SMARTER MARKETS

PODCAST TRANSCRIPT

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Commodities in Asia | Episode 6
Nancy Seah, CEO, Abaxx Exchange

For this week's installment of *Commodities in Asia*, we welcome into the studio Nancy Seah, CEO of Abaxx Exchange. SmarterMarkets™ host David Greely sits down with Nancy to discuss the insights from her more than 25-year career in commodity risk management in Asia.

Nancy Seah (00s):
I have seen that the marketplace has evolved to a lot more end consumers being a lot more sophisticated and coming directly into the market for trading as well as risk management. So that whole composition has been, I would say, it's a good place to be in, right, it has a lot more different market structure in terms of the composition of players, as well as the appreciation level in terms of risk management and hedging is like one notch higher than before.

Announcer (32s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
This episode is brought to you in part by Abaxx Exchange, bringing you better benchmarks, better technology, and better tools for risk management.

David Greely (01m11s):
Welcome back to Commodities in Asia on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Nancy Seah, CEO of Abaxx Exchange and Clearinghouse in Singapore. We will be discussing the insights from her more than 25-year career in commodity risk management in Asia. Hello, Nancy, welcome to SmarterMarkets.

Nancy Seah (01m 34s):
Hi Dave, thanks for having me here today.

David Greely (01m 37s):
Well, really glad that you're able to be with us today, Nancy. I know that your schedule is more than full launching Abaxx Commodities Futures Exchange and Clearinghouse in Singapore and as I've been thinking about the launch of the exchange, I've kept thinking more and more about your 25 year career in commodities, more than 25 year career in commodities, working with clients to manage their commodity risk better. You began your career at BP then almost 15 years at Goldman Sachs where you and I met where you were a managing director and head of Asia Pacific Commodity sales and origination, followed by Hartree Partners, Pavilion Energy, and now CEO of Abaxx Exchange in Singapore and I realized that although I've known you for about 20 years now, I never knew you went to University in Singapore and so in some sense you've come full circle and maybe that's a good place for us to begin today you know, I wanted to ask you what led you to join BP and what did you learn about commodity risk management in those early days of your career at BP?

Nancy Seah (02m 43s):
Yeah, sure. I think that's a good start, Dave. You know, I'm actually a chemical engineer by training you know, studying in the local, you know, Singapore University and that was my aspiration to become a process engineer. I wanted to become one was not successful because when I went through many of the interviews, they were saying, you know, to me that there's no female changing room in many of the, you know, sites. So I end up in some way another in BP, right. So I remember the first day when I met the BUL, which means then called the business unit leader in BP. He said to me that Nancy, you know, you are my first female, you know, executive that I have hired for the oil trading and sales, you know role here you are very important. You know, you are our trial, right? So if you make it, there's probably more female recruit in the future. If not, that's probably gonna take a while before, you know, we will recruit another female. So that's kind of how I started my career in the energy industry, you know, so, so yeah, that was how I started my career in VP.

David Greely (04m 03s):
That was a little bit of pressure on you. You're the trial and you know, if, if you don't succeed, they'd leave it there. That's, it's another, another time, thankfully.

Nancy Seah (04m 12s):
Yeah. Yeah. I, I still remember my first day when I turn up in the BP office, there was almost a hundred pairs of eyes staring at me, and I was the only female, you know, for the, to start with, you know, in the whole BP trading floor right, so that was how it started. It did scare a lot out of me though, but that makes me more determined to make sure that, you know, I'm successful in there and there will be more female executive that will join me than.

David Greely (04m 41s):
And so you started off, you wanted to be, you know, you were trained as a chemical engineer, you wanted to be a process engineer. You end up more in trading as you got into trading at BP. Was there an approach to risk management that you learned on that corporate side of the business?

