JP Morgan

Derivatives House of the Year

EnergyRisk Awards 2010

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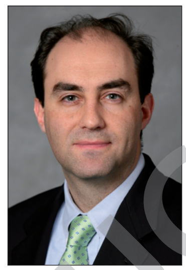
Energy Risk's Derivatives House of the Year award goes to JP Morgan, for a year of innovation in which it executed a number of ground-breaking deals such as its strategic fuel hedge with the Republic of Panama; an EMEA derivatives hedge programme for a sovereign oil and gas producer, a rainfall-contingent power hedge for a utility company and a gold production financing deal for an Asian smelting company.

In addition to its push on the structured side of energy and commodities, the bank's flow business continued to grow through organic growth and a raft of acquisitions. In 2009, the bank completed the integration of its earlier acquisitions of Bear Energy, ClimateCare and UBS's Canadian energy and global agriculture businesses, and proceeded with the acquisitions of EcoSecurities and Sempra's global metals and oil businesses. It also pushed forward on the investor side of the business, recently launching a new family of backwardation-seeking indices that aim to earn enhanced returns by capturing the differences in roll return across a range of commodity future contracts.

Mike Camacho, global head of commodity sales and investor products, agriculture and metals trading at JP Morgan, believes the bank's ability to build upon its already strong bond with clients across its energy, metals and agriculture businesses, as well as in sectors like fixed income, has allowed it to progress its long-term aim of strengthening the structured side of the business.

"What's starting to change are clients' views of JP Morgan," says Camacho. "We didn't just flip a switch and one day it happened. We have been deliberate in our growth strategy. We are now in parts of the world that hadn't been a major focus for our commodities team, such as Central and Latin America, the Middle East, Africa and Asia. Over the course of the past few years, our focus in energy and other commodities has really been extending beyond financial and flow products to more physical and structured transactions."



Mike Camacho

Catherine Flax

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Mike Camacho, JP Morgan

One deal that really showcases the results of JP Morgan's growing foothold in the structured transaction business in 2009 is the strategic fuel hedge it completed for the Republic of Panama, which aimed to mitigate the impact of rising fuel oil prices on electricity costs. The deal was not only the first derivative hedge programme for the sovereign producer but also a first for JP Morgan.

Another deal that reflects JP Morgan's capabilities in the structured transaction end of the commodities business is an EMEA derivatives hedge programme that the firm designed for an undisclosed sovereign oil and gas producer.

"What this deal represented was the confluence of a number of advances in our business," says Catherine Flax, chief executive officer of commodities for Europe, the Middle East and Africa at JP Morgan. "If you not only look across emerging markets, but across all markets, there is a vast client base that isn't particularly interested in doing more traditional derivatives in isolation. They want to perhaps do a physical transaction, or a financing, which may have some embedded derivatives in it; but the real purpose is more about facilitating either the actual production or the sovereign's financial agenda. There's a different slant, rather than the typical corporate or investor client doing a derivative."

And 2009 saw JP Morgan really demonstrate this ability. After a raft of other structured transactions, such as the rainfall-contingent power hedge for a South American-based utility company, the bank has been able to bring in new clients to the energy and commodities arena, as well as further the company strategy of focusing on parts of the world where others may not yet have ventured.

The bank's Asian franchise continued to grow and now has price-making capabilities in Tokyo Commodity Exchange (Tocom) products, the Japanese crude cocktail, regional crudes, agriculture products, regional coal and regional power.

"The emerging market growth story cannot be ignored," says Flax. "We look at specific markets like platinum and palladium, which will continue to be strong, especially since it feeds directly into the Chinese transportation market. Volatility is almost always present but we are still at a point where we are in a state of flux and the final result on the health of the global economy hasn't been written yet." ■