Risk publications
COMMODITY RISK MANAGEMENT & TRADING
REPRINTED FROM
EnergyRisk
Risk.net February 2017

Commodity Rankings 2017

SOCIETE GENERALE

Societe Generale

Celebrating 30 years in Commodity Derivatives

With a 5th consecutive win as #1 Dealer

Commitment wins out

Energy Risk's latest commodity rankings show that committed dealers, such as Societe Generale, have reaped the benefits of increased interest in hedging and investing. By Pauline McCallion

While 2016 saw many corporate players re-engage with price risk management, increased interest from investors also bolstered business for the top-ranked organisations in the latest *Energy Risk* commodity rankings. As the industry settled following several years of headline-grabbing exits by major participants, those that remained have reaped the benefits of the surge in trading activity across the global commodities markets.

Commodity producers in particular were reminded of the importance of price risk management in 2016, according to François Combes, deputy global head of commodities markets and global head of metals markets at Societe Generale. This resulted in increased demand for hedging tools among participants in markets such as metals, he says: "2016 was the comeback year for producer hedging business as a consequence of prices reaching levels that are above production costs, but also following on from a period where prices were generally low, forcing some producers to shut down mines or sell assets."

The jolt of falling prices in recent years prompted many producers to refocus on managing price risk, even in 2016 as prices started to rise again. In the oil market, for example, the price of West Texas Intermediate (WTI) reached peaks of more than $100/barrel in 2013 and 2014, but had halved by 2015.

"One of the problems [the market] had back in 2013 and the first half of 2014 was that producers had become a little bit too relaxed about risk management. When oil is at $100/barrel, [producers are] making a huge fortune and if it drops to $90, they make slightly less of a fortune, but they are still making a fortune," says Societe Generale's global head of commodities markets, Jonathan Whitehead.

"Maintaining this level of commitment is the key to success in the global market"
Jonathan Whitehead, Societe Generale

Falling prices led many producers to reassess their risk management strategies. "In 2016, we started to see a lot of defaults amongst the producer community... So we definitely saw a much more serious and rigorous approach to risk management [after that]," Whitehead says, pointing out that this was not just the case in the oil sector, but across the board in commodities.

Significant volatility in the European power markets also lead to greater volumes for dealers in 2016. Consumers tried to lock in lower prices in the early part of the year, while producers started to hedge as prices went up towards the end of the year in response to nuclear power plant outages and maintenance schedules in France and Germany respectively.

The return of investor interest

In addition to demand from physical market participants, investor interest also played a part in driving commodity market activity, particularly in the first half of 2016. In relation to industrial commodities, Robin Bhar, metals analyst at Societe Generale, attributes this to China's rebound and hopes for a stronger US economy under president Donald Trump, combined with significant cutbacks in supply.

"In the year through to October 2016, we saw around $65 billion return to the commodities markets after four years of constant outflows – this was investment money on the long-only side in various commodity products, as well as long/short exposure in other commodity derivatives. That was a key feature of the markets in 2016," Bhar says.

But the reduction or exit from commodities by numerous banks in recent years – including Deutsche Bank, Morgan Stanley, JP Morgan and Barclays – means these investors have returned to a smaller group of liquidity providers.

"In 2015, a lot of banks eliminated or reduced their precious metals arms, while 2016 saw a major return of client interest, particularly in gold and particularly in the first six months of the year. But this wasn't across the entire client spectrum, it was far more focused on the investor side of the gold market," confirms Edel Tully, London-based global head of precious metals sales at UBS.

"You have to be able to tweak your business model to adapt to such market changes and, with a relatively broad-based model like ours, we have the resources to be able to do that appropriately," Tully says.

Societe Generale's Combes agrees that, while the market changed, work came back to those that remained committed to commodities once demand from hedgers and investors increased in 2016: "The players that remained through the cycle are now more important and command a higher recognition than before, when the market was oversupplied. Liquidity was definitely lower in precious metals options, and therefore... there was an increased reliance on a smaller number of providers to offer that service."

"The players that remained through the cycle are now more important and command a higher recognition than before, when the market was oversupplied"
François Combes, Societe Generale

Increased complexity

Market participants say these demand trends have lead to a steady flow of business, rather than the avalanche seen in previous upcycles, which only encouraged an oversupply of liquidity providers in some markets. As such, those organisations that exited commodities before 2016 are generally viewed as unlikely to return, at least not with the same intensity.

"The retrenchment that took place in 2013 and 2014 [reduced] the excess supply that existed in this business. There were simply too many banks, too much supply," says Societe Generale's Whitehead.

While newer players, such as Chinese banks, have gradually entered the market in recent years, he does not predict a wholesale return by western banks. And while these new players tend to have an established commodity finance business, they are generally "playing catchup" when it comes to derivatives, Whitehead argues. As a result, while liquidity is high at the short end of the commodity markets, in plain vanilla transactions, he believes fewer dealers can satisfy the demand for more complex transactions.

