In this white paper, Mark Konijnenberg, managing director commodities group at Citi, talks about developing trends in energy risk management since the extreme price volatility of 2008 and outlines how the group is keeping up to date with clients' needs

FOCUSED ON THE FUTURE – LEARNING LESSONS FROM THE PAST

Have you seen changes in client behaviour since late last year?

Mark Konijnenberg (MK): The short answer is yes, absolutely. The price spike across the commodity complex during 2008 and subsequent collapse late in the year sharpened the focus on all energy exposures and inherent risk implications. That is no surprise, though different clients now find themselves dealing with different issues.

Some producers and refiners are currently suffering after succumbing to shareholder-driven resistance to hedging at higher prices, which would have secured cashflows more than sufficient to cover the often significant leverage incurred in expanding and upgrading during the 'China boom'. Conversely, certain consumers that hedged at the highs – airlines being the most obvious example – are now exposed to significant margin calls and a lack of counterparty credit availability, as has been well publicised.

So what has changed as a result?

MK: Firstly, focus. Where energy risk management may previously have been the domain of procurement alone, treasury teams are becoming increasingly involved in energy strategy. Movement towards centralised reporting and management of exposures is a common theme. So is scope. Where many clients previously hedged only the largest and most obvious exposures – directly to crude oil and fuels, gas or power – the focus has widened to the finer details of energy exposures at every level within businesses. As they undertake these reviews, treasury teams are becoming aware of exposures that may previously have been overlooked. A good example is the bunker price component in container shipping contracts, often hidden within logistics budgets, where a material oil exposure may have been unnoticed.

Similarly, there is increasing interest in attempting to manage risks arising in commodities that were previously considered impossible to hedge effectively, such as natural and synthetic rubber, naphtha, plastics, ammonia or urea. While Citi has been supportive of clients' needs in these areas in the past, sufficient demand now exists to grow the business further in these products, employing both direct and correlation-based solutions.

Finally, a wider spectrum of entities with commodity exposure has been spurred into the market by the impact of extreme price movements. Polarised in terms of size, and ranging from national governments to small companies that previously did not see enough value in hedging, all were swayed into the market by the real cashflow impact of prices last autumn.

What is Citi doing to keep pace with the change in clients' focus?

MK: Citi's global commodities business is focused on evolving alongside the needs of our clients.

Mark Konijnenberg

Benefiting from the broadest banking platform among our peers, with presence on the ground in 100 countries, Citi has unmatched access to producers, refiners, consumers and traders of energy, energy by-products, metals, freight and environmental products all around the world. With specialist commodity teams based in Europe, Asia and North America and available around the clock, Citi is able to connect participants in the most sophisticated developed markets to markets in their infancy, faster than any competitor.

With a long history of banking clients in Eastern Europe, Africa, South America, the Middle East and parts of Asia, Citi is working alongside companies in every conceivable industry and market, developed or emerging, to put in place effective energy risk management strategies that reflect the lessons learned during 2008.

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