Tougher regulation and the departure of many banks from commodities are causing headaches for commodity brokers. Faced with this glum backdrop, a natural reaction might be to pull out of smaller or less profitable areas. But, during the past 18 months, New York-based GFI Group has demonstrated a continuing commitment to some of Asia’s more specialised markets, including iron ore, steel and Australian power and gas.

In Australia, GFI re-launched its energy desk in January 2013, having originally left the market amid the post-Enron cutbacks of the mid-2000s. The broker decided to pursue a strategy that Adrian Fisher, its Sydney-based head of energy products, calls “smart broking”. “We found ourselves scratching around for how to create a niche for ourselves about 18 months ago. One of the ways we decided to do that was to be a little bit smarter and a little bit more analytical,” he explains.

The strategy is well suited to Australia, where the local energy market has seen a decline in liquidity and spiralling costs due to financial regulation. The industry has also been shaken by political uncertainty, after a new centre-right government came to power last year, pledging to eliminate Australia’s unpopular carbon tax and review its renewable energy targets. Given the market environment, GFI saw an opportunity to provide in-depth market analysis, legislative updates and news summaries, says Fisher. “We believe the only way you can help clients in [this] situation is to make sure you’re completely across what’s happening – policy-wise and announcement-wise.”

GFI’s Australian energy desk has five brokers and operates in both the over-the-counter and exchange-traded markets for electricity, natural gas, carbon, energy efficiency certificates and renewable energy certificates. A particular success for the desk has been helping to restart the local market for average-rate options on electricity. Average-rate options are used to hedge fluctuations in power prices by offering a payoff based on the difference between the option’s strike price and average electricity prices during the life of the option.

According to GFI, the products hadn’t seen much interest until the broker reintroduced them in January 2013. Since then, volumes have picked up and, in September last year, Sydney-based ASX Energy decided to list a series of exchange-traded average-rate options for various regional markets. “We felt that they provided and allowed a little more position accuracy than the exchange-traded products available at the time,” explains Fisher. “So we thought it would be an area we could reinvigorate.”

Meanwhile, GFI has been helping to fuel growth of the nascent market for iron ore and steel derivatives, which it has brokered since 2009. During the past 18 months, GFI has been among the top brokers by volume for both iron ore and steel derivatives in the region, as well as the complementary products of freight and thermal coal.

GFI’s desk is staffed with experienced brokers, many of whom have backgrounds in freight and physical trading, says John Wright, London-based co-head of the iron ore and steel derivatives desk. The desk is based in London and Singapore and has five Mandarin speakers, allowing it to cater for growing Chinese interest in the use of risk management tools, says Wright.

Clients speak highly of GFI’s services in these markets. “They are reliable, efficient and accurate [and] always at the market... They have good numbers and good volume,” says one Singapore-based head of bulk commodities at a commodity trading house.

As the iron ore derivatives market continues to grow, Wright sees opportunities to bring in new participants through GFI’s bulk commodity desk, as well as investors that transact other products with GFI, but may also have an interest in gaining exposure to the mineral. “This enables us to bring new counterparties to the iron ore swaps market and continue to grow the product,” he says.