

House of the year, hybrids

BNP Paribas



Christian Kwek, BNP Paribas

> BNP Paribas has undeniable strengths in hybrid products thanks to the bank's capacity both to innovate and to listen carefully to market needs before developing new product ideas. Hybrid volumes have increased tenfold since 2003 up to €57 billion, according to Christian Kwek, London-based global head of structured products marketing for BNP. And the French bank has traded more than 150 equity hybrid products over the past year and priced more than 2000 hybrid structures.

BNP's hybrid group has created a wide range of innovative structures allowing investors to benefit from the disconnection between markets, and its commitment to innovative structures has won well deserved recommendations from a cross section of clients.

Notably, its Hybrid Bonus Coupon Note allowed a BNP client, Credit Suisse, access to a diversification product linked to various markets, including commodities, with an easily understandable payoff. This six-year capital-protected note was placed with Credit Suisse in two tranches: one USD-denominated and one CHF-denominated, each more than 25 million Swiss francs in size. It was linked to a basket of equity indexes, crude oil and metals (base and precious metals): S&P 500, Nikkei, DJ Eurostoxx 50, SMI, WTI crude oil futures, aluminium, copper, gold and palladium. The bonus coupons are paid annually and linked to basket performance since inception, each underlying being individually capped at 10% (7% in the Swiss francs version).

BNP effectively decided to use its Bonus Coupon (Stellar) idea – a payoff that has been very successful on pure equity since 2003, Kwek notes. The note's success paved the way for more hybrid business to be done with the private banking area generally, Kwek adds.

"Our client was looking to get exposure to the commodity and metal universe combined with capital protection," says Thomas Imhasly, director in trading and sales, at Credit Suisse in Zurich. "BNP was the first one to apply the popular Stellar structure to the commodity universe and the underlying basket included palladium, which we haven't seen otherwise."

BNP has also enjoyed considerable success with its Stellar Flipper FX Notes. This innovative hybrid deal allowed a European insurer to achieve

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consistent returns linked to European markets, with a protection from potential EUR/USD hikes affecting the European economy. The product innovation consisted in switching from an equity-linked coupon to a fixed interest return subject the EUR/USD currency rate reaching a threshold level, Kwek says.

The deal size was €80 million in several tranches and the rationale of the structure was to protect the equity-linked income from being eroded by adverse foreign exchange movements. "This protection, coupled with the easily switched-on exposure to a fixed income structure as soon as negative signs show up for European equities, suited the client's needs for smart risk management of their portfolio," Kwek adds. "The BNP Paribas product offered smooth returns over time, while allowing for improved yield versus bonds."

BNP has only been able to innovate in hybrids thanks to its internal partnerships. In 2003, for example, its hybrid group forged a partnership with fixed income trading to share expertise in modelling and pricing cross asset solutions. And in 2004, it formed a partnership with the commodities trading desk to leverage on their expertise on commodity underlyings.

Commodities have been particularly popular, Kwek notes, with a high volatility environment offering attractive yield pick opportunities and the positive effect of backwardation on prices.

And innovation looks to set to continue with BNP reaffirming its commitment to hybrids by hiring in the area and cementing strong in-house partnerships.

Why BNP Paribas won

Equity markets over the past few years coupled with low interest rates have made many investors shy away from the traditional equities and bond mix in their long-term allocation plans and at the same time investments in hedge funds, commodities and real estate has risen. BNP noticed the trend back in 2003 and now claims to offer the widest range of underlyings across assets to address these needs.