GOOD MORNING – THANK YOU FOR INVITING US TO THIS COFERENCE.

The global marketing of commodities which we hear so much about today had its origins more than two thousand years ago. At the bottom of the Aegean and Mediterranean seas shipwrecks have been found from that era that transported flasks containing wine, honey, olive oil, and other agricultural items that were going between Greece, Egypt and other ancient nations along the shores of the Mediterranean, Aegean, and Black seas. In the millennium that followed we know that various commodities flowed along the Silk Road from China to the Middle East. Later to be followed by Marco Polo's trip and subsequent voyages by explorers around the Cape of Good Hope to trade by sea with India, China, and the islands of what is now Indonesia.

In discussing the Global commodity markets, it is necessary to understand what is meant by commodities. Usually we are referring to (1)-raw materials – both agricultural and mineral – sometimes processed or semi-processed, and (2) – semi-finished and finished industrial goods that are not packaged for sale as consumer goods. Examples are grains, pork bellies and cow hides, honey, olive oil, wine, and coffee, all the metals, crude oil, natural gas and fertilizers, semi-finished goods such as pig iron and steel billets, as well as finished steel like reinforcing bars and cold finished coils. Diesel fuel, iron ore, and coke and others so numerous it would take a book to list them, as well as the ones we are particularly interested in at this meeting, -steel and metal scrap, plastic, paper for recycling and other items we hope will be recycled in larger amounts in the future.

Two major changes have occurred in the marketing and pricing of commodities over these past two thousand years. The first was the change in the methods and speed of communication, used to transmit the information to determine the pricing of commodities in the global market. The second was gigantic increases in the volumes of commodities marketed, priced and shipped around the world in the 20th and 21st centuries. The changes in volume occurred gradually, with the exception of three dramatic increases. The first was in the mid to late 19th Century when the Age of Industrialization boomed. The second time was in the United States when mass production coming from Henry Ford's production lines and those who emulated him with other products caused the United States to become overwhelmingly the largest commodity consumer in the world. The third occasion followed the peace treaties at the end of World War II, which resulted in the very healthy markets of Europe and the growth of Far Eastern producers and consumers in Japan, the Five Tigers and most recently the Chinese behemoth.

My father, Hugo Neu, was born 100 years ago – in 1904 – in a small farm village in Southern Germany, probably much like Northampton at the time. There were no phones in his home and his father was a local grain and calf trader, who in 1904 still moved his goods by hand cart to other nearby villages. My father left home in 1919 for Cologne, a large city, at the age of 15, when he was apprenticed to one of the five international metal trading firms that existed then in Germany. His employer was a competitor of Philip Brothers, the company that became the predominant commodity marketing company in the 20th Century. He was trained to sample and inspect metal, ores and residues and traveled through Western Europe and the eastern European nations, soon becoming a junior trader. He was shortly sent by the company to their London office in 1924 and to New York in 1928.

My father often told the following story about the changes in trading between the beginning of the 17th Century and the end of the 20th Century.

In the early 17th Century, merchants with money on the Continent and in England bought or chartered ships and bought a supply of trade goods which they loaded on the ships in Liverpool and other English, Dutch, German, and Continental ports. The merchants gave the Captain instructions of where they wanted the ship to go – frequently to the Far East via the Cape of Good Hope or the Mediterranean or Africa to trade the items on the ships for the products they could sell at a profit in England or on the Continent.

On occasion, the merchant would get a letter when his Captain passed an inbound vessel, but frequently you would hear nothing until the ship returned to its home port – with the goods that the Captain had traded for, or you received the news that the ship had sunk – two to three years later. Many of these same merchants began the Lloyds insurance market at a coffee house in London where they began to syndicate the risks of their commodity shipments.

However at the end of the 18th Century, the very slow communications speeded up when the Rothchilds, merchants and bankers on the Continent and in England, used carrier pigeons between Paris and London to speed the transmission or critical information. It turned out that the key to trading, whether financial instruments or commodities was speedy movement of information. In a short part of the 19th century, we went from carrier pigeon to the Pony Express to the telegraph. In 1858, Peter Cooper began laying the transatlantic cable. A few years later, sailing ships and horse and ox drawn carts were replaced by steam-powered vessels and railroads. Just in time to handle the first dramatic growth in volumes of commodities.

Late in my fathers life he saw the phone and telegraph replaced by telexes and faxes, and he passed away just as mobile phones and e-mail changed our lives. The pricing of commodities, derivatives and securities changed at that point with every trader, financier speculator in the world having instantaneous access to the same information. Today, if you want to beat the competition it is not based on information, but on analysis, and foresight and taking risk – i.e. back to the 17th century but with lots more information to base the risk taking on!

