

Banks' trend to quit commodities

By Javier Blas in London

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Royal Bank of Scotland's signal that it may offload its 51 per cent stake in the commodities joint venture RBS Sempra marks the latest bank withdrawal from the commodities business during the financial crisis.

This contrasts with the early part of the decade, when banks rushed to build up their commodities businesses, which were among their most profitable, in order to join leaders Goldman Sachs, Morgan Stanley and Barclays Capital.

By moving out of commodities, RBS would follow UBS and collapsed Lehman Brothers and Bear Stearns. Similarly, Fortis' commodities business was sold to BNP Paribas and Citigroup sold its profitable Phibro unit to US-based oil company Occidental Petroleum, although Citigroup maintains another commodities business.

RBS came late to commodities, trying to catch up with rivals by acquiring in 2007 a majority stake in Sempra Commodities, a subsidiary of the US energy group Sempra. RBS paid \$1.35bn for its 51 per cent.

Donald E. Felsing, Sempra Energy chief executive, yesterday confirmed that his company had "been informed by leadership of The Royal Bank of Scotland that RBS may have to divest its interest in the RBS Sempra Commodities joint venture". RBS declined to comment.

Mr Felsing added that, under Sempra's agreement with RBS, the bank is obliged to "maintain its ownership of the joint venture through April 2012" and added that he understood that any divestiture order from the European Commission "is expected to allow for an orderly transition" and compliance with the 2012 deadline.

A significant player in the US energy market, Sempra is a key participant on the London Metal Exchange.

George Stein, managing director of Commodity Talent LLC, a search firm in New York, said RBS Sempra Commodities "faced a steep hill to climb with government ownership of RBS, and a trading model built largely on proprietary trading, using bank capital in an environment where risk is not politically feasible.

"In addition, the unit lost its top management shortly after the government capital infusion, followed by a parade of top talent heading for more stable platforms."

The reduction in the number of banks dealing in commodities is likely to benefit the likes of JPMorgan and Deutsche Bank and also help BNP Paribas, Société Générale, Credit Suisse, Citigroup, Bank of America-Merrill Lynch, Macquarie and Standard Chartered.

They are investing in commodities, which, consultants say, reflects the profitability of the business and the belief that dealing in raw materials gives a rare growth opportunity, while other sectors such as securitisation shrink.

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