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Metal Bulletin

Magazine

**Fred Demler on
metals trading
highs and lows**



LME 2017 SPECIAL

**Interviews,
analysis,
trends and
outlook**

Fred Demler

'Be ready to re-invent yourself in an ever changing market'

Penn State linebacker and academic, global metals business manager and mentor are just a few of the roles played by Fred Demler, who has seen four decades in metals trading. He tells Andrea Hotter about the supreme highs and deep lows of his career

There are not many metals brokers who risk their lives for their job, but one came seemingly close some time ago.

Fred Demler, who stepped down from his role as global head of metals at INTL FCStone last month after a long career, was heading home late one Friday night after another long week trying to arrange the move of his team from MF Global.

It was 2011, and several of his colleagues around the world had

been receiving death threats following the company's dramatic bankruptcy a couple of weeks earlier. Demler got into his car, which was parked in its usual spot at a garage and had not been driven for several days. After travelling a short while on the highway he heard a thudding noise.

Warning lights flashing, Demler – who was MF Global's global head of commodities – pulled over and expected to see

'I have two families: Linda and the children, and my professional family'

a flat tyre. Since he did not, he kept going. Hoping for more light, he stopped at a petrol station to check again.

"I got out of the car, and could see there was something wrong. I thought, 'Oh my God!' Someone had taken the lug nuts off all four tyres and had left just one loosened lug nut on each tyre. One had fallen off at the moment I got to the petrol station," Demler says.

"I thought for the first time, why am I doing this? I've had a ►



long career and it all comes down to death threats? Monday morning I had to drive into work with the car. I was a bit stressed and I think I aged ten years over that week!” he adds.

If that was a low point in his career, later the same month eventually brought a professional high.

Pastures new

MF Global, where Demler had worked in various corporate incarnations since 1993 including ED&F Man and Man Group, was in administration. In hindsight, there had been a few warning signals about internal controls along the way, including a \$141 million loss from rogue wheat trader Evan Brent Douley in 2008.

Jon Corzine was hired as MF Global ceo in 2010 and was its chief until it fell into bankruptcy in 2011. Demler recalls that MF Global traded large amounts of sovereign debt within that period, which he says – with the benefit of 20-20 vision now – “were way too big” for MF Global’s balance sheet and liquidity: “That is what caused the problem.” He says that the markets started figuring this out, the rating agencies downgraded the firm, and the share price again started to tumble.

Even then it did not seem like the firm would collapse entirely. “Looking back, we saw a deteriorating situation, but we didn’t appreciate it was that bad,” says Demler. So, he went ahead with a planned business trip to London. The commodities business was highly profitable; at its peak the unit had revenues of \$200 million.

“It was my shortest ever trip to London. I flew overnight, took a shower at the airport, and I went straight to a meeting at the LME with my luggage in hand. After lunch, I met for a quick drink with my team and someone told me that MF Global was for sale,” Demler says.

“I said, ‘What?!’ I made a call to the office and then quickly grabbed a cab and went back to the airport; I didn’t even get to the



Demler's wife, Linda, has been a great influence over the design and choice of location for their family homes

hotel. Essentially I came over for lunch, met with the team, and got on the next flight out.”

For about a month Demler rarely went home, staying in various hotels as he worked to move the MF Global metals business and advise on the other parts of MF Global’s commodities business when required.

Twenty firms expressed interest in the MF Global metals business staff: some for the entire team; some just the top producers; some just regional staff. Demler says there were familiar names like Jefferies, ED&F Man, Newedge, and Macquarie, along with companies that were not-then in metals, like GFI, BTG Pactual and Cantor Fitzgerald.

“We had issues with some potential buyers not being clearers or members of the LME, not having an adequate balance sheet or systems capability, or not giving credit lines. So a few companies said, ‘Ok, why don’t we just hire you and you can set things up for us over the next two years?’” Demler says.

But Demler worked to keep the global team intact as far as he possibly could. “The important thing was to keep the team together and move it to a new home,” he says. “It was tough. All of a sudden, competitors were circling looking to pick off key staff; all the top people had two or three offers. The reality was that if we took too long, the team would

have started splintering, and then you don’t have a business at all,” he adds.

INTL FCStone

One of the interested parties was INTL FCStone, a company whose management, under ceo Sean O’Connor, knew Demler well. This was because MF Global had looked at a possible acquisition of FCStone Group a few years beforehand. Having eventually been bought by International Assets Advisory Corporation, the new entity, INTL FCStone, approached Demler in 2010 with an interest in the business.

“I said, this is an interesting opportunity ‘but you’re not an LME member,’ and besides, at the time although the situation was deteriorating at MF Global, there was optimism that MF Global would turn the corner.”

