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HD **Commodity traders on the acquisition trail**

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As trading has become more competitive and markets more transparent, big commodity traders have responded by sinking billion of dollars into refineries, power plants, ports and other assets.

It is a narrative that has taken up many column inches over the past couple of years and there is more than a kernel of truth to it. Some energy and metals traders have indeed become more asset heavy through targeted acquisitions. Vitol, for example, recently acquired Royal Dutch Shell's Australian refinery and petrol station assets for $2.6bn, while Mercuria is set to buy the physical commodities business of JPMorgan Chase.

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But the reality is more nuanced and complicated as Craig Pirrong, professor of finance at the University of Houston, noted in his recent whitepaper on commodity trading firms.

"The patterns of asset ownership among commodity traders are extremely diverse, complex and dynamic, making generalisations impossible," Mr Pirrong wrote in the report.

One firm taking a different approach to many of its peers is Singapore-listed Noble Group. It has been reducing its direct exposure to upstream, or production, assets and so that it can focus on trading and transportation - or what its chief executive Yusuf Alireza has described as its core competency.

Earlier this week, Noble, which trades more than 230m tonnes of energy and agricultural commodities each year, joined forces with EIG Global Energy Partners to launch a new investment vehicle aimed at snapping up assets in the energy sector.

Harbour Energy will be seeded by $150m from Noble and $50m from EIG, according to people familiar with the company's plans. The day-to-day running of Harbour will be managed by EIG and a team led by Linda Cook, a former top executive of Royal Dutch Shell, while Noble focuses on the marketing, trading and transportation of the company's products.

The tie-up with EIG mirrors two earlier deals struck by Mr Alireza. In April, Noble sold a majority stake in its agribusiness to Cofco, China's state-owned grains trader, for $1.5bn. Before that, Noble invested $500m in X2 Resources, the new investment vehicle of Mick Davis, the former head of Xstrata. Noble will be the preferred "marketer" for the new vehicle and manage its supply chain and logistics.

Analysts say Harbour, which is looking to raise $2bn from investors, should have no trouble finding suitable targets. International oil companies are shedding non-core assets to streamline their operations as shareholders press for lower capital expenditure and higher dividends. Up to $300bn of assets could be on the market according to some estimates.

Equally its joint venture with Cofco will add heft to Noble's trading business and provide valuable insights into the Chinese market. Noble Agri will become the principal platform for Cofco to source commodities directly, rather than buying them from intermediaries

The jury, however, is still out on mining. Although private equity groups are showing heightened interest in the sector many are sceptical they can make deals work.

Unlike the **oil** majors, big **mining** houses are not under any significant pressure to divest assets, so prices are high, while the inherent volatility of the **mining** industry makes highly leveraged acquisitions risky.

Indeed, the difficulties facing private **equity** firms or groups looking to buy **mining** assets was summed up by Glencore chief executive Ivan Glasenberg earlier this year.

He told the FT Commodities Global Summit that the problem with the commodities space if you have high gearing is "that you are not running Boots where you have a pretty constant earnings base."

The Commodities Note is a regular online commentary on the industry from the Financial Times

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