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Inventory Financing : Bright Spot Amid Commodity Jobs

3 Mar 2014

[SINGAPORE] In the dismal job market for the commodity sector, inventory financing has been a rare bright spot.

Pressured under the weight of increased scrutiny and tighter regulations, banks have announced plans to withdraw from the business of owning and trading physical commodities.

JP Morgan said in July last year that it planned to sell off its physical commodity assets and is reported to be nearing the decision on who to sell to.

Morgan Stanley has cut 10 per cent of its commodity staff and agreed to sell its global oil business to Rosneft, the biggest petroleum producer in Russia, while Deutsche Bank also said in December that it is scaling back its commodities business to focus on financial derivatives and precious metals.

At the same time, the commodities business, once a lucrative arm for banks, has performed badly for them in the past few years.

Revenue from commodities at the world's 10 biggest investment banks fell to an estimated US$4.7 billion last year, compared with US$14.1 billion in 2008, according to data by analytics firm Coalition.

The dismantling of commodity desks at banks has resulted in more commodity professionals ending up in the job market here, said recruitment agencies.

"Due to increased regulatory and operating costs, banks were seen unwinding their commodities' trading books or putting up businesses for sale," said Huang AiLing, Kerry Consulting's associate director of energy, commodities and financial services. "As such, we have seen an increase in the supply of candidates (to) the market."

There is, however, a mismatch in supply and demand - those with physical commodities trading expertise are still in "general shortage", she added.

With inventory financing, one of the rare bright spots in the gloom surrounding commodities markets, professionals with expertise in structured inventory financing transactions are in demand as well.

"Investment banks have been aggressively building structured inventory finance desks in Singapore," noted a managing director at commodity-focused recruitment firm.

"One of the main drivers (for banks in commodities) is inventory financing. That business actually did quite well in 2013," said Paul Johnny, a research director at industry analytics firm Coalition. "Seventy per cent of all inventory financing happens in Asia. People think that will continue to thrive."

With commodity hedge funds also struggling, commodity trading houses have been the only ones expanding.

As the trend of trading houses spreading themselves across the value chain and buying upstream and downstream assets to boost profit margins continues, however, the positions they look to fill are not for traders, but for business development and commercial functions.

"Trading houses have been building principal investments divisions in order to develop asset-based businesses that have far more long-term sustainability," said Mr Ferguson. "That has been reflected in hiring trends. We have seen a significant spike in demand for M&A professionals with commodities expertise and we expect this to continue in 2014."

The build-up of these functions could potentially translate to more demand for traders in a few years, he added.

Providing a glimpse into the growth areas of the commodities market this year, recruitment agencies said that there remain pockets of demand for traders in certain products such as iron ore, base metals and liquefied natural gas (LNG) and liquefied petroleum gas (LPG) - the latter two as exports from the US are expected to reach Asia as soon as end of next year.

The general downbeat environment for the sector, however, means that the 50-100 per cent increments seen three to four years ago when commodity professionals move between jobs are a thing of the past, said Mr Ferguson.

Headquartered in Singapore, Kerry Consulting is an Executive Search Company with 6 Asiamoney Headhunters Poll Awards since 2009.

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