"If an airline wants to hedge summer 2017, a significant number of banks are willing to provide that – it's easy to do. But if a client wants a five-year natural gas options structure, not as many banks are capable of offering that any more," he explains.

Certainly, the rankings support the argument that the dealers and brokers that have shown an unwavering commitment to the commodities market through boom, bust and everything in between continue to be the most highly rated by market participants.

And as the top dealer in the 2017 *Energy Risk* commodity rankings celebrates 30 years in the commodities business this year, Societe Generale's Whitehead agrees that maintaining this level of commitment is the key to success in the global market. ■

HOW THE POLL WAS CONDUCTED

Between November 1 and December 16, 2016, respondents to the *Energy Risk* commodity rankings survey were asked to vote for their top three dealers and brokers in any markets in which they had been active over the previous year.

The rankings poll is designed to reflect market participants' perception of a dealer or broker based on the overall quality of service they offer their clients. It does not take into account volumes traded in any market. Instead, respondents vote according to a range of criteria including reliability, pricing, liquidity provision and speed of execution.

The rankings are also not designed to present the views of a representative share of the commodity trading community, since the poll is open to any market participants, and the results could be influenced by the efforts of dealers and brokers to canvass their clients for votes.

However, the *Energy Risk* team makes every effort to ensure that invalid votes are excluded from the final results. This includes instances where the same IP address is used to cast multiple votes, when groups of employees from the same desk vote for the same firm, or when one voter chooses the same firm indiscriminately throughout the poll.

Voters are also excluded if they do not trade in the market in which they have cast a vote. In addition, categories that do not attract enough votes are excluded from the final results.

The methodology

In order to create the final list of rankings, *Energy Risk* aggregates the results, weighting them by awarding three points for first-place entrants, two points for second place and one point for third. The top firms in each market are then listed according to the percentage of votes they have accrued, with the winners in each category based on the total percentage of votes per firm.

The overall rankings (Best overall dealer and Best overall broker) are calculated by aggregating the votes cast in the individual categories.

EnergyRisk Commodity Rankings 2017

Best overall dealer

2017	2016	Dealer
1	**1**	**Societe Generale**
2	–	UBS
3	5	JP Morgan
4	3=	BNP Paribas
5	2	Bank of America Merrill Lynch
6	3=	Goldman Sachs
7	10	Engie Global Markets
8	–	Axpo Group
9	6	Citi
10	–	TD Securities

Energy – dealers

2017	2016	Dealer
1	**1**	**Societe Generale**
2	6	Engie Global Markets
3	4=	BNP Paribas
4	–	Axpo Group
5	4=	Goldman Sachs
6	9	JP Morgan
7	2	Bank of America Merrill Lynch
8	8	EDF Energy
9	10	Morgan Stanley
10	7	Citi

Oil and products – dealers

2017	2016	Dealer
1	**1**	**Societe Generale**
2	6	JP Morgan
3	3	Goldman Sachs
4	4	BNP Paribas
5	2	Bank of America Merrill Lynch
6	7	Morgan Stanley
7	5	Citi
8	8	BP
9	–	Engie Global Markets
10	–	UBS

Natural gas – dealers

2017	2016	Dealer
1	**1**	**Societe Generale**
2	4	Engie Global Markets
3	5	BNP Paribas
4	3	Axpo Group
5	2	BP
6	9=	Goldman Sachs
7	–	JP Morgan
8	–	Gazprom Energy
9	7	EDF Energy
10	6	Bank of America Merrill Lynch

Research – overall

2017	2016	Institution
1	**1**	**Societe Generale**
2	7	Macquarie Group
3	10	JP Morgan
4	4	Goldman Sachs
5	–	INTL FC Stone
6	5	Citi
7	6	BNP Paribas
8	2=	Bank of America Merrill Lynch
9	–	Standard Chartered
10	–	Marex Spectron

Base metals – dealers/brokers

2017	2016	Dealer/broker
1	**1**	**Societe Generale**
2	3	JP Morgan
3	4	BNP Paribas
4	8=	INTL FC Stone
5	5	Goldman Sachs
6	8=	Marex Spectron
7	7	Citi
8	6	Macquarie Group
9	–	TD Securities
10	–	Triland Metals

Precious metals – dealers

2017	2016	Dealer
1	1	UBS
2	**2**	**Societe Generale**
3	3	JP Morgan
4	–	TD Securities
5	5	HSBC
6	4	Credit Suisse
7	–	Scotiabank
8=	–	BNP Paribas
8=	6	Citi
10	–	Morgan Stanley

Soft commodities

Soft commodities – dealers

2017	2016	Dealer
1	**1**	**Societe Generale**
2	3	JP Morgan
3	5	Bank of America Merrill Lynch

Soft commodities – brokers

2017	2016	Broker
1	**–**	**Societe Generale**
2	1	INTL FC Stone
3=	3	Marex Spectron
3=	–	Volcap Trading