

Commodities

Commodity traders reap \$250bn harvest

Sector benefits from rise of China and emerging nations



New seed varieties have shortened the crop cycle allowing farmers to plant a second crop

APRIL 14, 2013 by: Javier Blas in Geneva

The world's top commodities traders have pocketed nearly \$250bn over the last decade, making the individuals and families that control the largely privately-owned sector big beneficiaries of the rise of China and other emerging countries.

The net income of the largest trading houses since 2003 surpasses that of the combination of mighty Wall Street banks Goldman Sachs, JPMorgan Chase and Morgan Stanley, or that of an industrial giant like General Electric. They made more money than Toyota, Volkswagen, Ford Motor, BMW and Renault combined.

[A review by the Financial Times \(http://www.ft.com/cms/s/0/250af818-a1c1-11e2-8971-00144feabdc0.html\)](http://www.ft.com/cms/s/0/250af818-a1c1-11e2-8971-00144feabdc0.html) of thousands of pages of companies' filings and non-public documents marks the first comprehensive account of the industry. The revelation of the traders' profitability will heighten calls for greater transparency from an industry that although central to the global economy is little understood and largely unregulated.

The review casts light on an era of remarkable growth in the sector that began in 2000 – when it made just \$2.1bn in profit – and massively expanded the trading groups'

influence.

They rode [the commodities supercycle \(http://www.ft.com/cms/s/0/ef1ae7e6-9521-11e2-a4fa-00144feabdc0.html\)](http://www.ft.com/cms/s/0/ef1ae7e6-9521-11e2-a4fa-00144feabdc0.html) caused by the industrialisation of China and other emerging countries. The supercycle not only boosted commodities trading volumes, but also lifted the profitability of the groups' investment in oilfields, mines and farmland.

However, the review has also found that the commodities trading industry is now facing strong headwinds. Aggregate profit growth has stalled, and key measures of profitability are dropping year-on-year.

The world's top 20 physical commodities trading houses last year made \$33.5bn, little different from net income levels over the past five years.

The industry, which includes houses such as Glencore, Cargill, Vitol, Trafigura and Mitsubishi, is a vital nexus between producers and consumers of raw materials as diverse as oil, copper and wheat. Although some companies are publicly listed and disclose financial information, most are privately-held and in some cases have never published data on profitability.

The documents – including filings in commercial registries from the Virgin Islands to Singapore and confidential memos to bankers – suggest the industry is facing a slowdown as the global economy weakens and the growth of commodities trade slows. Further, the commodities market has become more transparent and competition has risen.

The slowdown in profit growth is remarkable, if uneven across the sector. While some traders, such as Louis Dreyfus Commodities, continue to see their net income growing, others are facing a harder time. Net profit at Vitol, the world's largest oil trader fell last year to \$1.05bn, its lowest since 2004 and less than half the record of \$2.28bn of 2009. Others are not immune either.

The sector's return on equity – a measure of the profit generated with the money shareholders have invested – has dropped. While some traders enjoyed returns in excess of 50-60 per cent in the mid-2000s, they are now averaging 20-30 per cent – though that is still large by any business standard.

“The commodities market is becoming more and more competitive,” said Torbjörn Törnqvist, chief executive of oil trader Gunvor. “The industry will not see the massive return on equity it enjoyed in the past.”

Glencore's return on equity, excluding exceptional items, fell in 2012 to just 9.7 per cent, sharply down from a peak of 61 per cent in the 2000s.

However, despite the stalling of profit growth and the fall in return on equity, the industry remains hugely profitable. The heads of some of the top trading houses –

including Ivan Glasenberg of Glencore, Richard Elman of Noble Group and Claude Dauphin of Trafigura – have become billionaires, while families such as the Cargills and MacMillans behind Cargill have seen their wealth rise enormously.

The review includes financial details of companies with different business models, from pure-play commodities trading houses to groups that, on top of trading, have also invested in production assets. The companies are Glencore, Vitol, Trafigura, Mercuria, Gunvor, Cargill, Bunge, Archer Daniels Midland, Louis Dreyfus, Wilmar, Noble, CHS, Mitsubishi, Mitsui, Itochu, Sumitomo, Marubeni, GrainCorp, Olam and Traxys.

But the review excludes the trading operations that are part of much larger oil, gas and utility groups – such as BP and Royal Dutch Shell of the UK, Total and EDF of France, Eon and RWE of Germany and Lukoil and Gazprom of Russia. Those groups often overshadow the trading houses in oil. Industry estimates put the net income of those trading operations last year at about \$5bn, well below the peak of 2008-09 of more than \$10bn, but the exact level is difficult to ascertain.

The review also excludes banks, because their focus is on derivatives, rather than physical trading. But the trend among banks, including Goldman Sachs, Morgan Stanley and JPMorgan, chimes with the overall trend. Bankers said total commodity revenues dropped in 2012 to about \$8bn, down from a peak of \$15bn in 2007.

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