BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Speaking at *Energy Risk Asia*, BNP Paribas' head of Commodity Derivatives for Asia Pacific, Frederic Hervouet, discussed hedging strategies, products and commodity exposure at mining and resource companies

BNP PARIBAS HEDGING COMMODITY EXPOSURE

***Energy Risk*: How have mining and producer hedging strategies changed over the last few years?**

Frederic Hervouet, Head of Commodity Derivatives for Asia Pacific, BNP Paribas: 2008 was a difficult year for the mining industry with prices tumbling, and it demonstrated how much demand for hedging strategies has grown in the past two years. Despite the lack of credit appetite from a lot of banks for this industry, at BNP Paribas we see it as a key area of focus. In the past year, we have seen an increasing number of projects on the structured finance side of the business and, with the level of gold at more than $1,300 now and even at $1,400 or $1,500 in Australian dollars, a lot of Greenfield projects have been appearing. We therefore see the industry moving towards a risk management hedging model, with more junior mining or medium-sized mining companies also looking at hedging to manage their exposure.

***Energy Risk*: Do you see mining and producing companies adopting more exotic trading for their hedging strategies in the future?**

Frederic Hervouet: Exotic hedging strategies are popular with energy markets producers, but oil markets work differently from the mining industry, where you have two types of mining: precious and base metals. For gold producers, prices have been shooting up for the last eight to nine years and, for base metals, miners' prices have also recovered, whereas in energy markets the prices have been more range-bound this year.

At BNP Paribas, we focus on simple structures, while of course also offering structured solutions with various types of options (collars, etc.). We try to avoid the more exotic concepts of knockouts or double knockouts and accumulator solutions. With regard to financing – either trade finance or structured debt – it is also generally better to keep structures as simple as possible.

***Energy Risk*: Looking at government hedging strategies – maybe to hedge against inflation – how do Asian governments compare to their Western counterparts in terms of hedging strategy?**

Frederic Hervouet: In order to meet the particular hedging strategies of our customers, BNP Paribas offers a futures business for brokering and clearing, as well as an over-the-counter (OTC) business. Some markets, such as China and Vietnam, are quite heavily regulated with regard to OTC hedging, so clients in these countries are turning to us for clearing services. In many Asian markets we are also seeing a tendency for more OTC-cleared business, which allows us to clear OTC trades through market exchanges.

Frederic Hervouet

***Energy Risk*: In terms of hedging products, what are your feelings about fixed-price contracts versus index-linked contracts?**

Frederic Hervouet: Index-linked contracts are progressively replacing fixed-price long-term contracts and price risk is being transferred to the financial market.

Certainly we have seen an evolution of the Asian markets and hedging activity has picked up recently. Education is improving, regulation is improving and I believe access to the markets compared to the US and Europe is starting to improve. There are thus more and more counterparties, both consumers and producers, hedging their commodity exposure. On the energy side, consumers have started to hedge again, especially transportation companies. With gold, the market is higher and we have seen a lot of producers looking to hedge, providing a view on retracted sentiment on prices.

At BNP Paribas we can offer a wide range of products, based on all energy products, carbon, coal, base metals (including iron ore) and precious metals, as well as agricultural pricing solutions.

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