

Le dernier mot

Jean-François Lambert looks at the last hurrah of 2016 and early 2017 which brought up three notable developments for commodity trading houses



Not much usually happens in the world of commodities at the turn of the year. But this year was different and here are three pieces of news worth reflecting upon.

The announcement that Glencore, together with the sovereign fund of Qatar (QIA) took a 19.5% stake in Rosneft, is certainly the most striking. While the exact structure of the transaction has not been disclosed, what transpired looks like magic. With a mere US\$300m direct investment, through a joint venture with the Qataris (very close to Glencore CEO Ivan Glasenberg, as they are also the first shareholder of the Swiss company) Glencore will own 9.75% of Rosneft, valued at over US\$5bn.

Besides, Glencore will provide US\$1.4bn in “margin guarantees” to cover the investors against a large fall in value of the Rosneft share which probably also guarantees the lenders (very likely to be Russian, behind Intesa Sanpaolo). More importantly, Glencore was rewarded with a five-year contract whereby Rosneft will supply 220,000 crude oil barrels per day. In a game of volumes, this is a massive boost for the Swiss trader.

What lessons could be drawn from this? First let’s acknowledge that when it comes to striking a major coup, Ivan Glasenberg has no match. When Trafigura was hitherto seen as *the* strategic partner of Rosneft (having provided delivery pre-financing post sanctions and invested massively in a joint deal with the Russian company in India in October), Glencore, with little money, gets back in the driving seat and is acknowledged by Rosneft’s CEO Sechin, as a “truly strategic” investor. The word “truly” has probably hurt in Trafigura’s headquarters. But this is the second lesson: in the commodity world

where the quest for the “longs” is so critical, there is nothing like a preferred relationship. Every day starts with a clean slate no matter how much was done yesterday. Glencore has maybe won this battle. But probably not the war just yet!

Vitol is back in Iran

On 4 January Reuters disclosed that Vitol was arranging US\$1bn prepayment to the National Iranian Oil Company (NIOC). The deal, if true – and it is probably – it is a major coup for (CEO) Ian Taylor’s company. Iran is back in the market, stronger than ever, notably vis-a-vis the Saudis.

The December 2016 cuts resulted in... an agreed increase of the Persian production to 3.8 million barrels per day. What is striking here is that while every major player would have dreamt to get hold of the Iranian “longs”, very few could have moved as fast as Vitol and offer such a structure.

Notwithstanding the commercial acumen, the long-established connections and an impeccable sense of timing of Ian Taylor and his colleagues, this proves once more that being privately owned allows traders to make bolder moves than their listed counterparts. To-date, the listed trading house model has not convinced. Glencore is the exception, of course. However, is the Swiss company genuinely a listed trading house when two-thirds of its earnings are generated by mining activities?

Arguably, the call of the wider society for more transparency has compelled even the most secret privately owned trading companies to disclose more of their activities, thus narrowing their competitive advantages vis-a-vis their publicly listed competitors. Vitol’s decisive move however, shows which of the two remains the most nimble player.

Cofco Agri reined in

The trading arm of Cofco has had a rather challenging infancy. Marred by irregularities by a rogue biofuel trader, its subsidiary, Nidera is now caught in a US\$150m “accounting issue” in its Brazilian operations. In January, Cofco Agri’s CEO, Matt Jansen resigned. He is replaced by Jingtao Chi, a Cofco veteran, based in China. Coming from Archer Daniels Midland (ADM) in the US, Jansen was initially tasked to create a bona fide international commodity trader able to compete with the ABCDs (the four major agriculture commodity companies, namely ADM, Bunge, Cargill, Louis Dreyfus).

Temasek, owned by the government of Singapore and the IFC, had both bought into this plan and invested into Cofco Agri which was to be listed in a few years. Alas, this is no longer on the agenda. Cofco Agri is probably now on course to become a powerful procurement arm for China’s agri commodities requirements. A sad outcome for the Noble agri traders now part of Cofco Agri and for the international investors, but one which should not come as a real surprise.

Trading commodities gather as many trading opportunities as they can: at origin, in transit and also at their destination. Was this genuinely compatible with the role and current priorities of a Chinese state company, entirely focussed on optimising food and agri procurement to the country? Arguably, the unfavourable market conditions and the incidents in Nidera acted as catalysts, but international trading cannot be compatible with a pure sourcing philosophy.

Jean-François Lambert runs his own consultancy, Lambert Commodities. He can be reached at jfl@lambertcommodities.com