So INTL FCStone set about separately building a presence in metals, acquiring Ambrian’s futures business and inheriting a Category 4 LME membership. As it added staff, it looked at moving its membership to Category 2.

And then MF Global went bankrupt.

The administrators opted to auction the metals business – a process that INTL FCStone eventually won. Roughly 95% of the former 100-plus people in the MF Global metals team joined, including strategic partners, credit, risk and operations staff, and the four-week period of stress was over. “Moving the team from MF Global was certainly one of my highs, occurring within a month of a career low,” Demler notes.

INTL FCStone moved rapidly from Category 4 LME member to a Category 2 and then immediately to a Category 1; “It took maybe 30 seconds, so we were probably the shortest ever Category 2 member on the LME!” Demler says. The company was already a member of CME Group, and had offices in all countries that the former MF Global metals business had been, except for Hong Kong, which it has since added.

Untangling the business from

MF Global still was not entirely plain sailing. The administrators initially froze all former MF Global accounts, and Demler's team was not permitted to help clients with their positions or unlock their money – a situation that took months to resolve.

“For the first month clients had to work through the administrator. That was painful because our clients were like our children,” Demler says. “Eventually there was a novation of the positions to a group of other firms, but we didn't know where the client trades were going. Clients would call and say, ‘Hey we just got a call from another broker or bank, they have our Comex positions,’” Demler recalls.

Fortunately, Demler negotiated with the administrators to temporarily novate existing customer paperwork to INTL FCStone instead of restarting the lengthy process immediately, so that clients could start trading from day one. The business inevitably lost some clients, but still broke even in its first quarter.

“We turned in solid profits the first year as we rebuilt the business and focused on bringing back clients we had lost. The business has grown significantly over the next five years since that,” Demler adds.

Penn State football

Pennsylvania-born Demler says if he'd been any better at football he would never have had a career spanning four decades in metals, but his scholarship in the sport to Penn State suggests otherwise.

He was offered scholarships to 30 different universities, including the Ivy League colleges and military academies, but “At the end of the day if you grew up in Pennsylvania, and if you get a scholarship there, you're going to go to Penn State there,” Demler says.

At Penn State he got to play under coach Joe Paterno, who led the football team there for 45 years and was inducted into the College Football Hall of Fame a decade ago. “Joe used to have a saying – ‘you should get three

‘Teamwork was probably the most important thing, but also to respect your opponent, be prepared for your competitor, work hard, never give up, and have a goal’

things out of Penn State: education, football, and a social life. As long as you keep them in that order, you'll be ok,” Demler notes. “If you started falling behind academically, you'd be assigned a tutor, and if you still weren't doing well, then Paterno would say, ‘You are going to have a meeting with me,’ – and you never wanted to have that particular meeting.”

It obviously worked: 98% of the football team graduated versus the national average of around 60%, and a quarter of them went on to get advanced degrees.

Demler, who was a linebacker, was in good company: there were 15 All-American players on the team – an honour given annually to the best American college football players at their respective positions – as well as a Heisman Trophy winner, awarded annually to the most outstanding player in US college football. Half of his class was drafted in the pros.

Demler has a ring with a #1 on it, given to his team by Paterno after they were quasi-national champions – only quasi because they were one of five undefeated teams and there were no playoffs in the 1970s. “Paterno always said that things you learn in football, you can use in your professional life. For me teamwork was probably the most important thing, but also to respect your opponent, be prepared for your competitor, work hard, never give up, and have a goal,” Demler says.

Commodity pedigree

Indirect links with commodities were already there. “My former MF Global boss Kevin Davis once said, ‘I know you have your PhD in mineral economics, which gives you the metals and energy expertise, but you played football for Penn State and Penn State played in the Orange, Cotton and Sugar bowls, so there's your pedigree in the agricultural commodities. What more do you need?’” Demler says.

Demler also worked during his summer holidays at a local scrap yard, an experience that made him appreciate the industrial side of the metals business to this day.

His degrees really bedded down Demler's passion for commodity markets. After starting out in engineering, Demler met two mineral economics professors who convinced him to switch to their subject. It was the 1970s, at the time of the oil embargo and rising commodity prices, and mineral economics was a new but increasingly useful course of study.

His undergraduate degree – a mixture of metals, energy, business, policy and statistics – gave him a Bachelor of Science, after which he skipped his Masters and moved straight to a PhD, this time funded by academic scholarships.

Demler did research for a whole slew of academic think-tanks to fund his graduate work – including the Bureau of Mines, the National Science Foundation, Resources for the Future and National Academy of Sciences – and a dissertation on metals substitution. One of these fellowships included a study of substitution of tin in the beverage container business and was headed by one of his mentors, Dr. John Tilton. It was a topic picked by Demler because “I was thinking, that's beer cans, and I know a lot about beer!”

