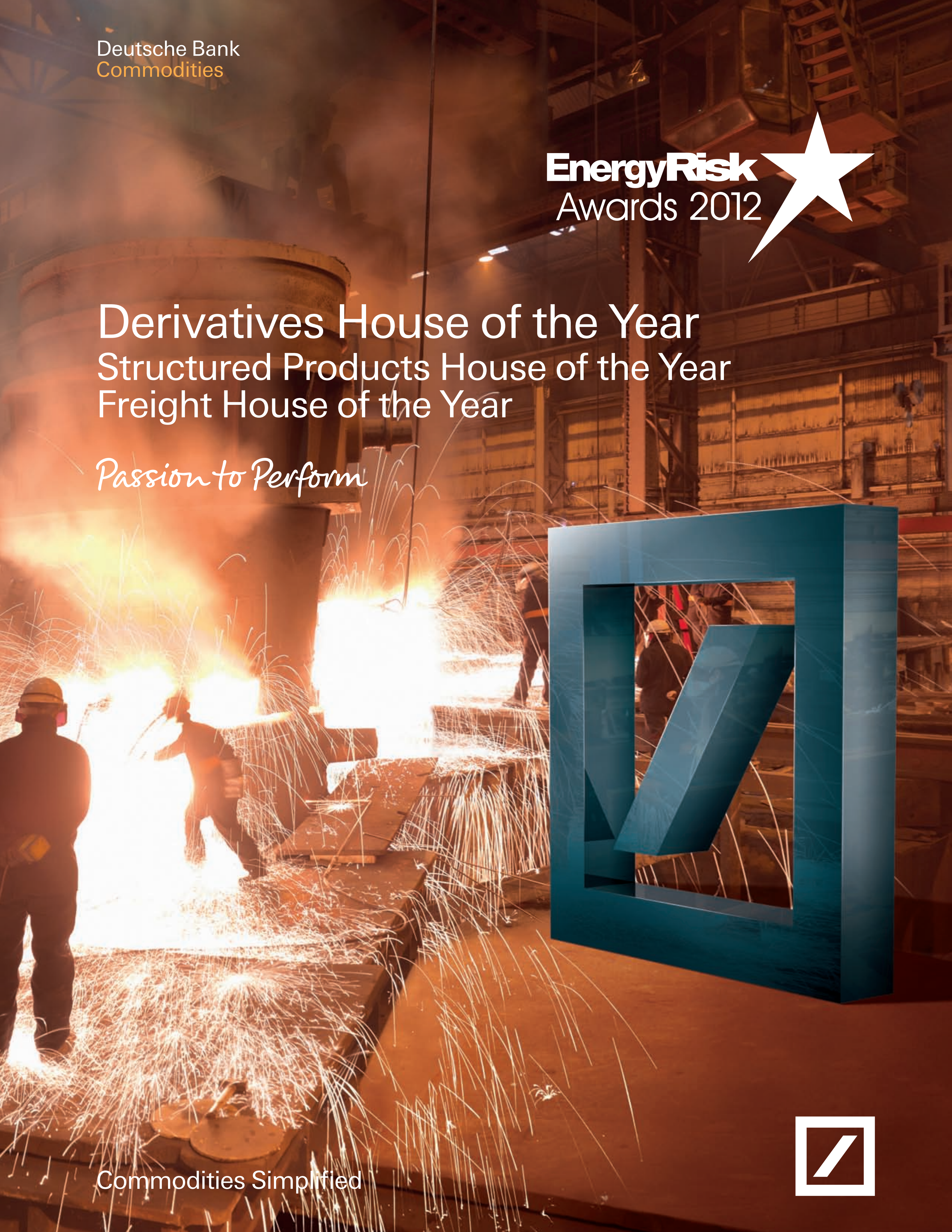

Deutsche Bank
Commodities

EnergyRisk
Awards 2012

Derivatives House of the Year
Structured Products House of the Year
Freight House of the Year

Passion to Perform

Commodities Simplified

Deutsche Bank

Derivatives House of the Year

EnergyRisk Awards 2012

Derivatives House of the Year

During a troubled year for commodity trading, Deutsche Bank gained market share and boosted its global client base. For these reasons and more, it has been named *Derivatives House of the Year* in the 2012 *Energy Risk* awards.

While other commodities houses suffered against the backdrop of the European sovereign debt crisis and lower trading volumes in 2011, Deutsche Bank built on its product offering, expanded its business and attracted new clients. It now holds a 30% share of the global over-the-counter energy and commodities market, according to a survey of 268 global energy hedgers by consultancy Greenwich Associates.

Richard Jefferson, global head of commodities sales at Deutsche Bank, believes its dominant position in the European banking sector, a well-integrated research function and the sales team's ability to read corporate clients' needs gave the bank a better insight into trends in 2011, allowing it to take more calculated risks.

