Derivatives House of the Year

Barclays Capital

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energy risk
awards 2008

★ To win our Derivatives House of the Year award, it is necessary to have a presence across the various energy markets, be on the cutting edge of innovative financial products, and to excel at structuring and financing.

This diversity is exactly what Barclays Capital set out to achieve a few years ago. In the past eight years it has seen 71% compound annual revenue growth in its commodities business, which now accounts for 14% of its total revenues. It has gone from being a small player in the US gas, power and oil markets to a leading player in around four years. It was the largest issuer and dealer of commodity-linked structured notes in 2007 with $5.6 billion of commodity note issuance – some 32% of the market.

"We've set out to build a very diversified market presence across all the asset classes in both trading and distribution, and on top of that, to do as many structured transactions as possible," says Roger Jones, co-head of commodities at Barclays Capital. "This gives us a trading book that constantly has long-dated exposures in almost every underlying."

This provides the bank with its own internal liquidity, Jones says. "If we want to do something in a market where liquidity is light, it's not at all difficult for us to access market liquidity and give aggressive pricing."

The firm also set out to appeal to as many customers as possible. It now serves more than 1,000 clients. "We want to be as many things as we can to the hedge fund, corporate and the pension fund investor. The more you do, the more liquidity is added to the pool. It becomes a virtuous circle," says Jones.

Fostering relations with customers at the leading edges of the markets is another strategy that has served Barclays Capital well, says Joe Gold, co-head of commodities at Barclays Capital. "I think we've succeeded in being very close to leading-edge customers, be they pension funds, private banking, hedge funds etc.", he says. "This type of customer can quickly grow tired of a bank that can't keep up with their demand for innovation, but if you can keep producing what they need, you benefit from the relationship you have with them."

The firm's investor business sits across all asset classes, rather than being an offshoot of a single asset class. "This unified platform distinguishes us and enables us to be able to more easily meet clients' needs," believes Gold. "Clients are usually looking for a basket and need consistency across several asset classes. We've kept client loyalty by making sure we lead across the board."

During 2007, the bank made a significant build out of its single-asset exotic capabilities in energy, coal and dry freight, and US natural gas. An array of products was added including: Asians, swaptions, extendibles, gas formula options, crack and spread options, refining margin options, structured notes, quanto options, range accruals, European and Asian options with American barriers, one touches, autocalls and JCC swaps/options.

Joe Gold, Barclays Capital

The bank's build out in the US power and gas markets in the past year has been a major achievement. "We've built the business from practically nothing four years ago to one of the largest and most sophisticated in the market today," says Gold. "A number of banks have tried to enter these markets by specialising in one market. Our strategy to diversify has paid off, as we've been able to get involved in some big financing deals."

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Some of the value of these financing deals is that they can be publicised, rather than the small private and confidential trades that banks don't get recognition for.

"What I'm most proud of is our wide presence," says Jones. "We set out not to be specialised. More than any other bank we're really diversified. That's our greatest achievement." ER