



# Energy Risk Commodity Rankings 2021 Winner

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**Achieving resiliency through  
robust risk management**



# Axpo – Achieving resiliency through robust risk management

Axpo executives discuss the biggest challenges for gas and power markets, their expectations for the future and the firm's performance in the 2021 *Energy Risk* Commodity Rankings



Operating in the fast-paced and quickly evolving gas and power markets is challenging at the best of times. But, last year, the Covid-19 pandemic took things to a new level, unleashing logistical chaos and unprecedented price volatility on the energy complex.

To weather the demand, destruction and whipsawing prices of 2020, firms' risk management needed to be exemplary. Being able to immediately identify and adjust risk exposures was critical, as was the ability to mitigate credit risk – both for themselves and their clients.

One firm that fared well on this front, registering a significant increase in earnings, was Axpo Group. In its 2019/2020 financial results, the Swiss energy firm's adjusted earnings before interest and tax increased by 67% year-on-year to CHF826 million (\$918 million). Its strong performance last year was reflected in the 2021 *Energy Risk* Commodity Rankings, where it ranked in multiple places in the natural gas and power categories, holding onto its first placings in the UK's NBP gas hub and UK electricity, moving up from last year in German and French power, and topping the table in Eastern European power. It also came first for Research in European power.

*Energy Risk* spoke with Domenico De Luca, head of trading and sales at Axpo, and Marco Saalfrank, head of continental Europe merchant trading, to discuss how Axpo achieved business resiliency in the face of a global pandemic, and what they see lying ahead for gas and power markets in the coming years.

***Energy Risk* As a European energy firm, what was the most challenging issue you encountered last year?**

**Domenico De Luca:** Covid-19 caused huge disruption and volatility in the market, so it was a challenge to manage customers and ensure delivery. However, we were positively surprised by how well the market reacted. We were very cautious, particularly around credit risk. Due to our very large customer base we feared some of our customers might default, but in fact very few did. We took a big provision but didn't end up needing all of it because the market was more resilient than we'd expected.

On the power side there weren't problems in terms of physical management of the grid, but challenges came with hugely volatile prices, including oil, which went negative. When you have a large portfolio for the risk management of customer positions – which contains financial products and long-term contracts – it's a huge challenge to ensure the hedges continue

to perform as they should. I'm very proud of how our risk management function coped with such volatility. Even with the very big outlier price movements, our system functioned well.

Last year was also a very challenging time for our traders, who had to suddenly work from their home environment during a time of such market disruption. They not only managed their positions under this additional stress but were able to react quickly to the opportunities the market presented.

***Energy Risk* What were the major challenges your clients faced and how were you able to help?**

**Domenico De Luca:** We had many clients with challenges around credit. We are active in Italy and Spain where, unfortunately, the economies were hit particularly hard by the pandemic. Our customer base includes not only large players but also many small to medium-sized enterprises, so we had many customers coming to us asking for longer payment times, and we needed to be as flexible as possible. We had a dialogue with every customer that needed it and set up a structure that meant we were still protected but that met their needs. The front and middle offices both engaged with clients to come up with a solution.

***Energy Risk* To what do you attribute your success last year?**

**Marco Saalfrank:** We reacted to the pandemic very quickly. As soon as we saw it coming, we asked people to prepare to work from home, so we were already set up, our platforms and systems were working and, trading-wise, we were able to react very fast to market inefficiencies and to offer the same service to the customer as before Covid-19.

**Domenico De Luca:** Our longevity in the origination business in Europe (we've been around for 20 years) was one of our strengths. Having built up solid relationships during this time, we have a lot of loyal customers – and that paid off. It was harder to deal with prospective customers last year of course, but now we see the market recovering and a lot of interesting developments for 2021.

Additionally, our risk management underpins everything we do and is the reason for our success. We've made compelling investment in credit risk and continue to do so. We need this in order to be active in power purchase agreements (PPAs), which are complex instruments with potentially high credit exposure. We have a lot of diversity in our portfolios and we need to be very aware of the risk in them. This strong analytical



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expertise, a diversified presence across the energy complex and stringent trading discipline meant that merchant trading made an important contribution to the profit of the company last year.

Overall, the decline in electricity demand in the wake of the Covid-19 pandemic was offset by higher hedged electricity prices and the good results we achieved in energy trading. In the 2019/2020 financial year, our business area was the major contributor of the excellent results of the Axpo Group.

