

# Divining Back in

With a number of deals coming onto the commodity finance markets, will an overly cautious attitude prevent bankers from snapping up the most lucrative opportunities? **GTR** brings together bankers and traders to discuss.

## Roundtable Participants

Law firm Reed Smith kindly hosted **GTR's** commodity and structured commodity finance roundtable at their London offices. Bankers, traders and collateral managers met over lunch to talk through a number of different issues facing the market.

**Chairman: Robert Parson**, partner, Reed Smith

**Alan Gordon**, group technical finance negotiator, Trafigura

**Grace Wong**, director, commodity traders and agribusiness, origination and client coverage, Standard Chartered

**Will Nagle**, chief executive officer, Falcon Trade Corporation

**Andrew Robison**, associate director, structured trade finance, Banco Espirito Santo

**Bob Angliss**, senior vice-president, head of commodity and structured trade finance, Bank of Tokyo Mitsubishi, EIBD

**William Shaw**, director, Texel Finance

**Colin Heritage**, managing director, Stemcor Trade Finance

**Andrew Barr-Simm**, managing director, Drum Resources

**Bill Froggatt**, head of trade and commodity finance, EMEA, Mizuho Corporate Bank

**Andy Howell**, assistant general manager, structured trade and commodity finance, SMBCE



**P**arson: How did the commodity finance and structured commodity finance (SCF) business fare at the height of the financial crisis last year and what has business been like for the first quarter of this year?

**Angliss:** If you're looking at commodity finance and SCF, from my point of view you've got two completely different attitudes towards the business. On the commodity finance side there's more activity; the traders have been very active, and traders with liquidity certainly grew in terms of size and profitability. On the SCF side it's been a much more difficult year, a lot of banks retrenched in the market.

Certainly from BTMU's point of view, we were still active, but there were a lot less deals going on, and a lot more bilateral business – you didn't see many of the large syndicated transactions.

For BTMU the business was quite good, taking into consideration we were one of a few banks who still had an appetite for credit risk. We had some successes – such as EGPC [US\$900mn pre-export finance signed end of 2009], which was a major success for us and a big success for the market.

I think generally it was quite a difficult year for all the SCF banks. Not only was there less appetite, but there were a number of transactions that created huge problems with commodity banks, which put some doubt into a number of bank management's minds over the creditability of SCF. People looked at some large transactions and thought 'if this can go wrong, what about other deals?'

There was a huge amount of importance on the fact that Rusal was restructured successfully because it probably calmed a lot of people's nerves.

For the start of this year, there's a lot of activity in the market. We've seen a number of transactions. EGPC has come back to the market with a large syndicated facility, GNPC has been in the market recently, and Cocobod approached the market on an RFP. It's very early but it shows the kind of activity going on.

I think from September this year we'll see a lot more activity, particularly in markets other than energy, hopefully the metals market.

**Robison:** I think that in STF there were two distinct markets last year: Russia/CIS, which had significant issues in terms of a lot of transactions being restructured, and then another large market in South America, particularly Brazil. With Brazil you saw some issues with smaller-end borrowers and some restructuring on transactions – especially in the softs sector. But I don't think there were anywhere near as



many problems in terms of the size and number of deals in that region compared with Russia and the CIS. The STF market impact of Russia/CIS is linked to that region having many more deals linked with Russia and the CIS than outside those regions. In Africa you didn't see as many problems because those countries weren't specifically affected by the global crisis.

So depending on where you sit, if you have lots of exposure to Russia and the CIS, 2009 was not a great year, but if you didn't have any, such as ourselves, then last year was a fairly reasonable market. Not without challenges, but generally we didn't see those restructuring challenges.

**Angliss:** But there were very few deals in Africa last year, because of a lack of liquidity and a lack of credit appetite. A lot of banks still consider Africa as a difficult market.

**Howell:** It would be wrong to say it has been easy because it hasn't, but for the right deals I think there is the will among banks to go out and participate.

We've certainly had successes. We've done a very good job in getting transactions restructured because without those restructurings we could have been facing great difficulties on the STF side of things. On the day-to-day bilateral relationship with traders, these have been doing very well. It's been something we've been able to support both with bilateral trading and the committed deals coming to the market.

