EnergyRisk
Asia Awards 2011

Coal House of the Year, Asia
Oil & Products House of the Year, Asia

Passion to Perform
For impressive volumes growth, an aggressive expansion into the physical market and innovative balance-sheet solutions, Deutsche Bank wins Energy Risk’s 2011 Coal House of the Year, Asia award.

The bank’s global coal business volumes have grown by seven times in the past two years, with two- to threefold growth seen in Asia.

“This has been the result of a definite decision to offer balance-sheet/funding solutions to clients, with derivatives execution and physical capabilities around that,” says Stuart Smith, Deutsche Bank’s head of Asian commodity sales.

“We lead with balance sheet, so we’re here to finance and help our clients out with their funding requirements,” says Smith. “That often requires taking on physical ownership of the underlying product. Our physical presence in the market is not focused on making a margin out of buying and selling cargoes. Whenever we enter into a structure where we are buying and selling physical coal, it’s really about trying to help our clients with the financing angle.”

The bank has grown geographically across Asia and currently operates in the major coal markets of Australia, Indonesia, Malaysia, the Philippines and China and across all the major coal specifications.

“We have the ability to price and value off-spec coals beyond the straight indexes in the marketplace,” says Smith. “We are quite happy to price and handle any coal. We are very comfortable going globally and looking at any supply source.”

Smith also sees future product offerings in coking coal and metallurgical coal.

Geographically, he sees Indonesia as having the best growth potential for the bank’s coal business.

“I would look for us to double or triple our Indonesian coal business,” he says. “It’s an extremely large producing region that is capital hungry and has a lot of infrastructure needs. These are the types of regions where our kind of structures and financing plays can really work.”

The bank also prides itself on the help it was able to offer clients in the wake of the earthquake and tsunami in Japan in March this year. Many logistical problems were thrown up and firms were tested in their ability to interpret contracts in potential force majeure situations. “There have been circumstances where our clients have had to perform in some fairly difficult situations. Taking an approach where you solve these issues in a manner that benefits your client is important for us.”

In these volatile market conditions, Deutsche Bank has been successful in creating producer-centric prepay structures where a loan is offered against forward production. “This might be a financial prepay or a prepay upfront where we take physical delivery of the product,” says Smith.

“Autobahn allows our clients to make use of key liquidity times overnight that runs out of London, the Singapore market. Of particular note is Deutsche Bank’s recent launch of a of forex and commodities market.”

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Deutsche Bank
Oil & Products House of the Year, Asia

Deutsche Bank wins this year’s Oil & Products House of the Year, Asia award. In a difficult year for oil trading, Deutsche Bank has gained market share, increasing volumes by as much as 50% in products such as Brent crude options and Singapore fuel oil, while steadily expanding its physical capabilities and offering innovative structuring and financing solutions.

Stuart Smith, head of Asian commodity sales at Deutsche Bank, attributes the bank’s success in oil and products to its very deliberate decision to tread a fairly unique path for an investment bank; putting equal emphasis on its execution business and its balance-sheet offering.

“At Deutsche Bank there has been a distinct move towards a hybrid model – we took the decision to add a lot more balance-sheet [funding] solutions to our flow-driven business model,” he says. “I think having a good blend of aggressive, client-friendly flow products combined with giving balance sheet to the client has been a win-win strategy,” he adds.

“It’s having a blend of both that affects the stability and performance of the business. Both flow and providing funding solutions are equally important to us.”

Developing this business model has allowed Deutsche Bank to take advantage of two major current trends in the market – corporations regaining their appetite for more complex structures while at the same time becoming more capital-constrained as oil prices rise, so requiring better financing solutions. In addition, the bank has focused on developing cross-product solutions to support clients who face a combination of currency, interest rate and energy price risk.

The bank has used the combined strength of various departments such as treasuries and foreign exchange alongside a general sales team that has cross-product sales expertise to take a more ‘holistic’ approach to client service. “The use of innovative, complex risk structures again in the marketplace has been very successful for us,” says Smith.

“With many Asian corporations having balance-sheet constraints and needing more capital, Deutsche Bank has concentrated on offering commodity-linked products, often taking physical delivery, with tight financing and hedging execution around it,” says Smith.

In a recent transaction the bank enabled an Asian power company to hedge both its foreign exchange and fuel oil exposure in a single transaction. The client needed to buy oil swaps to lock in its electricity generation margins. However, a plain US dollar oil swap would leave it with foreign exchange exposure as their revenues were in local currency. Deutsche Bank was able to structure a transaction where the client was able to hedge its oil exposures in US dollars and overlay it with a local currency hedge. In traditional local currency hedges, net cash settlements occur at month-end after fixing in local currency, but this was structured such that the entire notional plus the differential payments were netted and settled against the local currency.

As well as excellent cross-department co-ordination, the bank’s pricing platforms also helped offer competitive pricing and execution for the client, says Smith.

Of particular note is Deutsche Bank’s proprietary electronic trading system, Autobahn, which gives access to both foreign exchange and commodities on a single platform. “Autobahn allows our clients to directly execute transactions from the comfort and convenience of their own desktop computer,” says Smith. “It is installed on the client’s server and enables access to an increasing number of forex and commodities markets.”

Another development for Deutsche Bank has been the recent launch of a night desk that runs out of London, with a trader dedicated solely to the Asian market.

“We’re one of the few banks to offer this service and it means that clients don’t have to worry about their positions or stop trading after the Singapore market closes,” says Smith. “The Singapore night desk will notify clients of any large moves in their positions whenever they occur throughout the night should the client request it,” he says. “It means Asian clients are now able to make use of key liquidity times and can benefit from favourable price moves.”

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