Nancy Seah (04m 57s):
Yeah, I mean, BP then was one of the more commercial as well as, you know trading a stronger trading as well as risk management mindset at that point in time, I must say that they were pretty much ahead of their curve. I learned from the team the importance of the capability as well as the ability to hedge and protect the underlying, you know, physical oil and refining assets against the market volatility and the ability to basically hedge and lock in a fixed margin between, you know, sales as well as our, our assets. Then like our equities, our oil assets and things like that was very, very important in order to get a better sleep in the night as well. Right? So I think not a lot of the traders, especially the oil major Dan was, you know, having that kind of mindset, I think that was very important, right.

Nancy Seah (05m 56s):
So it was also very important in terms of understanding, you know, how a good price benchmark to the physical underlying meant in terms of the hedges or converges with the physical cargo itself, and hence also minimizing a lot of the basis risk. So I thought that that was really a very important lessons as well as important aspect that I've learned in the business of risk management in BP, right and then interestingly is that the, the risk management team internally started as, you know, a facilitator as well as a consolidated risk manager within the trading team and eventually it actually developed into a business on its own in terms of providing, you know, hedging services and training to the external counterparties as well as our clients to better understand their own risk as well as, you know, helping them to do the risk management itself. When our clients are successful, you know, we are successful as well. Right. So that was really that whole philosophy that, you know, I took away in terms of commodity risk management at BP.

David Greely (07m 07s):
And you took away that mindset when you went and joined Goldman Sachs and joining J Aaron, which was Goldman Sachs commodities back then, you know, from an energy major like BP wasn't an uncommon career transition move in those days. I remember quite a few of the folks on the floor had come from oil majors. How did J Aaron shape your thinking about working with clients to help them manage their commodity risk?

Nancy Seah (07m 31s):
Yeah, just when I thought that, you know, BP was a very strong risk manager, I must say. I was very surprised that, you know, Jay Aaron is even the stronger risk manager internally, right. It's almost in the blood, it's almost in its culture, right, so it's from the front office, the mid office, and all the way to the back offices. Everybody has a very strong risk mindset. I think that culture came a long way, and certainly I think it's something that is kind of like not built overnight. It's really built over a long period of time, right, so I think that regular training on re compliance has been a very strong reminder to keep res mindset when we are thinking about res both internally as well as externally when we're dealing with the clients, right and it's also almost natural in that sense that we are translating a lot of these practices to when we are dealing as well as managing a lot of our clients Reese exposure as well, right.

Nancy Seah (08m 34s):
I think that for most of the part, you know to be frank, when I was in JRN dealing with the Asian clients, I spent a lot of time in terms of educating our clients and really working with them in understanding where their risk exposure will, and also helping them sometimes to establish, you know, what are their objective and what are their risk appetite. It was very important, right like, you'll be very surprised in many a time, a lot of the clients that we were dealing with needed a lot of handholding to help them establish, you know,

this objective and what's the impact to their physical underlying, you know, what type of instrument is appropriate or, you know, what kind of hedging underlying physical benchmark or price benchmark that is useful and appropriate for their risk management or their, you know, what call financial hedging, they call it.

Nancy Seah (09m 33s):
And you'd be surprised too, you know, sometimes they don't really understand what is right raise risk and wrong way, risk, right and many a time that also translate to what's the right hedge risk, you know, what, what's the right hedge ratio to their physical, you know, how long should they be thinking in terms of managing their hedges as well, how and what are considered as important to, in consideration for their market to market, what's really a forward curve you know, where do I get a fair value for my forward curve and all these data that right and all these also translate to a lot of their internal processes as well as procedures as that they kind of needed to. So that I would say is that, you know, a lot of the time, especially with a lot of the new clients, almost like 40 to 50% of the time is about educating them on all this, all their risks as well as all these processes as well.

David Greely (10m 33s):
Right and I was wondering, for our listeners who may not understand it, could you explain what right way risk is because I think that's a, a term that not everyone's familiar with, but it's a certainly an important one.

