Energy Risk Awards 2017 Winner

Exchange of the year

Nodal Exchange
The Next Generation of Power Trading

EnergyRisk Awards 2017

Top of the class

Following years of uncertainty, commodity derivatives markets have been in recovery mode over the past few months. While regulatory change continues to disrupt markets, a number of the more established names have been joined by young innovative firms in the *Energy Risk* Awards 2017.

Much of the recovery in commodity derivatives trading and the flock back to the market has been driven by energy. At the heart of that has been oil, which started to show real signs of life toward the end of last year as physical markets were buoyed by production limiting agreements and the surge in US shale. With oil taking the lead, liquefied natural gas, coal, utilities and a variety of other sectors along the energy derivatives supply chain have enjoyed greater attention in the last few months.

But 2016 was far from straightforward for commodities traders. Markets continued to struggle, with price risk and wider economic forces keeping growth at bay. As the dust settles though, those firms that remained, along with a new generation of tech-savvy organisations armed with market knowledge, make up a diverse and energetic market.

It's been a long-term strategy for some of those who have remained in the market. Citi – who watched as Barclays, Credit Suisse and Deutsche Bank retreated from commodities in the past few years – has persisted and is now a central presence in many verticals. "This has been a multi-year process for Citi, after emerging from the financial crisis in 2010," says the firm's global head of commodities Stuart Staley. Citi wins our derivatives house of the year, electricity house of the year and precious metals house of the year awards.

Other banks that have stuck to their commodities businesses in the past few years, bucking the trend when their counterparts left the space, have also been recognised in this year's *Energy Risk* Awards.

Societe Generale wins deal of the year, for its part in the Castleton Commodities International acquisition of Anadarko East Texas Assets, and BNP Paribas makes its mark to take base metals house of the year.

An interesting trend across commodities trading markets over the past few years has been the rise of non-banks: small organisations set for fast growth and reactive to changing market conditions. As such, some of our winners have been sniffing out liquidity in new places – from Greek and Italian power markets, to cobalt and new energies. Other growing companies developed exponentially over the course of 2016 and are enjoying great success in a number of markets. Long may that last.

Here, you'll find profiles on each of our winners, and we've highlighted some of the reasons that have made them stand out.

The *Energy Risk* Awards are decided by the *Risk.net* editorial team following a lengthy vetting process in which our judges examine each firm's accomplishments and speak to its clients and counterparties. The awards are not intended to honour the dealers with the greatest market share or revenues, but rather to highlight those firms that are most appreciated by their clients and most innovative in their deal-making, in the judgement of *Risk.net*. ■

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Exchange of the year

Nodal Exchange

The date October 19, 2016 marked one full year since Nodal Exchange transitioned its clearing services from LCH to its own vertically integrated clearing house, Nodal Clear – and what a year it was.

Activity on the exchange surged with traded volumes increasing by 97% during the year, compared with an industry average of 14%. This strength has continued into 2017 as traded volumes remained 79% higher year-on-year in January and February.

"Nodal Exchange went through a major transition, and perhaps that gave traders more confidence [to use the exchange]," says Paul Cusenza, the firm's chairman and chief executive. "It could also be due to our expected shortfall risk model, which is extremely risk-protective and capital-efficient." Cusenza is referring both to Nodal's newly integrated clearing house and the resulting move to use expected shortfall over traditional margin calculation tools such as value-at-risk or standard portfolio analysis. He compares it to using a scalpel rather than a blunt wooden sword. On the strength of these developments Nodal clinched the 'Clearing house innovation of the year' award in the 2017 Risk awards.

The model was also praised by Nodal Exchange users interviewed by Energy Risk during the judging process, who called it "innovative". Traders also mentioned the benefits arising from the range of contracts offered by the exchange. It currently provides more than 1,000 contracts on hundreds of unique locations or nodes across the US power markets, enabling traders to manage basis risk more efficiently.

Cusenza adds that the clearing house integration has already enabled the exchange to become more nimble in terms of expanding its product offering. In addition to launching a new futures contract for Mid-Columbia power trading in 2016, the exchange started working on plans to offer options contracts on power and gas later in 2017. According to Cusenza, this will round out the exchange's offering, attracting new traders but also encouraging users to move more of their activities to the exchange due to the cross-margining benefits. "There are huge benefits from a capital-efficiency standpoint to concentrate all business on Nodal Exchange, and this allows traders to do that," he says. ■

Paul Cusenza (left) and Demetri Karousos, Nodal Exchange