A lot of traders have decided that the time is right to get committed money because with a number of banks exiting the market in the days after the collapse of Lehman Brothers it became apparent that they need the assurance

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**Bob Angliss, BTMU**

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**Andrew Robison, BES**

**Parson: From your point of view are there any countries or regions which remain no-go areas?**

**Gordon:** There are not many countries in the world that no one will touch. The interesting thing these days is that a lot of the large European banks will look at deals and have their own internal credit limits which are already full, so we find we’re looking at smaller banks for the sort of thing they’ve got to offer. I honestly believe there’s nowhere that’s totally off limits.

**Shaw:** Political and credit insurance underwriters paid out enormous claims last year in a number of areas. These were very significant amounts, perhaps as much as US\$2bn, which if nothing else, is clear evidence that the insurance product works far better than many lenders had assumed.

I do agree that nowhere is off limits, but there is a kind of ‘idiot’ factor involved, whereby no one wants to do the first Ukrainian steel transaction or the first Kazakh bank deal unless the transaction really justifies itself, having just paid out claims in the same market and responded to their reinsurers.

Certainly for the right deal, it’s always been the case that with the right structure and with the right insured client you can get something done. Some underwriters will be looking at their asset book and recognising what they need to try and achieve this year to make amends for what happened to them last year.

**Parson: Are you seeing any regional bias or trend that’s driving your business at the moment?**

**Heritage:** Well we’ve had an India focus for the last few years. The Indian market is growing very rapidly, as did the Chinese market. India is several years away from where China is today in terms of the steel sector and that creates a certain opportunity, and it seems to have been relatively unaffected by the crisis that occurred in North America and Western Europe.

Everyone is watching what is happening in China’s steel sector because it has an impact on the rest of the world. In terms of global trends, one has to have a view on what’s happening there.

The more challenging market today is perhaps the CIS and Eastern Europe. It’s getting a little easier there now, but domestic market demand is still recovering very slowly in the key sectors of construction and the automotive business which are vital as far as steel is concerned.

Western Europe is recovering more strongly now and this is pretty much the case in North America as well. After the issues the industry had last year with excess stock, the future is looking brighter this year. Traders and producers are making money again and starting to overcome losses and write back stock provisions made last year.

**Nagle:** For us, we’re pretty well entrenched in the Gulf, which has been continually strong. Saudi Arabia and Dubai represent the biggest and most active markets for us but we have made a big push and been successful in Asia, particularly Indonesia, which is linked to the commodity side; coal deals, biofuels, diesel, as well as the telecoms sector. For us if we had to pick a market, obviously the Gulf is a strong core, but Asia remains a developing market for us, with ambitions to develop in Latin America.

**Wong:** Our bank has kept its strategy, focusing on our core markets – Africa and Asia – so we have done very well through this period just because these markets were not as affected by what has happened financially worldwide. For us we see continued demand in China and also in India. Indonesia is also a growth market in terms of commodities financing activities. Political stability in Indonesia has encouraged foreign investment, particularly in the mining sector.

**Parson: Looking at risk appetite generally, do you feel that it’s on the increase?**

**Robison:** From the banking perspective, I don’t think the banks want to take on more risk per se, I think the banks want to take on more quality assets where they can mitigate and feel comfortable with the risk and achieve the return that they’re looking for.

In terms of what we’re seeing in the market, there seems to be a return to normality, especially in the inter-bank market, and banks are feeling more confident with their own funding levels and where the larger economies are going. I think we’re still fairly cautious as there are potential bumps in the road, particularly with certain EU countries that have some large budget deficits.

One of the things we're looking at quite closely at the moment is the volatility of commodity prices, the sheer short-term volatility of, say, the sugar market, where you can move from 16 cents to 30 cents in a several weeks and back down again as we have recently seen. In terms of a return to normality we're seeing less forward start agreements in the market, and I think that sort of era has receded significantly. In terms of the large-end borrowers, especially the significant trading companies, they are very active and we are seeing a lot of support for their business, probably due to the sheer size of the business and the understanding of what that business does, and their pre-existing long-term relationships that they have had with banks over many years.

For smaller players, I still think it remains difficult for them. We've seen some new borrowers come – or return – to the market; EGPC had traditionally been in the bond market but now returned to STF for the last two financings, Cosan [Brazilian ethanol producer], which is a large producer, came into the STF market and had been funding itself primarily with bonds and its own bilateral lines.

There is a return to normality, although the doors are not open for anybody who wants to finance themselves with STF. It's very selective and the key markets for us are places like Brazil where we have a presence. Brazil was the last major economy into the recession, and the first major economy out, over a very short period.