Commodity prices, both agricultural and industrial are set where supply meets demand. However, there are two distinct systems. Commonly followed and reported daily in most papers and frequently on the radio and T.V. news are the terminal markets – popularly referred to as futures markets. These include the Chicago Board of Trade, the Comex in New York, the London Metal Exchange and a number of other equally prestigious exchanges. These are in some ways similar to the stock exchanges in method – which can include open outcry or computer matching of spot (current) orders – the demand side. The difference is they also price future demands of a vast number of commodities. At these exchanges there are frequently traders or market makers who take positions and ease the movement of these prices both upwards or downwards (like specialists at the New York Stock Exchange). The basic use of these commodity exchanges is by commodity producers and consumers to hedge their future risk. However, in the last twenty years we have seen very large funds and speculators buy, hold and sell enormous amounts on the exchanges – sometimes accelerating and even changing the direction of a commodities price. Usually, however, the direction of any commodities price is set by demand and supply combined with the news and information about weather condition, international events, economic changes, strikes, and political changes which traders, producers, processors, speculators, and consumers expect to affect future production and demand.

In the commodities where there are no terminal or futures exchanges, prices are set by actual purchase and sales transactions; sometimes of materials in quantities from several hundred or thousands of pounds to hundreds of thousands or millions of tons. Some commodities trade in dollars per ton mile as in the case of ocean freight. Yes, ocean freight is an important commodity, which affects the cost of many other commodities. In our information age, via phone and particularly e-mail, the information of actual business commodity transaction, moves nearly as fast as exchange prices, and affect the next supplier or consumer purchase on the other side of the globe in a few minutes, hours or the next day. However, without the active trading floor of an exchange, where traders hedge funds, speculators as well as the agricultural and industrial producers and consumers hedge, sometimes one sees price moves more abruptly than you might see on an exchange.

As you might realize from Wendy's presentation, for 42 years, a significant part of my time has been engaged in dealing with steel scrap, non-ferrous metal scrap and ocean freight pricing. In these 42 years, I have never seen a steel scrap shortage as price has always adjusted the demand to meet supply. However, the last six years, and particularly the last nine months have seen extraordinary price movements in commodities, which I will try to briefly describe you.

In 1998, when the world seemed much more peaceful than it does today, the Asian business community had a financial shock, primarily due to over borrowing and overspending. This resulted in serious bank problems and a drastic drop in Asian consumer demand and industrial production. While Europe and the United States were only modestly affected, many commodity prices had drastic drops, some as much as fifty percent. Steel scrap adjusted for inflation dropped to all time lows, with real aggregate global demand dropping significantly. New steel prices also fell with production from the Far East and former CIS countries being dumped into the healthier markets.

The years 1999 and 2000 showed gradual improvements in demand for most commodities and their prices, excepting energy where a false boom resulted from Enron and other energy suppliers actually holding back and manipulating supplies to force up their prices to very high levels. The increase in prices of recycled commodities has caused ever increasing commercial and industrial recycling rates, which reinforces the long held relief that higher prices result in larger supplies of most commodities.

In the fall 2001 it appeared that world supply and demand of steel scrap and many other commodities were about balanced with prices reaching healthy and profitable levels for both consumers and producers when the shock of 9-11 again brought down the commodity prices sharply.

However, while demand improved modestly within a few months, prices did not improve in the winter of 2001-2002. In the Far East, economic recovery continued, except in Japan, and Far Eastern markets again became significant buyers of most commodities. Meanwhile, China had shown extraordinary growth in its production of consumer goods, an enormous increase in new factories, and major infrastructure improvements making it in the late 1990's and first four years of this century a driving force in commodity prices. China had major increases in demand of all industrial raw materials from oil to iron ore and cotton to cashmere and everything in between. As an example, the United States, Japan, and the Soviet Union each produced a little over 100 million tons of raw steel per year in the 1970's and the 1980's. China was below 50 million tons in 1980, but in the 1990's it passed all three and is shortly expected to produce as much as the three combined, namely 300 million tons of raw steel. A phenomenal industrial development! At the same time, however, we have seen very significant economic expansion in other economies, to mention a few in India, Mexico, large parts of South America and many former Eastern European states.

The year 2003 turned out to be a seminal year for commodities. World steel production hit new highs. Ocean freight tripled in some cases. Some consumers who had run down inventories due to just in time buying plans and concern that commodity prices were exceptionally high on a historic basis were forced to come to the market with extra large purchase demands. The very weak U.S. dollar, long considered the most stable currency and the one that most commodities have been priced in since the end of World War II, made non U.S. sellers try to force the price of their commodity even higher. Higher oil, gas, and coal prices and a tight supply of coke at any price, made non-traditional buyers turn to scrap as a raw material. Early in 2003, the Chinese came into the market with large demands for all of these commodities and many more, and other industrial consumers did so frequently throughout the year. These were the factors we have seen. I would be glad to answer any question you may have about commodity movements, markets and prices.
I would like to add that our experience in observing and marketing plastic is less than four years; however, we are seeing the same factors affecting plastic scrap prices as we do in the non-ferrous steel areas.

Thank you.