Carbon revealed that the emissions market expanded over the course of the year. The world's carbon markets exchanged 8.2 billion tonnes of carbon dioxide (CO₂e) in the course of 2009, with the volume of transactions up 68% from 2008. However, due to lower carbon prices, the total market value of transactions in 2009 remains at the same level as the previous year.

Orbeo, the joint venture between Société Générale and Paris-based chemical company Rhodia, came out top in two primary market categories and maintained a continuous presence across all other parts of the emissions trading market. Deutsche Bank took one top position, while JP Morgan secured a rankings spot in three out of four European categories.

"Organic growth, and the acquisition of EcoSecurities and ClimateCare, has helped JP Morgan leap frog ahead in the environmental markets," says Flax.

Meanwhile, in the weather derivatives category, RenaissanceRe, which offers structured products across the weather and energy markets, ruled the roost in the US market category. EDF Trading also claimed a top spot in European weather derivatives.



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Edouard Neviaski, global head of commodities markets, Société Générale

This year sees Tradition once again taking up its top spot as the leading weather broker.

"Having offices throughout the US, Europe and Asia and desks that concentrate on short-term as well as long-term risk definitely gives us an advantage when trying to find the best source of liquidity for a given trade," says Larry Rosenshein, a Managing Director of Tradition and Chairman of TFS Energy. "When we run one of numerous auctions for an end-user or work to assist in their hedging programme, our people know where to look to place the risk. That would not be possible without a concerted global effort."

Brokers

Icap Energy secured the number one spot in the overall energy brokers league table, while Tradition stayed firmly in place at number three. GFI placed second, while Tullett Prebon

and Spectron ranked fourth and fifth, respectively.

Icap's Newman highlighted the positive effects post-trade clearing had on the markets.

"The growth in post-trade clearing throughout the year has transformed the over-the-counter (OTC) markets by opening them up to new customer bases, which in turn leads to more transparency and to more liquidity," Newman says.

Mainstream OTC oils and related-products markets are now over 60% post-trade cleared, which is up from about 7% two years ago, according to Icap. In oil, Icap came second overall for brokers, while Tradition came out on top.

"In oil, having such a strong global presence is certainly an advantage," says Rosenshein. "In natural gas, providing coverage in a variety of regions, together with corresponding electricity coverage, allows for cross-commodity spreading. I expect to see the biggest growth in the mainstream products such as crude, refined products and natural gas," he adds.

Entering the new decade

After a tough 2009, this year looks set to be much easier, but flexibility will be key as the recovery is still young.

"The start of 2009 felt like black armbands time," says Newman. "And although so many markets have rebounded, it's all still a little fragile.

"In 2010, it is unlikely the markets will be stable throughout the year, because although we've seen volatility come off, it may take one event to create large swings," says Camacho.

Ealet of Goldman Sachs says 2010 is the year to watch out for the economies that could be providing growth and return for the commodities arena and drive the global economic recovery.

"In the short-term the market recovery is fragile and it would be dangerous to be too caught up in big themes and trends too quickly," says Ealet. "However in the longer term, we have a strong conviction that the commodities forecast is looking good and BRIC countries (Brazil, Russia, India and China) will drive the overall complex back this year." ■



Namesh Hansjee, head of cross-commodity trading at EDF Trading