***Energy Risk* You ranked first in power research in the 2021 Commodity Rankings. What role does research play at Axpo?**

**Marco Saalfrank:** We've invested a lot into research in the past five to 10 years. The team has grown significantly and expanded its focus from power and gas to all energy-related commodities, growing from a Europe-centric approach to a more global one as the energy market becomes more and more interconnected globally. Our high-quality fundamental analysis is enormously helpful for our prop trading operation, which is mainly trying to identify inefficiencies in a market becoming increasingly efficient. Research also brings value to the origination side of the business, enabling us to structure customised products and services for clients. It also allows us to provide valuable

market analysis to customers. We are very happy and honoured to see this appreciated by our clients through the result in the Commodity Rankings.

**Domenico De Luca:** Our research analysts have become central to the trading process. They don't just give an opinion but provide trading strategies. Analysts sit on the trading floor so they can be near what's happening. Research is embedded in the trade process, and traders take their positions based on the analysis they provide.

**Marco Saalfrank:** As weather becomes more and more important in energy trading, the work of our meteorologist has become increasingly key. Short-term forecasts are vital as renewables increase, but also mid-term forecasts that predict seasonal impacts are becoming more important.

**Energy Risk** What are the major issues that will challenge and shape gas and power markets from here, and how should firms prepare?

**Marco Saalfrank:** The European Green Deal is likely to have a major impact on the market. The growing numbers of renewables projects feeding into the grid make some parts of the electricity supply chain much more volatile and flexibility of other parts more valuable. 'New' storage technologies will enter into the market. We expect also big changes in the transportation sector. While the long-term focus is on hydrogen, in the short- to mid-term, biofuels, biogas and small-scale liquefied natural gas (LNG) are likely to become more dominant.

We forecast an increase in electricity consumption over the next five to 10 years, and also see that gas and LNG will be very important as a bridging fuel in the energy transition, and not only in Europe. Furthermore, gas production in Europe is falling faster than demand, so LNG will become extremely important.

The complexity and volatility will increase, and therefore hedging will become more and more important. This is Axpo's strength – our expertise is to de-risk the portfolio of the customer.

We already see an interest in hedging long-term positions, especially in renewable energy, through the use of merchant PPAs. This is a market in which we have expertise and are already an important player. We're also seeing the corporate PPA market growing as more firms want a long-term renewable supply.

Another big change we're seeing is many major players adjusting their business models and entering into the gas and especially power market with a focus on renewable PPAs.

**Domenico De Luca:** The huge increase in renewables in the coming years will potentially bring more opportunities for origination, but this will depend on which mechanisms are used by governments to support renewables. The three main models currently being used to bring renewables to market are the contracts-for-difference market, auctions and PPA contracts. It will be interesting to see which methods each country supports. But, for sure, there will be opportunities.

On the other hand, there will be increased competition as large companies, such as the oil majors, come to the market on a larger scale than before.

There could also be an increase in long-term liquidity. Over the past three to four years, trading has become very short term due to the stochastic nature of wind and solar, and the need for players to protect themselves against the intermittency. I suspect, if the PPA market is to become a serious way of financing this large undertaking of renewables, we will see liquidity moving once again very long term. We need to see liquidity out to 10 years and we are already seeing that – Spain is a good example.

**Energy Risk** Axpo has recently opened an office in Singapore that will focus on LNG trading. What are the reasons behind this decision?

**Marco Saalfrank:** When Axpo began its LNG business in 2008, it was primarily Europe-focused. In the past few years, that has shifted to a more global focus as the LNG market grew globally. Axpo sees a lot of opportunity in the LNG business, mainly due to the role gas will play in the energy transition. It's important to have a presence in Asia, which is currently home to around 70% of the world's LNG imports, with Asian demand forecast to grow strongly within the next decade as firms aim to reduce their carbon footprints, and move towards cleaner energy resources and away from coal.

Axpo's Asian subsidiary in Singapore opened primarily to grow its LNG business in east and South-east Asia, to offer the Asian market access to Europe and the ability to swap cargoes between the Atlantic and Pacific Oceans. The Singapore office will give Axpo access to a wider network of clients and increase its know-how in the region. As Axpo is a major player in natural gas and LNG in Europe, its Asian customers will benefit from the firm's integrated natural gas and LNG desks offering all kind of gas-related products and access to the most important international gas hubs and LNG markets.

Additionally, with many Asian markets going through liberalisation, there will be an increased



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need for risk management and hedging expertise, so a Singapore office provides a platform from which to explore future potential business opportunities in other energy commodities and other local markets.

**Energy Risk** What type of customers will Axpo serve in Asia?

**Marco Saalfrank:** Our current focus is on seaborne trading, so our counterparties and customers include traditional buyers such as the local and national utilities, local trading houses, new market entrants and Asian portfolio players such as international and national oil companies and commodities traders.