**Parson: Are credit committees coming out of the recession with a big “yes” sign over the desk?**

**Nagle:** Maybe a smallish yes, with the reservation that 'it will take time'. Certainly people have to make positive decisions in order to make money, so 'no' becomes less of an option these days.

**Froggatt:** Credit committees are always the last to come out of the cycle. If the deal structure is right, they will probably look at it. Are they going to look at a three-year deal today? They're probably not overly keen, unless it is really well structured and documented and may involve an ECA, but they are more likely to have a preference for a one-year borrowing basis, based around commodities, but on an annual renewal. However, in time the market will revert. From a general perspective, in the emerging markets, going back into Russia and the CIS and certain parts of Central and Eastern Europe, it's going to be a while before anyone jumps back into those places with large numbers of deals unless the deal is an exceptional one and then it

is likely to include an ECA in the short term.

A lot of banks jumped into those regions without doing their proper due diligence like the trading companies did, so trading companies didn't have a problem with any of those markets.

So I think what credit committees are going to say today is 'are you doing your due diligence from a risk and collateral management point of view, do you know what you're doing and do you really know your customer?'

If you're doing all that, then I think they'll probably give the go-ahead. Before, credit committees weren't always asking all the right questions either. They saw a deal with a good return and it was OK when the flow was going well, but as soon as it goes bad, in they come, asking 'who approved that deal?'

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**Alan Gordon, Trafigura**

I think that in the second half of the year we'll basically see where everyone is getting back to the market. Some banks may not come back to the market though, and that's the biggest problem for us – that there are not enough players in the game.

**Angliss:** Obviously we finalised EGPC last year, and initially our syndications team were very cautious about the approach to it. And the transaction achieved a US\$500mn oversubscription.

If you look at deals coming to the market now, the amount of commitments that banks and companies are getting is unbelievable. You're seeing a lot of banks getting quite aggressive on pricing. If you look at pricing before Christmas and pricing now, it can be anything up to 30-40% lower. If you're asking if risk appetite is increasing, I would have to say yes, because the markets are there.

**Robison:** There are really two sides to this issue. As a bank, you ask 'am I concerned about my own position in a market in a post-Lehmans era', when you had the interbank market effectively drying up.

You have the bank looking at its own counterparty risk in the market and the bank

thinking 'should I be considering protecting my own capital? Should I be increasing my exposures? Or, should I be protecting the bank's specific franchise or niche and its existing business at the moment?'

We're coming out of that together, with the banks feeling more comfortable with how they sit with each other and where the global economy is going, and then looking at the borrowers and counterparty risks and the kind of risks we are taking on.

**Gordon:** Banks will go for the right deal if it's got the right price. A lot of the bigger banks are very conservative now and the second and third tier banks are looking to see what different angles they can do. In a lot of the developing markets, these local banks have got people on the ground, understand the local needs and can add value.

**Shaw:** If you look at some of these new first tier names, they have come to the market because the capital markets haven't been available to them, and now you see several of the banks that are arranging these structured deals are actually investment banks looking to secure the capital market opportunities further down the line. The second tier names will need to come back to the SCF market. If banks are avoiding the second tier too much, and aren't supporting some of these names now, then there's going to be a problem further down the line.

Aside from our political and credit risk insurance brokerage, and lending business, Texel also has an arranging business where we structure and

**Wong:** No one disputes that documentation is important, however, the complaint we have seen surrounds the volume and extent of documentation that clients are presented with for uncommitted transactional facilities. For clients it's a very frustrating trend considering that perhaps in the past, this was less stringent. It's not just one bank that the client has to deal with in relation to documentation, but they are confronted with 10 banks with 10 sets of lengthy documents to review.

The feedback we're getting from clients is that it is too much and we're dealing with a lot of jurisdictions where the legal framework is not always that clear. Ultimately, it boils down to the fundamentals of knowing the customer and understanding the transaction and risks because documentation will take you so far but does not aid in the recovery process when markets change.

**Nagle:** You're almost paying for the comfort factor of having the documentation there.

**Barr-Sim:** It's taking so long now. There was one fertiliser deal in Malawi that we were trying to assist on which took so long that the whole crop was over and the bank did not even have the application out of credit yet. It has to come back to the most basic thing of all, know your customer. You can fill forms, you can do huge level lending or whatever else, but you've got to know your customer and you've got to have done business with them for 10 or 15 years; that will be the safest form of security that you can possibly have.

