

Glencore Takes Lead in Metals Storage as Goldman, JPMorgan Cut  
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July 31 (Bloomberg) -- Glencore Xstrata Plc, the biggest publicly traded raw-materials supplier, became the largest owner of warehouses monitored by the London Metal Exchange as banks pull back amid increased scrutiny by lawmakers and regulators.

Pacorini Metals, owned by Baar, Switzerland-based Glencore, added 14 warehouses this year, taking its total to 178, or two more than C. Steinweg Handelsveem BV, according to LME data compiled by Bloomberg. The expansion contrasts with a drop in listed warehouses held by Goldman Sachs Group Inc. and JPMorgan Chase & Co., the third and fourth-largest owners.

U.S. financial regulators told a Senate hearing yesterday they will boost scrutiny of banks' commodities holdings and the Federal Reserve said this month it will review a decade-old decision to let them trade raw materials. The LME, which handles about 80 percent of trading in industrial metals futures, is reviewing storage rules that buyers say helped accumulate inventory in fewer sites, distorting supply and raising prices for consumers even as global production outpaces demand.

"I would hope regulators would take a holistic approach as they consider LME warehouses, not solely those owned by banks,"

Nick Madden, a senior vice president and supply-chain officer at Novelis Inc., an Atlanta-based aluminum parts maker whose customers include The Coca-Cola Co. and Ford Motor Co., wrote in an e-mail. "Our major concern is over the ownership of warehouses by banks and trading companies. It creates an imbalance in the marketplace."

#### Trade Commodities

Goldman Sachs, based in New York, removed nine warehouses from the LME system this year, taking its total to 113, bourse data as of July 25 show. JPMorgan, which said last week it may get out of the physical commodities business, cut 23 since the start of January and now controls 78. The LME monitors a global network of more than 700 depots, which vary in size.

JPMorgan and Goldman Sachs, both based in New York, and Glencore bought their storage businesses in 2010. Officials from those companies and Steinweg, which also operate facilities outside the LME network, declined to comment.

Glencore's trading division is more resilient to falling commodity prices than the company's industrial assets in part because it includes storage and transport, Chief Executive Officer Ivan Glasenberg said on a conference call March 5. The company paid \$209 million in cash for Pacorini.

#### Financing Deals

Lines to get inventory out of some LME-approved depots can extend to months, increasing the premiums that buyers must pay to secure immediate supplies. Detroit, New Orleans, the Dutch port of Vlissingen, the Belgian city of Antwerp and Malaysia's Johor have the longest waits for metal, according to Barclays Plc. As much as 30 percent of copper stockpiles tracked by the bourse is tied up in financing deals that lock up the metal and extend waiting times, Societe Generale SA estimates.

The proportion is as much as 80 percent in aluminum, 60 percent in zinc and 30 percent in nickel, Societe Generale says.

Financing typically involves the purchase of metal for nearby delivery and a forward sale to take advantage of a market in contango, where prices rise into the future. The transactions are being helped by record-low borrowing costs after central banks cut interest rates to boost economic growth.

Warehousing companies, which don't own the metal they hold, offered incentives to attract supply, according to Societe Generale. About 90 percent of copper stockpiles are now concentrated in three locations, LME data show. The depots in New Orleans, Antwerp and Johor held 22 percent of inventories a year ago, LME data show.

### Detroit Depots

Almost 2.1 million metric tons of aluminum is being stored in Vlissingen, enough to supply Western Europe for about four months. The city's LME-tracked warehouses held 62,250 tons at the end of 2010, LME data show. Stockpiles in Detroit rose to 1.47 million tons from 943,625 tons over the same period, the LME data show.

Glencore's Pacorini Metals has the most storage units in Vlissingen, New Orleans and Johor, while Detroit is dominated by Goldman's Metro International Trade Services LLC. In Antwerp it is NEMS, a unit of Trafigura Beheer BV, a commodities trader operating in 56 countries, LME data show. Trafigura, based in Singapore, increased its LME-listed depots by three to 45 since the start of January, ranking it fifth.

Trafigura will adjust the size of its warehousing business in response to demand, Victoria Dix, a spokeswoman for the company, wrote in an e-mail.

The LME said July 1 it is reviewing rules to ease waiting times. Warehouses with lines exceeding 100 days would have to deliver out more metal than they take in, the bourse said in the proposal, which will be reviewed by its board in October and take effect April 1 if approved. The LME was bought by Hong Kong Exchanges & Clearing Ltd. last year for \$2.2 billion.

"It doesn't really matter whether the warehouse owners are banks, or trading companies or they are standalone entities,"

said Craig Pirrong, a professor of finance at the University of Houston. "The real debate should be about the warehouse rules and whether the rules are creating artificial bottlenecks."

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