# BNP Paribas

## Precious Metals House of the Year

EnergyRisk Awards 2011

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BNP Paribas wins this year's *Precious Metals House of the Year* award for its pioneering approach to precious metals leasing, its innovative deals around 'by-product' hedging and its creation of a unique proprietary tool to significantly improve operational efficiencies for gold trading.

The precious metals business of BNP Paribas emerged noticeably unscathed from the 2008–2009 credit crisis when many banks were reluctant to take risk onto their books and were scaling back their precious metals business and in some cases ceasing it completely.

BNP Paribas' roots in financing, coupled with its expertise in derivatives, make it a strong choice for mining companies, especially when setting up new mines. The bank's financing background gives it a large network of relationships in emerging markets. "Thanks to our extensive client franchise, we have been very active in Asia, Africa and other emerging markets," says Mikko Rusi, EMEA head of metals sales at BNP Paribas in London. "We are active in project finance transactions involving the setting up and running of new mines."

As a Standard & Poor's AA-rated bank, BNP Paribas also has a strong and well-established history in the central banking business, the major preserve of gold trading, mainly on the foreign exchange and fixed-income side. "BNP Paribas already has a natural partnership with central banks and we have leveraged these relationships significantly in the last three years," explains Carl Teece, head of precious metals trading at BNP Paribas in London.

Mikko Rusi & Carl Teece, BNP Paribas

One of the most significant achievements of the precious metals team this year has been an operational solution that will speed up physical gold transactions significantly. Transaction times could be reduced by several days with the use of this operational short cut.

BNP Paribas also shows innovation in its bullion leasing capabilities, lending precious metals as an unsecured loan. Traditionally, leasing involves lending gold to a refiner or producer for a short period of time and it is used in the industrial process. The bank then has a claim on that gold and if the client goes bust during that process, the bank has recourse on this. The legality of this process in Europe – unlike the US – is very unclear. "What we have therefore done instead of making a claim on the gold is to offer it as an unsecured loan," says Teece.

Pure derivatives banks are often reluctant to offer this type of product, according to Rusi. "But we see it as integral to the way the bullion market works. As a bank, we are very familiar with lending so it has worked very well," he says.

The bank has also maintained its capability to price products effectively throughout various turbulent market conditions. "The setup of our trading desk is designed to pool different types of risk in a particular metal into one trading book, meaning that one trader might manage both options as well as spot risk. This gives the book more depth and capacity to quote aggressively and provides a more complete picture of market activity," says Teece.

Platinum group metals (PGMs) is an area the bank has been actively developing over the past two years. "We have made a big push into this arena, with one trader dedicated to trading those metals. Initially we grew our presence on the books via hedge funds but subsequently automobile companies have turned to us because we can offer the full suite of products they need, including leasing," says Teece.

In the producer space, the team has seen significant volumes of by-product hedging. Several major precious metals producers are no longer hedging due to shareholder pressure. "What we have therefore done is provided by-product hedging strategies. Copper mines who produce silver as a by-product, for example, have been actively taking advantage of strong price rises to enter into fresh hedging," says Rusi.

Last year, BNP Paribas managed to combine a loan and a hedge in one product in the form of a pre-paid swap. Using silver as a by-product of primary copper and zinc production, the swap allowed the client to monetise the value of the by-product to fund a new production project.

"We have a good credit appetite and familiarity with precious metals and the mining industry. This is invaluable and has enabled us to remain active with clients throughout the price cycle – for example, providing balance sheets for their hedging needs when some others may have been pulling back," says Rusi. ■