**Robison:** If you're doing highly structured transactions, the one person that sometimes gets left behind is the client.

Do they understand what they are entering into? Sometimes transactions from the perspective of the bank don't actually sit very well with what you're trying to achieve from the client's perspective. So if you've got a complicated swap or derivative that the bank itself doesn't really know how to handle, and the client certainly doesn't know how to handle, then you're getting back to the original crisis and the problems that got us – the global banking market – into this position in the first place.

**Froggatt:** To come back to what Grace was saying on the jurisdictional issues; is documentation enforceable in a particular country where before maybe it wasn't? Credit guys will rule the roost for some time, but we have to push back and say that this isn't going to work if we do it that way. It's not easy for us, especially Japanese banks because we're all new to the game, but somewhere along the line we've got to push back and, most importantly, you've got to prove that you know

“I think there's a buzz around of everyone wanting to do business. On the banking side, banks have got to start making a proper return to shareholders, but I hope old habits don't return.”

**Bill Froggatt, Mizuho Corporate Bank**

source financing for traders and producers. In the period up until about the middle of 2007 there was very little to be done on that side of the business because prices were so low and banks were doing everything with everyone, so there was very little arbitrage or room for a middle man. Nowadays our arranging business has more than tripled. It is now more a question of finding the right homes for mandated deals, most of which would have been snapped up a couple of years ago.

**Parson: Some borrowers will be complaining that the size of documentation is getting bigger and more complicated as we move through 2010. Are you seeing that as a continual trend?**

your customer properly. That's not just us in the front office, you've got to get the credit guys and middle office teams to meet with the customers and that's a challenge for most banks because some credit guys don't want to meet the client as they prefer to keep their distance. We have to make sure that credit feel comfortable and that we do know our customers and, when issues arise, customers do work with banks to resolve them.

**Wong:** Even though the financial industry has had a very tough time, what you would have observed is that traditional trade finance contracted but it did not implode. This is perhaps testament to the tangible nature of trade finance and our understanding of the risks. No one underestimates the complexities in banking, but we need to be cautious that when regulating we safeguard against a repeat of what happened, and we do not overreact.

**Parson: Do you think the knee-jerk reaction is going to affect the business for the next few years?**

**Howell:** I think that Basel II needs some amendment to take greater consideration of the true risks of trade finance transactions, which are generally considered to be substantially lower than allowed for under Basel II's current rules. The trade banks are now working together to present the case for such a revision.

**Froggatt:** The interesting thing about Basel II is when it came out, every country had the right to comment and they went out to the banks, and all the banks said that the project finance looks great but nobody talked about trade finance in any great detail, so it was our own fault.

Here in the UK we have the British Bankers' Association, who've been doing a lot of lobbying and a lot of documentation on that. Trade finance is the one product for bankers and traders that has really had a great 12 months. Price went up and product usage has been terrific. Going forward, I think trade finance will get a better hearing; the trouble is, how long will it take before we get there?

**Robison:** One of the key elements at the moment is that you're heavily driven by your rating of your counterparty, so the regulations will penalise you if you don't have a rating for a client – especially in an emerging market. The result of that is it will become easier from a capital return or Basel II view point for a bank to lend directly to a large trading company who has, say, an investment grade rating who will then on-lend to a client especially in an emerging market. I believe the pricing via the bank to the trader then to the producer will not be as competitive



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as, say, a direct bank to producer rate.

So who's going to get the better deal? It won't be the emerging market client, so one effect of such regulation is that we are then pushed towards a different type of funding which will make financing trade more expensive for producers, especially those in emerging markets.

**Parson: Are the non-bank lenders and financiers set to exploit the position of the market?**

**Heritage:** There's definitely a market opportunity for trading companies. We've been talking here about banks' appetite for risk, but we should also consider the risk appetite of the insurance market, which is very relevant. Insurers' risk appetite is not identical to that of the banking market, and there's certainly more focus on the client relationships which insurers have, as opposed to the banks, who focus on the producer and country risks. Insurers have the ability to follow trading companies into risks where perhaps banks might fear to go and that creates another potential area where we can place risk while bringing the banks in to fund deals.