Nancy Seah (10m 43s):
I mean that, you know, in terms of right way race, right in trading here, that it usually means that, you know, if you are, for example, if you are an airline, you are naturally short in terms of your position. You should, you know, rightfully going long, right. Like, you know, this are some of the very basic that, you know, sometimes we have to explain to our clients so that they understood that based on their price exposure that they have, and based on their portfolio that they have, which are the one, they should be going long for the position, which are the one they need to go short, right, many a times when they don't really understand that, you know, it was kind of all over the place, right. Like, if they've gone long, they, if they're actually long, they actually went even longer. You know, if they're short, they even went even shorter, right?

Nancy Seah (11m 35s):
So, so those are the things that we call it, you know, what is the right way risk when it comes to, you know, trading your position or when you're actually hedging your position, right, so a lot of the time we were actually not, you know, we have encountered a lot of clients kind of like knew the, you know, they have some form of a risk, but they didn't really kind of pinpoint to that was that risk and with that risk, what do you do with it and how do you mitigate or eliminate or minimize the exposure of the risk that they have, right, so those are some of the terms when we talk about, you know, right ways and wrong ways right. It's very, very important because if not, you end up longer than you should be, or shorter than you should be, right.

David Greely (12m 19s):
And it's really important, right, so when you, when clients are working on risk management, they need to understand that the hedging really needs to be a part of the way that they run their business. You know, it, it changes the choices that they can make in terms of the, the operations of the business on a day-to-day basis. It's not just something that you kind of paper over at the end. And I was wondering, you know, you, you spent your career working with clients in Asia, and I'm curious, how would you describe the approach to risk management in Asia like, is there a different philosophy or mindset than what you saw in the US and Europe?

Nancy Seah (12m 58s):
I think the, certainly I would say is that, you know the Asia market understanding of the importance of risk management or hedging has definitely developed a great deal over the last 20 years when I started. Then there has been, I think, you know, the word is that, you know it's still you know, very nascent state in terms of really understanding what's really risk management all about. I still remember those days where when you speak to a lot of, you know, especially the more senior management in the corporates, there is always this continuous challenge even maybe even until today, right. That hedging versus speculation is always a very, very fine line, and it's sometimes not the easiest in terms of trying to explain that and to convince, you know, the senior management, so there's a Chinese thing, right like, [Chinese Language] so what it translate to is like, you know, good news goes on crutches, but bad news, you know, spread really fast.

Nancy Seah (14m 07s):
So there are, you know, a lot of their information, their knowledge came from reading all the, you know, bad press of like, oh my God, this company went down and, you know, income many losses, you know, doing hedging or speculation or whatever it is, right. So it has been in their mindset, it's been very difficult in terms of really educating them and to get over that mindset, you know, my block, you know, that they have and their impression then was also very interesting is that, you know, their impression is when I hedge, when they lost a dollar, I won a dollar, right like, you know, that's how simple they think about, right. Is that if they make a dollar, then, you know, naturally Nancy on the other side of the, on the trade lost that dollar, right. So that's how simple, you know, a lot of all this concept that they have understood.

Nancy Seah (15m 04s):
And, you know, simply also the other one was that when they talk to and when they hear news that, for example, trading houses, financial institution, you know, doing good profit, you know, good PNR things like that, they think that there was a secret source or a secret formula that all this entities or, you know firms has never shared with them, right. So it does frustrate them a bit And that is one of the biggest hurdle I would say, is that dealing and approaching, you know, some of this risk management philosophy with the, you know, Asian clients, right. So I think the market has changed a lot and develop, you know, a lot over time. I think it's a great deal for that. It takes a lot of time, it takes a lot of effort in terms of understanding that it is, you know, to have a very successful, effective hedging program and eventually become a, a strong hedging team.

