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PRECIOUS METALS
HOUSE OF THE YEAR
Deutsche Bank

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Precious Metals House of the Year

Gold prices saw a reversal of fortunes in April, with talk of a sizeable sale of reserves by the Central Bank of Cyprus sparking fears across the wider market. Having hovered above \$1,600 per troy ounce for much of the second half of 2012, spot prices fell to \$1,380.50/ounce by May 23 this year, according to the London-based World Gold Council. After years of climbing gold prices, it follows a more uncertain period for the yellow metal, with periods of rising prices punctuated by occasional bursts of volatility.

The increasing unpredictability of gold and a decline in liquidity led some banks to step back from the market over the course of the past year. By contrast, Deutsche Bank's precious metals team claims it was consistently open for business. And far from deterring activity, these price swings apparently led to some interesting trading and structuring opportunities. In January 2013, for example, the bank helped a large European asset manager to buy a hefty \$2 billion of long-term gold options at different strikes. At a time of unease about the credit quality of European governments, the trade was meant to act as a hedge against a further deterioration in eurozone market confidence.

During the past 18 months, the bank has also been working closely with sovereigns looking to buy or hedge their exposure to gold. In 2012, it developed a gold hedging programme for an anonymous African government that derives a significant proportion of national revenues from royalty payments and taxes on the



country's gold mining operations.

The programme was designed to mitigate the risk of fluctuations in gold prices, allowing the government to budget more effectively. Deutsche also claims it was involved in the purchase of 14 of the 33 tonnes of gold bought by central banks in the first two months of 2013.

Across the wider precious metals

offerings via electronic trading," says Ronan Donohoe, the bank's London-based head of metals and dry bulk trading. He puts the increase in activity down to initiatives undertaken by the bank to increase the speed and usability of Autobahn, Deutsche Bank's electronic trading platform, which took place in 2010 and 2011. "We spent two years building the infrastructure and making our price delivery more robust, more dynamic and more extensive – and that is an initiative we will continue to develop," adds Donohoe.

In March 2013, the bank securitised more than \$200 million of platinum, palladium and rhodium leases. Rather than remaining on the balance sheet of the bank, the leases were sold to institutional investors, allowing producers to secure longer-dated debt and reducing their refinancing risk. "Typically, producers can only secure three- or six-month financing in the lease market," notes Simon Grenfell, global head of origination and syndication in London. "But with institutional investors entering the market in this way, they should be able to raise five-year or even longer-dated debt."

Physical vaults and storage are also an area of focus. The bank currently has two big initiatives in this area.



In recent years, there has been an evolution in the precious metals market

Ronan Donohoe, head of metals and dry bulk trading, Deutsche Bank

market, participants say electronic trading has increasingly taken hold during recent years – and Deutsche is one firm at the forefront of this trend. Its electronic precious metal trading volumes nearly doubled year on year in the first two months of 2013, according to the firm.

"In recent years, there has been an evolution in the precious metals market – akin to the evolution of the foreign exchange market in the early 2000s – towards a greater appetite for more diverse derivatives and cash

In May 2012, it unveiled a joint venture with London-based chemicals company Johnson Matthey, which will see it offer custody of physical platinum and palladium in the form of sponge. That followed a separate announcement in March 2012, which revealed plans to build a new vault to house precious metal ingots and coins with UK-based security firm G4S. Once the two projects are completed, Deutsche Bank will be the only firm to offer the storage of ingots, coins and sponge through a single account. ■