Markets

ABN Amro Exit Threatens Commodity-Trader Liquidity Squeeze

By Andy Hoffman and Ruben Munsterman
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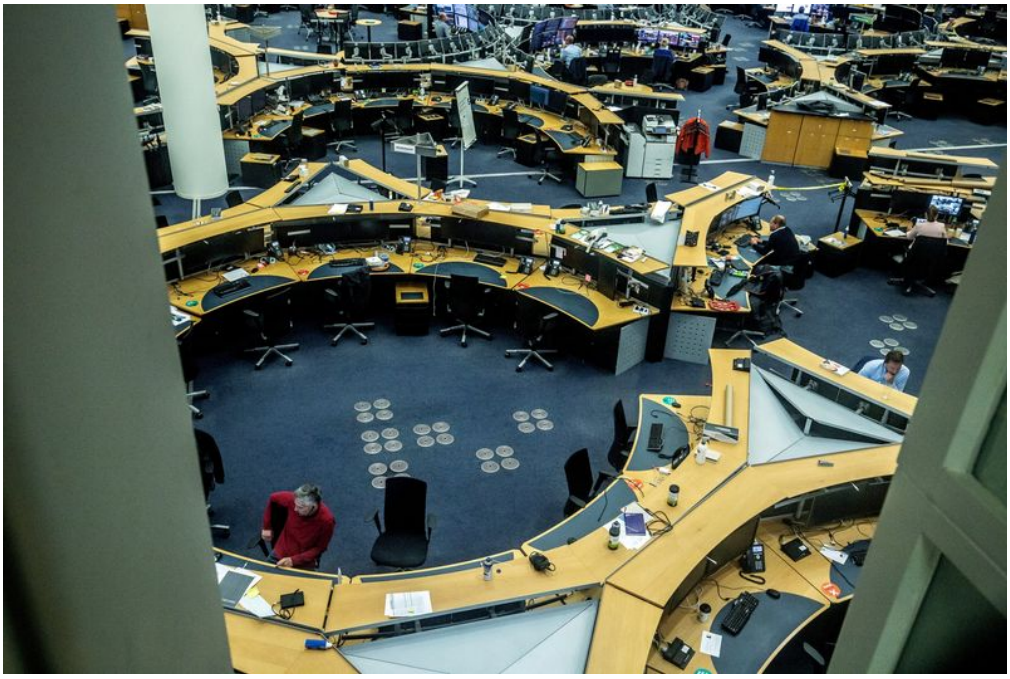
- Options for trade finance are waning as another bank retreats
- ABN Amro's loans to wind down in next three to four years: CFO



Employees work in trading pods in the dealing room trading floor at the ABN Amro Group NV headquarters in Amsterdam. *Photographer: Peter Boer/Bloomberg*

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In this article

ABN Amro Bank NV became the latest bank to exit the commodity and trade finance business, further shrinking the pool of funds available to trading houses moving trillions of dollars of oil, metals and grains around the world every year.

The Amsterdam-based lender, once a key pillar of a triumvirate of Dutch banks providing short-term loans to traders, said Wednesday it'll close the division after racking up losses from a series of trading scandals. Following similar retreats by one-time stalwarts BNP Paribas SA and Societe Generale SA, it's a blow for commodity traders dependent on such credit to fund their operations.

"Our position is a long-term strategic decision," Chief

INGA
ING GROEP NV
6.70 EUR
▼ -0.13 -1.83%

CL1
WTI Crude
41.79 USD/bbl.
▼ -1.14 -2.66%

1284513D
VITOL GROUP/THE
Private Company

BNP
BNP PARIBAS
35.89 EUR
▼ -0.95 -2.57%

GLE
SOC GENERALE SA
13.56 EUR
▼ -0.36 -2.57%

Financial Officer Clifford Abrahams said on a conference call. "We looked at our business, and looked at the capital deployed at our business, and concluded we can use those resources better."

ABN Amro, among the top 10 trade finance banks, will let existing loans wind down over the next three to four years. "We will work with our clients to do it in an orderly way," Abrahams said in an interview. "It's tough for our clients and our staff, but we are convinced it's in the best interest for the bank."

Commodity traders rely on short-term finance deals from banks to fund the buying, transport, refining, blending and storage of raw materials -- from crude oil to wheat to zinc. Without access to the low-cost loans, they can't fund their day-to-day operations.

"ABN's decision to pull out of commodity trade finance is worrying for the sector," said Jean-Francois Lambert, an industry consultant and former trade finance banker with HSBC Holdings Plc. "ABN was a very active player in the industry."

Options Shrinking

While major trading houses such as metals giant Glencore Plc, top independent oil trader Vitol Group and Trafigura Group still have scores of banks to tap for loans, the options for mid-size and smaller niche traders are drying up.

"What we are witnessing could trigger a liquidity squeeze for the sector," Lambert said. "Already smaller players are feeling the pinch as lenders have become more restrictive."

ABN Amro and Dutch peers ING Groep NV and Rabobank have a long and storied history of lending vital short-term finance to trading houses.

But the global pandemic and wild gyrations in commodity prices have brought to light a wave of scandals. In the collapses that followed, Singapore oil trader Hin Leong Trading (Pte) Ltd. left more than 20 banks on the hook for $3.5 billion in losses amid allegations of fraud. Earlier this year, ABN said two client cases accounted for 460 million euros ($540 million) in provisions, including one tied to a "potential fraud case in Singapore."

Stricter Rules

As well as the scandals, oil's slump and a historic decline in fuel demand have changed the landscape for lenders to commodities traders.

Trading-house finance executives and bankers have said the sector will need to adopt tighter loan rules and restrictions to guard against further frauds and losses. Major industry lenders have already cinched their purse strings, raising the cost of borrowing amid more than $9 billion in potential losses for banks.

Even the biggest traders could be squeezed if more banks pull back or exit the space.

"Commodity trading needs 'other people's money,'" Lambert said. "Any restriction on the availability of such liquidity will have an immediate effect on their ability to trade."

ABN Amro said Wednesday that its trade and commodity finance activities will be "discontinued completely," as it reported a net loss of 5 million euros.

The bank's exit follows the halt of new trade finance loans by France's BNP Paribas. BNP was, for many years, the leading lender to the industry, accounting for as much as half of some trading houses' bank lines. It cut trade finance operations significantly after 2014 in the wake of a record fine for violating U.S. sanctions, but was still a top 10 lender.

Fellow French bank Societe Generale confirmed this month it was closing its trade commodity finance unit in Singapore following the collapse of Hin Leong and other trading-house scandals.

– With assistance by Ross Larsen