Nancy Seah (16m 04s):
It is a combination of bus understanding the business objective, the appetite, the people skillset, the system and tools to help them in, you know, monitoring as well as doing analytics and things like that and also processes in terms of control and monitoring to do so, right? I think that it needs really good effort in doing so and the other thing that part of the experience that I have is through the years, the concept of risk management is like a one-time exercise, right? It's never been taken seriously as a program, right? It also needs to achieve, you know, a good balance in terms of being commercial, being practical, and also the right corporate appetite to do so and that's not easy, right, so I think that is one of the key things that I felt like in dealing with a lot of Asian clients, that has been one of the strongest and most challenging things for the corporates to kind of push through, you know, a continuous strong effort in terms of the risk management.

Nancy Seah (17m 08s):
But again, that was like, you know, 10, 20 years ago, I've seen, you know, some of my clients that has became very, very successful when they actually overcome this and learn through a very strong perseverance in learning and understanding, you know, the risks as well as, you know, the management through the difficult times as well as, you know, the market volatility and became very good in terms of that but I've also seen, you know, clients who decided to feel like I have made a one-time loss, and I decided that that is kind of good enough and the funny thing is that they only go into hedge when the market is against them. They don't do as a continuous process, right? Which is, that's exactly where things will go wrong, because you usually, as a buyer, you buy at the highest as a seller, you sell at the lowest, right? Like that is really not really, I would call that as risk management in that sense.

David Greely (18m 04s):
No, no, not at all and as you said, it's getting people to understand the difference between trading and managing risk and hedging and making it part of your process and part of how you run your business. It's a continual evolution and I remember, you know, you and I, it was always a, a challenge getting people to understand, as you said earlier, you know, if you're an airline, you're naturally short jet fuel. Yes. You know, you need to buy in order to run your business and so you already, in a sense, have a quote trade on your short jet fuel your short oil and so by, you know, hedging, you're reducing your risk, you're not adding to your risk but it's hard for people to sometimes put those two sides of the, the ledger together, you know, their physical exposure and what they're doing on the financial side and then people are much more sophisticated than they were when you and I started in all this Nancy, but, you know, looking at the instruments in the market, you know, a lot of times those were complex and I was curious, when you look at the financial instruments, you know, futures options and structures used that people use to manage risk in Asia, is there a preference for certain types of hedging structures or instruments?

Nancy Seah (19m 15s):
That's a very interesting one, and it always reminds me of, you know, the preference of, you know, financial instrument as well, structure pre the 2008 financial crisis and post-financial crisis, right? I would say that, you know, the pre-financial crisis, again, it, it boils down about, you know, whether you really understand the type of risk appetite and what are you, what is the corporate trying to

achieve when they are looking at hedging, right. That is also the other mindset that a lot of the Asian clients then is always thinking of, I need to basically make profits and gains in my hedges at the same time make profit and gains in my physical, right but you and I know that in hedging, you don't win both sides. Usually the, the hedge is supposed to offset the risk that you are trying to get rid of, right?

Nancy Seah (20:17):
So, but then the mindset again voiced down, you know, really understanding what's the objective, you know, the impact to the physical as well as, you know, you know, where the whole risk appetite. So I remember the days where post the financial crisis in 2008, many of the Asian clients opted for very complex structure, which I think that that probably didn't help them in terms of their risk management, where this complex structures gave them a good load of like in the money kind of hedges on day one. But it's all limited upside with quite a bit of, you know, downside risk if you're not careful with that. So if the market is for them, it's always end up in good hedges per se. But, you know, when market turns the other very round, you know, which that really did happen in 2008, that was really awful, right.

Nancy Seah (21m 14s):
That's where there has been a huge mindset change post, you know, the great the great financial crisis that a lot of these structures became a lot simpler almost to say that it is just plain vanilla swap and it works, right, like that is really transparent. That is really a good sense of like, you know, what is the forward curve you can really mark to market and you can actually, you know, demonstrate, you know, the gain and losses to your management, to the management as well in a, in a back office a lot easier as well, right, and that was how it has changed the landscape of what we call hedging to something a lot more vanilla, a lot more transparent, and a lot more, you know a good benchmark makes a lot of sense as well, right, so I, that was really, I think what I would say is that a big mindsets changed.