As a result, the bank completed standout deals in a range of areas over the course of the year, including structuring a $60 million volumetric production payment-style financing for a European oil and gas producer. It also provided 10-year power hedges for companies across Europe, assuming this risk in a market where liquidity shortages are often a concern beyond 2015. Jefferson is confident that the bank will be able to leverage its strong relationships with European industrials to sell the power at a later date.

In the US, Deutsche Bank established a new relationship in 2011 with a US merchant generation firm that has filed for bankruptcy protection. By optimising the firm's hedge portfolio, which spanned power options, gas options, swaps and spark spreads, Deutsche Bank says it provided the company with $250 million in liquidity relief.

The bank also developed its Chooser strategy in 2011 for producers and consumers of dollar-priced commodities in regions such as Asia, where currencies can move quickly against the dollar. The strategy links a commodity hedge to a foreign exchange rate so that the hedge is not exercised if the rate moves beyond a certain level – the loss of the hedge is then recouped through higher export earnings or lower import costs. It can be cheaper for the client than the use of plain vanilla hedges because Deutsche Bank can trade the foreign exchange component and use the proceeds to subsidise the commodity element of the transaction.

> *While other commodity houses suffered against the backdrop of the European sovereign debt crisis and lower trading volumes, Deutsche Bank built on its product offering, expanded its business and attracted new clients*
>
> *Energy Risk magazine*

Deutsche Bank's diverse client base has been key to its ability to develop such innovative risk management solutions in recent years, according to Jefferson. Current clients include corporates, major trading houses, asset managers, and governments and other sovereign hedgers. "Also, our reach as a bank with locations in many different countries provides diversity," he continues. "We're not looking in the same outlets for liquidity as everybody else."

In 2011, Deutsche Bank boosted its business further with the integration of German private bank BHF-Bank's listed derivatives business, which included an energy clearing platform. "BHF was very well connected to power and gas exchanges across central and eastern Europe, as well as parts of western Europe," Jefferson explains. "An ability to offer clearing services across multiple exchanges at a time when clients are under increasing pressure to optimise overall margin requirements was pretty interesting to us."

The acquisition also enhanced Deutsche Bank's corporate client base and the bank was able to match these customers with existing clients, such as hedge funds, who often have opposing needs and views of the market to corporates. Deutsche Bank could therefore service both without having to take on significant risk itself, which allowed the bank to offer tighter pricing to clients.

"As we've grown revenues and been seen on the market that much more, it's given us a greater prominence with clients," Jefferson says. "Also, being seen as a client franchise business is incredibly important as the market moves towards a post-Volcker world. The diversity of clients we cover by sector and geography really sets us apart from pretty much all of our competition." ■

Deutsche Bank

Structured Products House of the Year

EnergyRisk Awards 2012

Structured Products House of the Year

The past year was a tough one for many commodities investors, with extreme volatility and poor returns in a number of markets. Meanwhile, the structured products market was shaken up by unfavourable media coverage about complex exchange-traded products that did not perform as advertised. Against this backdrop, Deutsche Bank stands out for its consistency and its ability to create innovative products that help investors manage volatility. It is for these reasons that we have selected Deutsche Bank as our *Structured Products House of the Year.*

Deutsche Bank's commodity products have regularly been a favourite among institutional investors, particularly in Europe. Over the course of 2011, Deutsche Bank enjoyed $1.6 billion of net inflows into its US and European exchange-traded fund (ETF) and exchange-traded commodity (ETC) businesses. At the end of 2011, the bank had $18.5 billion in assets under management across all of its platforms. That came at a time when many comparable products saw investor outflows; for instance, the popular SPDR Gold Shares ETF experienced just over $1 billion in net outflows last year.

Despite the difficult environment, Deutsche Bank continued to innovate, launching more than 20 new products last year. Those included a number of industry firsts, such as the first ETF on German electricity, the first foreign exchange-hedged physical metals ETC, and the first precious metals fund designed to be compliant with the European Union's Ucits standard. All in all, Deutsche Bank more than tripled the number of offerings on its ETC platform.

"People really like the range of ETCs," says Richard Jefferson, global head of commodities sales at Deutsche Bank in London. "Clients can take a view, have a look at the product offerings and, depending on what's going on with the rest of their portfolio and what's happening in the market, they can choose which boxes they want to tick; they can trade platinum or palladium, for example, or crude oil, or a broad index."

Amid the fierce volatility of 2011, Deutsche Bank found that clients were enthusiastic for products that could perform even when broad commodity benchmarks were down. Deutsche Bank saw strong client interest in alpha-based commodity index products, which typically use some kind of long/short strategy and are designed to be uncorrelated with benchmarks. One of the best-performing alpha indexes from any bank last year was Deutsche Bank's DB Commodity Momentum USD/EUR-hedged Index, which applies a momentum strategy to a basket of 14 commodities and can go either long or short. This index was up 11.32% in 2011; by comparison, the Dow Jones-UBS Commodity Index tumbled nearly 12% last year, while the S&P GSCI was roughly flat.

