The Great Post-Bonus Merry-Go-Round on Wall Street Commodity Desks Is Set to Spin

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The Great Post-Bonus Merry-Go-Round at Wall Street commodity desks is set to spin faster than ever, as new regulations, an improving economy, layoffs and top changes are prompting traders to extend feelers in numbers not seen for years.

The subsurface movement is causing managers still largely in a buyer's talent market to wonder how many of their star performers will still be at their desks just a few weeks from now -- once bonuses are announced and checks have cleared.

"People are nervous at this time of year until they get their number," one bulge bracket global sector head told Commodity Talent LLC. "And even if it's a big number, they may turn around and auction themselves off."

The comment was made as Commodity Talent LLC interviewed dozens in commodities units at banks, funds and supply majors -- ranging from division heads and managers to traders across multiple commodity sectors and functions on four continents. Pieced together, along with published accounts, the accounts provide a snapshot of the market for commodity talent as the year begins.

Less a Buyer's Market

Assertiveness is returning: As profits replace crushing corporate losses during the global economic crisis, many commodity traders are no longer just glad to hold onto their seat and meekly accept bonuses doled out at 2% to 6% of profit. The new range is 8% -12% payouts, a level common

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before the crisis. Those who did well who don't get the new level are likely to find employers who will pay up.

To be sure, 2010 was mixed for a number of large commodity desks, with selected layoffs last year and this hitting traders at Barclays, JPMorgan and Credit Suisse, and a 5% to 10% cut looming at BP. And firms willing to meet the new market rates still are in a buyer's market for talent, with multiple candidates chasing each opening.

Markets Rose

Yet the year ended up across some of the most important futures – corn +40%, soy +37%, copper +31%, crude + 8.5% -- all rose year on year as S&P's Goldman Sachs Commodity Index climbed 20%, topping the 15% increase in the S&P 500 Stock Index,. The strengthening US economy and demand from China and other large emerging markets led to forecasts, albeit with some gloomier exceptions, of sustained price support for food, fuel and metals.

That prospect, along with regulatory changes brought on the crisis, is prompting many to abandon Wall Street for less regulated hedge funds or trading firms. Commodity units have been hit particularly hard by the new regulations.

General limits in the Volcker Act on trading bank capital have led to a mass exodus from Wall Street as proprietary traders, including many from commodity units, head to hedge funds. And the Dodd-Frank Act is restructuring compensation at banks to discourage excessive risk. Bonus deferrals now can mount to 80 percent at higher level positions at top Wall Street commodity units, with one third held back at lower ranks.

Regulators Cracking Down

Of immediate relevance for commodity traders is a regulatory crackdown on the size of commodity futures positions that an institution like a bank or fund can hold.

The regulations are evolving but already, Centaurus, John Arnold's multi-billion-dollar energy hedge fund, was ticketed for the third time in 24 months for exceeding position limits. The latest established a bright line not to cross: NYMEX announced in January it had fined the former Enron trader's group $15,000 and forced the disgorgement of $4,015 in profits for exceeding limits for the expiring December 2010 Henry Hub Natural Gas Look-Alike Last Day Financial Future in November. The fund had 5,005.5 short contracts, 5.5 over the limit.

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Changes at the Top

On top of these factors, recent and perhaps future changes in the top echelon of Wall Street commodity units -- – the most In several years -- also are unnerving rank-and-file, as well as higher level managers, as they wait for possible new directions.

Adam Knight was the most recent global commodities head to depart, exiting Credit Suisse in January, following his former partner co-head and prop trading chief, **Beau Taylor**, who left the Swiss bank to set up a fund backed by Blackstone.

The Knight exit followed a revamping of Credit Suisse's relationship with Glencore, originally focused on metals. Knight, a Goldman metals trader, was recruited to help manage the joint venture, which is shifting to a consulting relationship as Glencore prepares for an IPO.

At Bank of America Merrill, **David Goodman** left in December as co-head of commodities, replaced by **Rupen Tanna**, who completed a round-trip from the US bank's London office to Noble and back in less than a year.

Joe Gold, Barclays former commodities co-head, left his division to take on other responsibilities at the UK bank, leaving **Roger Jones** in sole charge.

Stuart Staley took over the reins of Citigroup's commodities division from the retiring **John Casaudoumecq** at the beginning of 2010, and set about rebuilding the hole left by the sale of Phibro and consequent move of $100-million-a-year oil trader **Andy Hall** to Occidental.

At UBS, **Jean Bourlot**, former Morgan Stanley agricultural trading head, was tapped as commodities chief as the Swiss bank re-entered commodity trading and began hiring again. The move reunited Bourlot with **Neal Shear**, now head of institutional securities at the Swiss bank and former leader of the Morgan Stanley commodities division.

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The moves have left many in commodities markets wondering, who's next and what will it mean for me? With trading in their DNA, many -- from top manager down the ranks to entry level desk assistant -- are doing what any prudent trader would do: Hedging their bets. Stay tuned.

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