Nancy Seah (22m 13s):
And I think that, you know, the other one that I have also noticed that as the clients got more certificated, you know, really understand in terms of managing their risk and post the crisis, you know, credit became expensive, right like credit raise was a big part of everything that is going through and KYC was also a big part of what is really going through, you know, the KYC process was long, tedious, many counterparties, including, you know, whether it is trading houses or whether it is financial institution or, you know, the corporates were all reviewing their whole list of counterparties and things were changing, right, like it's a lot more stringent, you know, it was a lot more expensive in terms of, you know, the cost of doing business, you know, and after the, you know, after what, what has happened, the market, you know, a lot of people in the market, in a lot of players in the market is a lot more cautious in terms of reviewing all their counterparty.

Nancy Seah (23m 20s):
So-called credit risk as well, right, so we've seen quite a fair bit of clients moving towards like, you know, the trading in futures just simply because, you know, they don't want to take time. They want to eliminate that, that risk of, I would say is that OTC facing the principal risk, basically giving up that risk to the exchange or a clearinghouse, and transparency at that point in time was very important. Time was also very important in terms of, you know, reviewing all this KYC and going through ACCP was one of the best way forward, and that's also liquidity as well, right and that we could see that liquidity was actually building up in a lot of their exchange products as well. So there was a big shift. I remember my time that about over a three or four years after the financial crisis, about 30 to 40% of a lot of what I, we call flow business as well as simple vanilla OTC products, we're all moving away to exchange traded businesses.

David Greely (24m 31s):
It's a fascinating evolution you described because it sounds like in the beginning when people are, are unsure of how to use markets for hedging, you know, there's an inherent skepticism, but then it leads them to do very complex things. And then over time, you know, with lessons like the lessons of the financial crisis, it's almost as people become more sophisticated, what they're doing actually becomes simpler. It becomes more transparent, just kind of not the evolution people expect, but I think it's it's the one that we see and it's an important one.

Nancy Seah (25m 01s):
Yeah and it hasn't changed, right, like in fact, you know we are seeing more of this migration towards, you know, vanilla structures as well as, you know, migration towards, you know exchange products, right? So yeah. That's the market today, right. Because again,

regulatory as well as credit risk is not something that counterparties want to face each other, right, like they'd rather give up their risk to somewhere else, right.

David Greely (25m 29s):
And, and we've been talking kind of broadly about clients and market participants as a category, but I was curious how have the, that actual composition of clients changed in the market between corporate producers and consumers versus the trading houses and the banks and the financial players. I guess starting off, when you went back to your days at BP, it was more the big corporates had the capacity to manage risk and be active in markets. How has the composition of the market evolved in, in Asia over your years in the business?

Nancy Seah (26m 03s):
Yeah, I mean, it used to be a lot more like, you know, the trade houses, financial institution as well as, you know, the oil majors, but have realized that, you know, as the marketplace has gone to be a lot more compressed, when I say compressed means that, you know, no more rooms, you know, less and less room you know, this whole supply change is a lot shorter from the production to the consumers, right and then the market has became a lot more volatile with the aid of technology and everything you know, market has also became more transparent when it comes to trading, right. So I would say is that both end of the extreme wear producers as well as the consumers are the ones that is now a lot more, it has become more developed has better appreciation in terms of, you know, their, their needs for risk management directly in the market, as well as their understanding of trading as well, right?

Nancy Seah (27m 06s):
So we can see that, you know, I have seen that, you know, the marketplace has evolved to a lot more end consumers being a lot more specificated and coming directly into the market for be it trading and as well as risk management. So that whole composition has been, I would say it's a good place to be in, right like, you know, it has a lot more different market structure in terms of like the composition of players in there, as well as, you know, the appreciation level in terms of risk management and hedging is like one notch higher than before.