The study also led Demler to build a collection of cans, many of which were old versions created by no-longer-available technologies. Nicknamed his ‘Cannes museum,’ Demler took it along to presentations of the study results around the USA, until it became a casualty of the office cleaners one night, who mistook the cans for rubbish.

Family and hobbies

If football and mineral economics were two of his passions at Penn State and ever since, so too was Linda, a freshman to his sophomore at college, to whom Demler has been married for 41 years. “Nothing makes me happier than Linda and my family,” Demler says. “She's a very accomplished person, much smarter than I'll ever be; she has been my biggest confidant and sounding board,” he adds. ▶

Linda was on a number of school boards for the couple's two sons – Todd, a commodity derivatives executive, and recently-married Scott, who works for a top financial services firm in New York. She also built the family's three homes in Pennsylvania and Charleston and completed seven major additions.

"Linda makes a careful selection of the land, such as the southern-most tip of a barrier island where we enjoy both sunrises and sunsets over the ocean. She designs both the interior and the exterior, as well as decorates the interior; she even goes to the lumber mill to design each piece of molding and select every piece of wood. Linda begins with a large kitchen, because that is where everyone wants to be; we also have expansive rear verandas to enjoy the outdoor views and the tranquility," Demler says.

Major projects have included wine cellars, to house his collections of 2,000 bottles in Pennsylvania and 2,500 bottles in Charleston. "My problem is I don't drink fast enough," Demler quips. It all started about 20 years ago when an industry peer sold Demler around 30 bottles from his collection. "I have a long-time circle of friends who are into wine," he notes.

Entertaining is something Demler thoroughly enjoys – he recently hosted an 11-day celebration for his son Scott's wedding, and has held parties at his homes that many of his team have attended over the years. "I have two families: Linda and the children, and my professional family," Demler adds.

Also a keen fisherman, Demler looks for "whatever bites," and is fond of chartering boats for his sons' trophy fish expeditions – much better than owning a boat in his view. "I bought a boat some time ago and thought it was one of the happiest days of my life. Three years later, I sold it. Happier day!"

Research, advising, and teaching have always been hobbies for Demler too, and something he plans to do more of in the future, through his



consultancy company Demler Hedge Advisory LLC.

International outlook

Demler has been on the boards of the American Copper Council and the Copper Club, is a founding member of the Mineral Economics Management Society, and is a Penn State 'Fellow' for achievements in his career. He has made over 150 professional presentations and has given even more hedge workshops, which have spanned the globe. Demler has been to China and the Far East over 75 times, and a multiple of that to Europe.

He has also sat on LME committees through the years. Just this month, the LME awarded Demler the Category 7 Honorary Membership, an award conferred on individuals at the discretion of the directors. It will be presented to him in a ceremony later this month.

A research high point was speaking on commodities at a G30 meeting of finance ministers and central bankers, including former US Federal Reserve chairman Paul Volcker, former treasury secretary Tim Geitner, the heads of finance in Europe and Asia, and three other New York Fed governors.

Seated between Volcker on one side and the head of the People's Bank of China on the other for lunch, Demler says: "I was pinching myself; you looked around the room, and you see the

Demler is a keen wine connoisseur

great minds of finance. It was an incredulous experience."

Countless members of his current and former staff talk of Demler as a mentor. He taught at Penn State, Cornell, New York University, Beijing and Shanghai universities, and Virginia Tech and Stevens Institute of Technology. "For Virginia Tech, where my son played football, as well as for Penn State, I had one condition: my classes would be on Mondays or Fridays on home football game weekends," he adds.

Career evolution

Demler's first job after graduating was in research, supporting energy executives at the minerals division of oil and gas conglomerate Exxon, and learning a huge amount in the process. The company was diversifying into new areas – "they felt if they could extract oil then they could extract copper" – and hired Demler to help educate them as well as make forecasts for their existing mines in Chile, the USA, Canada and Australia.

"If I had worked for a metals producer I would have been given a very specific job, put in a cubicle and learned a lot about a little. At Exxon, I learned a lot about a lot – it was akin to getting another PhD," Demler says. "I loved it. I did it for three years and was constantly learning from the leading industry professionals they brought in; they were experienced veterans in forecasting, project development, metals processing, acquisitions, and feasibility studies," he adds.

But when Exxon moved its corporate headquarters to Houston from New York in 1983, Demler decided not to follow. He took a job at brokerage firm Drexel Burnham Lambert, becoming "deeply involved" with the LME, Comex and forecasting, and was there for seven years, "right up until one hour before its bankruptcy."