So I think there's a big opportunity for the non-bank lenders, and I agree with what's been said. In principal, the producer is going to pay more



if he finances working capital through a trading company, but arguably, traders add value to the situation which then justifies the premium the end borrower is going to pay. Traders can also assume certain risks since they have leverage in terms of relationships, as well of course as the potential to place the product in the market, which is a big risk mitigation.

**Shaw:** What I've always thought about traders in limited recourse financing is that it goes through these cycles. You have a situation when the banks begin lending more and more, and there's competition for limited recourse financing, with traders bringing the deals, and then the banks cut the trader out completely and go straight to the producer and finance them for a while. Then everything goes full circle as the banks withdraw, and traders have to come back to the insurance market to cover their risk and finance the deals under their full recourse credit lines.

We've seen many more traders come back into the insurance market in the last 18 months. As an ex-trader myself, I know that when banks start losing track of the value that traders add to these deals, just treating them as convenient interchangeable offtakers, then they have a problem. Traders can penetrate the market and find these deals, but they also have the commercial clout to get something done when things go wrong.

**Heritage:** A key aspect that we shouldn't lose sight of is the value of the commodities themselves. Whichever commodity you're in, the price probably peaked in 2008 and then it fell, and then recovered to a greater or lesser extent. A lot of trading companies are finding that they're able to negotiate reductions in bilateral lines but they probably still have far more headroom today in their financial facilities than

they've had for quite some time.

With un-utilised bilateral facilities, banks may be less willing to lend to structured operations. Given perhaps a greater appetite in the insurance market for certain types of operations, and the headroom for bespoke transactional finance under bilateral facilities, there may be a natural incentive to finance structured transactions under bilateral facilities which makes sense for both traders and banks, where the traders are doing structured deals, placing increasing proportions in the insurance market and the banks are financing it.

As William says, now we're all appreciating more the real value of the traders, but I also have little doubt as well that we're going through another phase in the cycle. Commodity prices may start to ratchet up again, and at some point in the next three years we'll possibly find that traders come back again looking for bilateral line increases and for banks to assume risks in structured trade deals, following which banks will again begin to look at direct loans to producers. It remains to be seen how long it sticks in the memory that before the market crash, structured trade finance was starting to be used as a form of corporate finance in addition to the pre-finance of commodity production.

We too got involved in lending to producers for acquisition finance and capex which is arguably not the intention of structured trade finance products. But in two or three years time, the world will be different to today, and there'll again be more competitive pressure, and I'll not at all be surprised if we are once again asked to consider similar transactions to those we were looking at a couple of years ago.

**Parson:** There are signs already that the

**bond market's picking up again. Is this something that you're seeing?**

**Heritage:** Yes, there was a period in 2009 when the bond market was not open to producers and they'd gone back into the STF market. Now the bond market has come back to an extent, and I imagine that we'll see limitations on term transactions in structured trade finance, with funds being raised once again for short-term pre-finance of commodity production rather than for general working capital or project finance.

**Parson: With prices falling back again, as the banks move back in, how do you see it developing?**

**Nagle:** There's more appetite out there. I think there's a slight herd mentality returning into the market, which we had a number of years ago. That trend being to follow the lead banks into deals. Ten years ago, banks may have looked at deals as a syndicated process, with many participants not doing a lot of due diligence. For instance, they didn't go and look at the hole in the ground, they just looked at the price and thought, 'this is great, let's take the asset'.

However, this time round, lessons have been learned, and now participating banks are carrying out almost the same, if not more, due diligence as the lead banks on deals. This will ratchet the price up because there's more cost involved.

My view is that pricing is going to stay flat for a while, but with more people coming on board they're going to want more for their money, so prices may creep back up again.

**Robison:** To come back to bond markets, there always seems to be the idea that the bond market will take business from the STF market and we always hear the STF market is dying out every two or three years. What we've seen with a lot of the large companies in our portfolio is that the diversification of funding sources is key. If you were only reliant on the commercial paper (CP) market and that closed and you didn't have any bank relations, you had no bilateral lines and all you were relying on was an investor base – who you didn't really know because they only looked at your rating – and then they disappeared, you were left with no diversification of your funding.

I think there'll be a period where, especially the larger producers and trading companies will specifically target diversification as a risk management strategy, they'll have bonds, CP programmes, bilateral and STF lines because if you're a treasurer you don't want to sit knowing you only have one or two lines in one or two product groups.

For pricing – and getting back to bonds –

we do look directly at what price or yield a client's bonds are trading at. We had an overshoot last year in terms of pricing and I think we'll have an undershoot this year. We're going from one extreme to the other, and we're already seeing it.