David Greely (27m 42s):
And you know, as we wrap up, I wanted to ask you, you've spent over 25 years working with clients across Asia to manage risk better and I'm curious, you know, now as you're building Abaxx Exchange and Clearinghouse, how are you building it you know, how does it reflect those experiences and those lessons learned in terms of what you want to see present in the marketplace?

Nancy Seah (28m 04s):
Yeah, you know what, this is really a great question because as I move away from the financial institution, that left me thinking quite a fair bit, like what could make the marketplace a better trading platform as well as, you know, a, a much, you know, useful one, and I'm so glad that, you know, in Abaxx I found a lot of like-minded people who wanted to improve the tools that is available in the market to aid the markets as well as the traders in terms of transparency in the marketplace, gaps that is not addressed in the market, especially some of the very key benchmark and commodities products that is now increasingly important in the marketplace. That wasn't in 20 years ago, like, you know, 10 years ago and nobody seems to be thinking about what is needed in the future for the exchange as well as the clearing house, right.

Nancy Seah (29m 02s):
Especially when the market is now moving away from what I call the traditional way of doing business on OTC basis on hedging and derivative and things like that to a much more hassle-free, you know, and hassle-free means what like, you know, no need to do the KYC. You have, you know that's available in in front of you to know where the marketplace is and the price is, you know, the ability to trade very conveniently, right as well as, you know these are some of the things that I felt like has not been taught off in a long time, especially for the, I would say it's the, the new wave of commodities products, right. So I think all this convenience as well as all these tools are important, and that fact that when I found that Abaxx Exchange is actually viewing that, that makes me really excited that I think this is the place and this is the place that's gonna make a big difference in the marketplace going forward, especially with such a strong team that has deep knowledge of the commodities market and a deep network and strong network, you know, globally with all the trading community as well as, you know, the strong experience that has on building up like, you know, exchanges, right.

Nancy Seah (30m 26s):
Like, I felt like, you know, we got all the right X factor together to build that difference, right. So I couldn't believe that, you know, they, we still meet and became colleagues for more time second round, right and that's really amazing, right, coming together in Abaxx to build a new exchange market infrastructure that is really meant to centrally clear, you know, physical delivered futures and delivered contracts and derivative to really, you know, I, I think that's really the missing piece now in the market because like the products coming out, right? You know it, it has no clear benchmark in the current market, like, for example, LNG, right, so it's a very important, you know, transitional view, and interestingly, it, it shouldn't be set as a transitional view anymore. It should be said that it's a few of, of a presence as well as the future.

Nancy Seah (31m 23s):
And it hasn't got, you know, a very strong benchmark globally, right. We having that network, you know, and having seen it work at it, done it with that relationship and talking to the market and solving this is, you know, I think it'll make a very big difference to the marketplace in terms of meeting the needs for especially transitional fuel, not just on LNG, but you know, like some of the other product pipelines that we have, like battery matters and everything else, right? So I think that that's really what we bring to the, to the difference in meeting the commercial as well as the risk management needs of, you know, the current market.

David Greely (32m 07s):
Thanks again to Nancy Seah, CEO of Abaxx Exchange and Clearinghouse in Singapore. We hope you enjoyed the episode. Join us next week as we continue our series Commodities in Asia. We hope you'll join us.

Announcer (32m 21s):
This episode was brought to you in part by Abaxx Exchange. Market participants need the confidence and ability to secure funding for resource development, production, processing, refining, and transportation of commodities across the globe. With markets for LNG, battery metals, and emissions offsets at the core of the transition to sustainability, Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets. Facilitating futures and options contracts designed to offer market participants clear price signals and hedging capabilities in those markets is essential to our sustainable energy transition. Abaxx Exchange: bringing you better benchmarks, better technology, and better tools for risk management.

Announcer (33m 10s):
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