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London Commodity Dealer Wants Trades That Goldman Is Losing

by Viren Vaghela and Mark Burton

As Goldman Sachs Group Inc., JPMorgan Chase & Co. and Barclays Plc have either retreated or are considering retreating from commodity trading, a smaller London broker is trying to win over their customers.

Marex Spectron Group Ltd., which runs the largest commodities broker on the London Metal Exchange, plans to hire more traders for its new division that aims to help companies insure against price fluctuations. The company is betting on capturing a market that promises juicy margins but where few bigger name firms have succeeded.

The London firm created a new division called Marex Solutions in March and expects to make its first trade this week, says Nilesh Jethwa, who runs the unit. Jethwa was most recently head of markets at Leonteq AG, the Swiss seller of financial-investment products, and had previously worked as a trader at Lehman Brothers Holdings Inc.

“Big banks have been pulling out of providing tailored hedging in commodities and the few who remain tend to serve only their biggest, most profitable clients,” said Jethwa, who started as chief executive officer of the solutions unit in March. “The cost of maintaining a large book of customers on dated legacy infrastructure means they need to make a lot of money on each trade to be profitable, and there’s an increasing population of clients they can’t serve.”

Falling revenue and slumping prices are part of the reason why banks including JPMorgan, Barclays, Morgan Stanley and Deutsche Bank AG cut back or exited commodities trading in recent years. Post-financial-crisis rules have forced banks to hold more capital against long-dated derivatives positions and have curbed proprietary risk taking on trading desks.

Goldman Sachs, for decades the leading commodity trader on Wall Street, is reviewing its commodities unit. The bank just posted its worst-ever result for commodities in the second quarter, but said that it is sticking with the struggling business. JPMorgan says it also caters to smaller clients who want structured hedges.

Marex Solutions will offer tailor-made hedging products using over-the-counter derivatives to companies -- sugar producers, for example -- trying to protect against price declines. It will be active in agricultural commodities such as grain, coffee and cocoa as well as metals and energy. The company is starting operations globally, including in Europe, the U.S. and Latin America, he said. Marex Solutions also plans to develop a structured-investment products platform in the future.

The firm is also scooping up some big hires. Christoph Schwarz joined Marex in April from NetOTC as chief technology officer while Harry Benchimol, formerly at Leonteq, and Mireia Masip, formerly at Finex Capital Management in Sao Paulo, joined in May as senior product structurers, said Jethwa.

Mehdi Mlaiki is due to start this week as head of trading from UniCredit SpA, following Eugene Faller, formerly at Finex, as head of commodities in March, Jethwa said. Silvia Lamberti, a spokeswoman for the Italian bank, declined to comment.

Technological advances mean Marex Solutions will save costs by outsourcing the quantitative analytics function rather than having dozens of expensive quants in-house, said Jethwa.

While smaller brokers are increasingly looking to win business with major commodity firms, the credit risks associated with large hedging trades can be difficult for firms with smaller balance sheets to manage, said Frederic Blanchi, an executive partner for structured commodity trade finance at Cofarco, a Paris-based trade finance brokerage.

To solve the issue, Blanchi said, insurers have stepped in to provide protection against credit risks and counterparty defaults in trades such as multi-year airline fuel pricing deals.

In 2016, Marex Spectron's pretax profit rose to a record 53 percent to $27 million, fueled in part by expansions into North American oil markets, the development of an energy clearing business in Europe and the promotion of a new electronic trading platform.

"Companies are becoming more sophisticated and want smarter hedging tools that are tailored to their needs alongside one-size-fits-all products," said Jethwa.