Other Deutsche Bank products found favour among defensive investors, such as its euro-hedged gold fund and its DB Risk Parity Commodity Index, which is designed to underweight commodities as they become more volatile or more highly correlated with other commodities in the basket. "Having products that helped to manage the volatility component, or at least manage the downside, was very well-received by clients," Jefferson says.

Meanwhile, Deutsche Bank also succeeded in raising the global profile of its commodity products. It won dozens of new clients in Asia, Latin America, the Middle East and Africa thanks to a concerted marketing push in those regions. Deutsche Bank reports that it now has over 1,000 institutional investors in more than 30 countries. The ability to consistently provide liquidity in its products, as well as Deutsche Bank's strong brand name overall, helped drive that expansion, according to Jefferson.

> *Deutsche Bank stands out for its consistency and its ability to create innovative products that help investors manage volatility*
>
> *Energy Risk magazine*

"Being a high-profile universal bank helps us to maintain a presence, and we've gained market share in areas where our competitors had to pull back a little," he says. "Being consistent in our delivery of products has definitely made a difference as well. But the biggest thing has been our ability to take successes in one market, expand them and make them relevant to other markets as well. By doing that, we're able to solve problems for clients in new markets – which is very powerful when you get it right." ■

Deutsche Bank

Freight House of the Year

EnergyRisk Awards 2012

Freight House of the Year

Deutsche Bank has been named *Freight House of the Year* in this year's *Energy Risk* awards. The team at Deutsche Bank has demonstrated its ability to make markets in times of low liquidity and has also been successful in bringing fresh clients to the freight markets.

The freight team at Deutsche Bank sits within the dry bulk business, which consists of 10 professionals situated across Europe and is led in London by Simon Grenfell, head of metals and dry bulks sales and head of dry bulks trading.

Total freight trading volumes in 2011 were more than triple those in 2010 and the team now trades over 10,000 days of business per month. This year, Deutsche Bank has also increased the routes it offers by extending into Capesize C7 (Bolivar–Rotterdam), Capesize C3 (Tubarao–Qingdao), Panamax P2A (Skaw/Gibraltar–Far East) and Panamax P3A (Japan/South Korea–Australia/Pacific).

One of the key reasons behind the bank's market-making ability in freight is an arrangement it has with one of the world's largest shipping companies, which took full effect in the middle of 2011. As a result, Deutsche Bank can provide deeper liquidity and undertake larger trades.

"This close working relationship gives us a huge amount of access to liquidity that pure derivatives players don't have," says Grenfell.

An example of the bank's ability to manage trades is the execution of a $60 million Capesize swap that was conducted on behalf of an institutional client in December 2011. Deutsche Bank describes the trade as "probably the largest freight trade ever done by an institutional investor".

At the time of the transaction, Grenfell says the biggest challenge to overcome was the "patchy liquidity" in the freight markets. However, given Deutsche Bank's relationship with the shipping company, the team was able to cope with managing the risk in executing such a huge trade. "We effectively took the risk onto our books," he says.

Through the agreement, the bank can charter vessels, giving it access to the same underlying exposure that would be obtained from trading a forward freight agreement (FFA). As a result, Deutsche Bank benefits from being able to hedge FFA risk against physical shipping risk or vice versa.

"We have access to physical liquidity as part of the relationship so we can manage trades such as this $60 million Capesize swap better than any of our competitors," says Grenfell.

In addition to actively making markets, Deutsche Bank has also been successful during the past year in introducing new clients to freight trading. "We have brought a few large hedge funds into the freight market and a couple of other institutional clients," says Grenfell.

Through Deutsche Bank's institutional sales group, the bank liaised with these clients and informed them of the opportunities of trading freight as a proxy for global economic activity. "It's a great way of expressing a view on China, for example," notes Grenfell.

Although the new clients had never traded before in the freight markets, because of the success they had with Deutsche Bank in other commodities (see Deutsche Bank's *Derivatives House of the Year* award) they were keen to engage in freight, says Grenfell.

Looking ahead, Grenfell is optimistic about the growth prospects for the freight team. Clients such as commodity producers may be reluctant to hedge the price of their underlying product due to shareholder concerns but, because freight by nature can't be stored and is volatile, it will be viewed increasingly as a service with a cost that can be actively managed, he says.

"The freight business is a really interesting sector for us. On the hedging side, we are expecting continued growth and as liquidity is deepening we will be seeing more fund activity. We are going to see more rapid growth in freight," says Grenfell. ■