**Energy Risk** What role will gas and LNG play in the context of the energy transition?

**Marco Saalfrank:** Gas and LNG will play a vital role in the energy transition. It will not only provide a flexible bridging technology in Europe during the transition to a low-carbon economy, it will help decrease the carbon intensity of economies in places such as Asia by replacing coal with gas and driving emissions down. LNG can also play an important role replacing fuel oils in the transportation sector for haulage, such as heavy-duty vehicles and ships.

## Overall

### Best overall commodities dealer

2021	2020	Dealer
1	1	UBS
2	3	Engie Global Markets
<b>3</b>	<b>7</b>	<b>Axpo Group</b>
4	4	JP Morgan
5	2	TD Bank
6	–	Onyx Commodities
7	–	Vertis Environmental Finance
8	–	Raiffeisen Bank
9	–	BNP Paribas
10	–	EDF Trading

### Best overall energy dealer

2021	2020	Dealer
1	1	Engie Global Markets
<b>2</b>	<b>3</b>	<b>Axpo Group</b>
3	–	Onyx Commodities
4	–	Vertis Environmental Finance
5	5	BP
6	–	BNP Paribas

### Natural gas

2021	2020	Dealer
1	1	Engie Global Markets
<b>2</b>	<b>2</b>	<b>Axpo Group</b>
3	–	Onyx Commodities
4	3	BP
5	5	EDF Trading

### Power

2021	2020	Dealer
1	3	Engie Global Markets
<b>2</b>	<b>2</b>	<b>Axpo Group</b>
3	5	Enel Global Trading
4	4	EDF Trading
5	–	Statkraft

#### How the poll was conducted

The Energy Risk Commodity Rankings survey was live between November 30, 2020 and January 29, 2021 and received valid responses from 534 individuals. The survey asked respondents to vote for their top three dealers and brokers in any market in which they had been active over the previous year. The rankings poll is designed to reflect market participants' perception of a dealer or broker based on the overall quality of service they offer their clients. It is not intended to reflect volumes traded in any market. Instead, respondents vote according to a range of criteria including reliability, pricing, liquidity provision and speed of execution. The rankings are also not designed to present the views of a representative share of the commodity trading community, since the poll is open to any market participants, and the results could be influenced by the efforts of dealers and brokers to canvass their clients for votes. However, the *Energy Risk* team makes every effort to ensure that invalid votes are excluded from the final results. This includes instances where the same IP address is used to cast multiple votes, when groups of employees from the same desk vote for the same firm, or when one voter chooses the same firm indiscriminately throughout the poll.

Voters are also excluded if they do not trade in the market in which they have cast a vote. In addition, categories that do not attract enough votes are excluded from the final results.

#### The methodology

In order to create the final list of rankings, *Energy Risk* aggregates the results, weighting them by awarding three points for first-place entrants, two points for second place and one point for third. The top firms in each market are then listed according to the percentage of votes they have accrued, with the winners in each category based on the total percentage of votes per firm. The overall rankings (Best overall dealer and Best overall broker) are calculated by aggregating the votes cast in the individual categories. Following closure of the poll, the results are subject to an internal review process, which can result in categories being dropped or aggregated if they do not have enough votes. The outcome of the review is final.

### Natural gas – Europe

#### NBP (UK)

2021	2020	Dealer
1	1	<b>Axpo Group</b>
2	–	Engie Global Markets
3	–	Onyx Commodities
4	–	Goldman Sachs

#### PSV (Italy)

2021	2020	Dealer
1	2	Engie Global Markets
2	1	Enel Global Trading
3	3	<b>Axpo Group</b>

### Power – Europe

#### UK

2021	2020	Dealer
1	1	<b>Axpo Group</b>
2	2	Engie Global Markets
3	–	Centrica

#### France

2021	2020	Dealer
1	1	Engie Global Markets
2	3	<b>Axpo Group</b>
3	2	EDF Trading

#### Belgium

2021	2020	Dealer
1	1	Engie Global Markets
2	2	<b>Axpo Group</b>
3	–	Luminus

#### Germany

2021	2020	Dealer
1	2	Engie Global Markets
2	–	Statkraft
3	–	<b>Axpo Group</b>

#### Italy

2021	2020	Dealer
1	2	Enel Global Trade
2	–	Engie Global Markets
3	3	<b>Axpo Group</b>

#### Eastern Europe

2021	2020	Dealer
1	–	<b>Axpo Group</b>
2=	–	CEZ
2=	–	Engie Global Markets

### Research

#### Research in European power

2021	2020	Dealer
1	–	<b>Axpo Group</b>
2=	–	UBS
2=	–	Vertis Environmental Finance