**Parson: Do you see that good old relationship banking will come back into the fore in the next couple of years?**

**Gordon:** From a personal level I think that relationship banking has always been key. You need to have the relationship. When something goes wrong, you really see how good your relationship

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is. It doesn't matter how much KYC you've done, how much due diligence you've done, how much documentation you've done; if you haven't got a good relationship you will have problems. Going back to pricing, everything has a cost, unfortunately.

**Heritage:** It's quite right that diversification of funding sources is key. There are signs of bond markets coming back and I guess there is a temptation to take advantage of that. The key is to make sure that despite liquidity coming back in one sector, you need to keep a balance. I completely agree with Alan as far as the relationship side is concerned. What we've seen during the crisis is that those banks that you have a strong relationship with – the core group – have been supportive and you've been able to sit down with them and spend time reassuring them and this has been absolutely invaluable to keeping things moving forward overall.

**Parson: Everyone knows that China has a major effect on the economy, how do we deal or compete with the growth and expansion of Chinese industry?**

**Robison:** I think that people are taking a more detailed look at China in terms of China's actual economy as opposed to the prevalent rationale a few years ago that 'it's China, they're simply buying commodities.'

There's a more in-depth analysis of what's going on in China's economy.

I think the idea that China is going to move its focus from a very centralised closed domestic economy to an export economy and eventually a



consumer-led economy in the space of 50 years without any real bumps in the road is ridiculous. There will be issues and we already see these in terms of property bubbles in Beijing – they want more oil and coal, and then there's the question of the appreciation of the Rmb.

In terms of competing with them, we're seeing that it's a question of working together with the local Chinese banks to see what the synergies are between our institutions and the Chinese institutions.

One key difference is that China is clearly looking at a much longer timeframe, as always, and its outlook is global, as opposed to the traditional FTSE or S&P 500 company which to an extent is looking for its next quarterly results and dividend cover. We do try and compete, but you have to play to your strengths, for example, in certain markets, where Chinese banks are not that familiar and have not developed their business yet. There's a difference between larger state-owned companies that are the top importers and the smaller, lower-tier levels, and how they look at controlling their risks on emerging markets and financing their exports. You have to pick your battles.

**Parson: The steel business is one we immediately think of when we think of Chinese growth. How's that been over the past few months and how do you see that going?**

**Heritage:** It's absolutely critical in setting prices of steel and iron ore which are the two sectors of key interest to Stemcor. I would rather change the earlier question to: how do we effectively cooperate with China?

It's inevitable that the role of China is going to expand, and China is going to seek to acquire more natural resources. I don't see it so much as competition, but more a question of how do we find a way to work satisfactorily with Chinese entities given that their role and influence is going to grow considerably from where it is today?

We're already starting to do that, we are in a joint venture with a Chinese steel company in Western Europe for the distribution of certain steel products, for example.

We're at the early stages of working with Chinese banks but I think we can expect those to expand.

I would see us in the next few years having much closer relationships with Chinese banks and seeking to arrange finance for business with

**From top to bottom: Robert Parson, Reed Smith; Will Nagle, Falcon Trade Corporation; Colin Heritage, Stemcor Trade Finance; Bill Froggatt, Mizuho Corporate Bank; Will Shaw, Texel Finance.**



China. Aside from prefinancing Chinese coke exports prior to the crisis, we've also looked at arranging financing for Chinese steel processing equipment exports for setting up steel plant in Asia. Major steel processing equipment suppliers, even those based in Western Europe, will nowadays normally have a substantial amount of Chinese equipment in their offering. Chinese entities do have risk appetite for certain emerging markets that OECD ECAs just don't have. It's much more a question of how do we set up a collaboration with China?

**Froggatt:** For any bank that's got an Asian franchise, China is where everybody's growth is. That's certainly on the agenda for us in terms of greater representation and greater amount of branches.

To compete against the Chinese banks, you're going to see the foreign banks expand more. Some banks have been there for a long time. As we all know, regulation is very tight in China and they can just change the rules with a click of their fingers, but I think they're going to free up more because they're going to become such a dominant power. We can't stop it.

Then you've got India to go alongside them, but China's going to become a bigger powerhouse. We've seen what they're trying to do with oil and they're going to get pipelines coming out of Kazakhstan etc, to make sure they get that continual flow of commodities. They're going to be a huge player – even bigger than today.

