Wall St hikes pay for stake in physical commods

* Pay for physical traders reaches commodity heyday levels
* Compensation tops $5 million on Wall St; up 35 pct in UK

NEW YORK (Reuters excerpt) - Wall Street commodity desks are investing more money and time than ever in building up their physical business as banks and hedge funds look for ways to make money outside of derivative markets facing regulatory reforms.

Firms that once hardly ventured beyond the traditional bread-and-butter business of futures trading now boast of specialists who can buy and sell physical cargoes of liquefied natural gas, crude oil, iron ore and coal.

The change comes as futures markets in the United States face increasing regulatory oversight that has convinced financial players in commodities of the importance of having some kind of presence at least in unsupervised physical markets.

Hiring logs kept by headhunters show banks and hedge funds offering salaries not seen since the end of the commodities boom in 2008 to poach top physical traders working with immediate rivals or at oil and gas firms and mining companies outside of Wall Street.

"Wall Street has shown again it is willing to pay for very senior, high-producing money makers and its focus is on physical commodity traders among other people," said George Stein, managing director at Commodity Talent LLC in New York.

"We're talking about compensation guarantees in excess of $5 million per annum for the real rock stars and heavy hitters in the business. The norm for good performers is about $1 million a year, including base pay of $400,000 and bonuses," Stein said.

The higher salaries and demand has led to a hive of new activity across physical commodities.

Some banks have relied on buyout deals to bring on board whole trading teams -- like Goldman Sachs' purchase this month of North American gas trader Nexen and JPMorgan Chase's partial acquisition this year of oil and metals trader RBS Sempra.

Australian banking group Macquarie told Reuters it added physical oil trading in Singapore and the United States to its wide range of commodity businesses early this year, and has hired additional specialists for this.

Bank of America-Merrill Lynch, the largest U.S. bank, and German financial powerhouse Deutsche Bank have expanded their search for physical traders in crude oil, iron ore and coal, recruiters' logs show.

And Citigroup, a major Wall Street player that has made inroads into LNG trading in recent years, is trying to rebuild its Houston-based LNG team after losing key traders there, industry sources said.

The Commodity Futures Trading Commission has trading limits in U.S. grains futures and is eyeing restrictions in U.S. oil and gas futures next in a bid to curb speculators in those markets, whom some blame for the record high food and energy prices before the recession.

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The U.S. government separately has proposed banning banks from proprietary trading, or trading on their own account, as part of sweeping financial reforms.

Some of the high-profile moves in physical commodities this year include Deutsche Bank's hiring of Richard Shelley, a former dealer at London steel products firm Metalloyd, as its physical iron ore trader in Europe during the first quarter.

Shelley had worked at Metalloyd for 5-1/2 years, trading iron ore globally in both derivatives and physical markets.

Macquarie took on Stephen Taylor, a former employee of U.S. oil services firm Masefield, to head a six-person Asian physical oil trading desk in Singapore.

And while Wall Street gained from luring talent from outside, it also lost some of its own to competitors.

Russia's Gazprom, for instance, took Macquarie's Paul Turner to become its head of strategic development for European natural gas and power trading.

And Hess Energy Trading Co hired Steve Mason, a manager at prominent commodity hedge fund Tudor Investment Corp, to become its senior energy trader. Mason was also formerly senior electricity trader at Goldman Sachs.

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