

Investing in REPOs – A Corporates' Perspective

Gazprom Marketing and Trading Ltd

Ben Street 17.09.2014



Gazprom Marketing & Trading Ltd - Core Capabilities



Natural Gas

Sophisticated trading activities in **Western Europe and USA**
Focus upon **asset optimization** and **flow trading**
Manages portfolio of term supplies, storages, transportation
Provide **market access, trading and optimization** services for third-parties



Power

European trading focused on **arbitrage**
Development of **gas to power** (power generation) both via equity stakes and tolling arrangements



Retail

End-user sales through Gazprom's subsidiaries and affiliate companies in across Europe (e.g. UK, France, Germany Italy, Czech Republic)



LNG

LNG trading, marketing, shipping, operations, and project management
Monetize Russian gas reserves beyond traditional pipeline markets
Aggregate Russian and third-party LNG flows
Access to premium markets and global arbitrage



Shipping

Chartering LNG, LPG, Crude and Biomass vessels
Enabling additional trading flexibility and optionality
Developing operational expertise in "Arctic" vessels and Gas for Transport initiative



Clean Energy

Global CER and ERU originator and highly active trader in EU ETS
Participation in CDM/JI projects in developing countries



Oil & LPG

Trade financial products for hedging and **optimising the group's portfolio**
Trade physical Oil and LPG cargoes globally

GM&T Treasury Team in perspective

- Centralised team of 10 operating from London managing for the whole GM&T Group:
 - Cash flow forecasting & Capital management
 - Payments release
 - Margining/CMaR
 - Banking infrastructure / IT development
 - Compliance / controls / payments / policies
 - Deal Validation
- Asset and Liability Management – Treasury and Corporate Financing
 - Corporate FX/IR management
 - Funding management
 - Cash investments management
- Cash Investment Management
 - Global in-house bank model with cash pooling of GBP, EUR and USD
 - Bank Time Deposits, short term money market funds and REPOs (shortly).

Rational for using REPOs

- Overuse of Credit Lines with relationship banks during peak cash periods.
- Low yield environment and flat yield curves.
- Banks' reluctance to accept short term unsecured Time Deposits due to BASEL III capital ratio requirements – only really looking for 3 months plus.
- Uncertainty around regulation of Short Term Money Market Funds – planning for the future.

Advantages of REPOs

- Provide diversification of credit exposures and 'double indemnity'.
- Potentially reduce use of credit lines with relationship banks.
- Potential to gain yield pickup if accept lower credit quality securities or high quality securities from a lower rated FI.
- Potential for re-hypothecation of collateral for margin requirements.

Previous 'Barriers to Entry' and new solutions

Barriers

- Documentation burden and legal expertise
- Ticket size
- Complexity of product
- Custodian Requirements and Accounting Treatment
- Liquidation of securities in a default situation

Solutions

- 'Doc Light' solutions, via Tri-Party Custodians/Security Lending Agents (FIs)/Trading Platforms/REPO Auctions etc.
- Pooled investments via above.
- Investment guidelines, reporting and expert advice.
- Liquidation services.

Collateral Quality vs. Yield

- Update Investment Policy.
- Potentially accept lower quality fixed income collateral due to diversification.
- Or use added security to allow extended duration.
- Real pick up is via equity or 3mth FI Evergreen.
- Indicative levels; (as of Monday 15.09.2014)

(Source - Deutsche Bank AG London).

Indicative Rate								
CCY	SET	Open	Bullet			Evergreen		
		O/N	1W	1 M	3 M	1W	1 M	3 M
€	FI 2	-0.05	-0.05	-0.03	-0.00	-0.05	-0.00	0.03
	FI 3	-0.04	-0.04	-0.02	0.01	-0.04	0.01	0.05
	FI 4	-0.00	-0.00	0.03	0.05	-0.00	0.05	0.10
	FI 5	0.10	0.10	0.20	0.30	0.10	0.25	0.40
	EQTY	-0.01	-0.01	0.03	0.20	-0.01	0.07	0.27
£	FI 2	0.41	0.41	0.42	0.43	0.41	0.43	0.44
	FI 3	0.41	0.41	0.42	0.43	0.41	0.43	0.44
	FI 4	0.43	0.43	0.44	0.45	0.43	0.45	0.46
	FI 5	0.47	0.47	0.49	0.51	0.47	0.51	0.54
	EQTY	0.43	0.43	0.44	0.46	0.43	0.46	0.49
\$ Ldn	FI 2	0.05	0.05	0.07	0.10	0.05	0.10	0.13
	FI 3	0.06	0.06	0.08	0.11	0.06	0.11	0.15
	FI 4	0.10	0.10	0.13	0.15	0.10	0.15	0.20
	FI 5	0.20	0.20	0.30	0.40	0.20	0.35	0.50
	EQTY	0.09	0.09	0.13	0.30	0.09	0.17	0.37

FI Set	Long	Short
2	AAA / AA-	A1+ / A1
3	AAA / A-	A1 / A2
4	AAA / BBB-	A1 / A3
5	As above plus EMEs	