**Gordon:** What you've also seen is the growth of Chinese banks in London. These guys are coming in aggressively, talking big numbers, and wanting to be big players. Will they still be as ambitious in 10 years? That's the question we need to ask.

**Parson: What do you predict for the coming year, and how can banks improve their relationships with their borrowers and vice-versa?**

**Howell:** I'm fairly optimistic about the coming year. I say coming year in a Japanese context, because we're just into our new financial year. I sense that there's a thawing in sentiment towards business in general in line with improving market sentiment, and a greater readiness to consider a wider range of transactions in particular on the structured trade finance side.

In terms of commodity prices themselves, I suspect there may be pressure from liquidity looking for better returns than the stock market or deposits can offer, and that money may work its way into the commodities sector and sway prices accordingly.

**Shaw:** We're a funny company really because

we have a range of different products that form a natural hedge depending on where the markets are. When it's a difficult finance market we're going to do very well in our arranging and insurance businesses. We had a very good year last year and this year is also going extremely well.

It's difficult to have a crystal ball because I do think there's still a disconnect between the realities of the market and how much liquidity there really is.

There are going to be fewer of these jumbo transactions because there are going to be less banks willing to underwrite the huge numbers and there are more bilateral and club deals going out there which make it more interesting.

If the prices do come down quickly towards the end of the year, I think we're going to see many more refinancings as well, particularly as capital markets begin to make more of a play in the natural SCF arena.

**Nagle:** We're very optimistic. As a group the last couple of years have been record years for us. We tend to work better in more difficult environments. As a group we've grown organically and for us it's all about creating our footprints in different regions globally.

As a non-bank institution we have that luxury where we can take the risk in certain sectors and marketplaces where the banks can take similar risks but will take a longer time to get there. Our first quarter has been very fruitful, so long may it last.

So far as the relationship aspect is concerned there was a period when relationship managers (RM) were put in front of corporates who were challenged with the art of cross selling; one minute selling STF, and the next minute selling something else, through no fault of their own – they didn't really know the business. So it's very important these days to have an RM that knows you and your business intimately so that when something goes wrong they won't just pass it on to the legal department and hope for the best. The RM needs to work with the client and share their skills and knowledge to find a resolve.

**Barr-Sim:** We operate at a slightly lower level but you do see people come and go with amazing frequency. In Africa we see a lot of suitcase bankers who fly in, have a round of golf, fly out and think they know

the country. It just doesn't work.

For example, a client has been left with big quantities of rice in West Africa, and the first thing the bank does is call the lawyers, which should be the last thing that they do. Having been a trader for 25 years, all over the world, you should be able to sit down at a table with your bank and customer and sort it out.

**Robison:** We're very optimistic in our chosen markets, particularly Brazil, Angola, Sub-Saharan Africa and increasingly in China. The challenge is going to be to do the right deals. I think we'll also need to control short-term price volatility on commodities. Not overshoot on pricing, which is on a downwards trajectory, and hopefully be able to spot the next crisis as it comes over the hill, because undoubtedly there will be one.

**Heritage:** On the topic of client relationships, what we're seeing increasingly is banks establishing a coordinator or relationship manager to cross-sell various services the bank has to offer, and where commodity finance is increasingly seen as one of a number of product offerings. This is fine providing that relationship person understands the commodity finance business, given this remains central to our activities. We need to find the right balance where we can get access to everything the bank has to offer, while feeling our principal point of contact really understands our business.

I'm optimistic about our business. 2010 is certainly going to be better than 2009. A challenge may even be to make sure that we are prepared for some sectors of the market overheating, such as iron ore prices. On the trade finance side we've got some restructuring and recoveries that we're working through. There is new STF business but we want to cherry pick the better deals.

**Froggatt:** I think there's a buzz around of everyone wanting to do business. On the banking side, banks have got to start making a proper return to shareholders, but I hope old habits don't return.

The only thing to concern me for the year going forward is commodity prices. They have all gone up but fundamentally, not a lot of things have changed in 12 months, there's still a lot of construction etc, yet to happen in the world, but there's a lot of commodities in storage. The contango benefit is coming to a close. **GTR**

“No one disputes that documentation is important, however, the complaint we have seen surrounds the volume and extent of documentation that clients are presented with for uncommitted transactional facilities.”

Grace Wong,  
Standard Chartered