The team moved from Drexel to Paine Webber; "It was lucky timing," he says. Demler was in the taxi to his new office after resigning when he heard the company had declared bankruptcy.

At Paine Webber, Demler moved from research into the sales and management side of the metals business, and focused more on providing a hedging and trading service to end-clients. “I used to think that sales people go out and socialize, have fun, enjoy nice dinners and drink all the time. Then I realized, no, sales is the hardest job in the world. To be successful, you need to listen to the needs of your clients and you need to find solutions to very complex problems; it’s not an easy thing,” he says.

After some volatility in the options book, Paine Webber made a decision to exit the commodities business, and in 1993 the team made its move to ED&F Man.

Demler worked with a number of mentors along the way, including professors Tilton and Dr. George Schenck, who persuaded him to study mineral economics in the first place, as well as his former football coach Paterno. Demler also names former colleagues David Waite, Tom Harte, Kevin Davis and Ira Polk as mentors.

LME evolution

The business has evolved considerably since Demler started in the industry, with further changes pending in the LME markets following the recent results of the exchange’s Discussion Paper.

The paper, to which 162 market users contributed comments and suggestions, has seen the LME cut fees and back away from aggressive promotion of third-Wednesday contracts, as well as announcing an over-the-counter booking fee to be introduced from next year. Following its market consultation, the exchange has also made a number of proposals on margining, new trading platforms, new contracts, closing prices and tick sizes.

Demler has welcomed the results of the discussion, noting that the LME had managed to “tread the thin line between a rock and a hard place” to achieve something that market users

‘Technology, which wasn’t so important 20 years ago, is critical now’

broadly welcomed while balancing the needs of the traditional and new users of the LME – the so-called modernisers.

“LME ceo Matt Chamberlain and his team took an approach that encouraged discussion among a wide variety of the users in an effort to support fairness, give user choice and ensure the LME remains close to its core element, which is the physical business,” he says.

“The bottom line is: the LME community needs to see more volume. Navigating the mine field between the Traditionalists and the Modernizers was a tough and delicate job but overall it was very encouraging and the proposals in the DP should enhance liquidity and volumes, which is at the core,” Demler adds.

But there are some elements of the latest LME strategy that will probably raise objections in the future, he notes.

“You’re never going to make everyone happy. There are a few initiatives that will create early pushback – the LME setting a closing price electronically and an OTC fee will be opposed by a few groups. There are also questions about third-Wednesday contracts and how successful its technology can be at generating implied pricing,” Demler says.

Demler notes that there have been other fundamental changes in the past, including the growth of China into a superpower economy, the emergence of the funds as an important category of market users, and the evolution of market participants on the LME trading floor.

“When I got into the business, there were 35 LME ring dealers; now there are nine. I don’t think of that as being a problem – nine or seven or maybe even five aren’t magic numbers, just like dropping to 20 or ten wasn’t. People have been forecasting the demise of the ring for the last 20 years,” Demler says. “Today’s volume per member is much bigger. It’s a different model than it was,” he adds.

The broker of the future will need to have a full-service, diversified business to survive, regionally as well as in terms of

client types; “You can’t be a broker for only copper miners or for only the aluminium trade. Focusing only on retail or the fund business also has its pitfalls. The market isn’t always up and you need to be able to weather the downturns,” Demler tells *Metal Bulletin Magazine*.

Technology, which “wasn’t so important 20 years ago,” is “critical” now; a financial services firm’s commitment to the business is also key. “Banks get in and banks get out and aren’t always committed to the business. Seasoned professionals also need to be on the team. Is the talent out there? Yes, I think there’s very good talent in the business. To complement a seasoned staff, you also need to have a group of bright young people to train up too,” he says. Finally today, “You need to have capital and liquidity to do the business,” he adds.

What would he tell newcomers to the metals industry today?

“Education is important – before your career and during your career. I take my hat off to people who work and get an advanced degree at the same time. That’s very difficult given the demands of the job and the requirements of academia. I finished nine years of formal education and then I plunged into my professional career,” he says. He also tips learning Mandarin for non-Chinese entrants and English for Chinese entrants; “I myself only speak English, although not that well!”

Demler also says it’s important to focus on service: “Respect and look out for your client and do the best you can do to offer a professional financial service, be prepared for complex situations, understand the fundamentals of the physical business and the role of the funds, and be ready to re-invent yourself in an ever changing market,” he says.

As managers, he says it’s key to “Think long-term not short, look after your team, the company and your clients, do what is right, and recognize that it’s not as bad as it appears or as good as it seems. And have fun. That’s really important.”