The buoyant commodity job market of the last four years is changing as the financial crisis pares down trading opportunities across all asset classes. This new employment landscape will require both commodity firms and traders to learn new strategies to get ahead, finds *Puja Lakhlani* of CommodityCareers.com

Back to basics

Puja Lakhlani of CommodityCareers.com

★ Both employers and employees in the commodities trading space need to be aware of how the current financial downturn is impacting career choices and recruitment patterns in commodities and adapt to the new environment.

In a less buoyant job market, it becomes more important to get sound training, and the highest paying job is not necessarily the best choice. There is likely to be an increased emphasis on physical trading. Learning from veterans will be important, particularly as many of them could take early retirement soon, leaving a skills gap in the market.

In terms of human capital, there are many parallels between today's markets and the devastation in the power markets left after the collapse of Enron, which claimed around 22,000 jobs. Much of the Enron diaspora was picked up by banks as they entered the commodity space to fill the void left by the defunct merchant energy companies. Many other ex-Enron brains set up hedge funds that went on to provide much needed liquidity in the energy markets. The energy trading job market moved from being oversupplied in 2001 to undersupplied by 2005, with banks and energy companies finding it increasingly difficult to recruit experienced talent, and compensation packages spiralling as a result.

The credit crunch brought this cycle to an abrupt halt. While commodity markets are not as affected as some, they haven't fully escaped the round of redundancies made recently. Following Lehman's collapse, Barclays Capital successfully hired half of the Lehman commodities desk, leaving approximately 50 more senior commodities professionals in the market. It remains to be seen whether commodities redundancies will follow after the takeover of Merrill Lynch by Bank of America. Despite the massive layoffs across Merrill's various departments, approximately 900 commodities employees will probably keep their jobs. Meanwhile, redundancies have been made at Goldman Sachs and most recently Credit Suisse.

Both employers and employees in the commodities trading space now need to adapt if they are to make the most of this new environment. It will become increasingly important for traders to learn the basics of physical trading, even if the initial remuneration is on a lower scale, believes Michael Davis, an energy industry recruiter with First Call Associates and also a former energy trader. He urges people considering a job move or offer to bear in mind Warren Buffett's famous stock-buying tip: "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

"In the past couple of years [job decisions] have not always been a flight to quality but a flight to the almighty dollar," says Davis. "The desire for instant gratification was the driving force behind a lot of employment decisions. At times, decisions were short-sighted, considering only the guaranteed compensation offer of the first year with little consideration of other important and crucial factors relative to his/her future productivity."

He believes a greater grasp of physical trading is going to become key. "Less experienced candidates could miss the boat entirely if they pass up a natural gas scheduler position with a top-notch firm to trade cash nat gas in a less competitive environment," he says. "Building a strong foundation and understanding the

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fundamentals of the business are key and will be increasingly more important as we get back to basics – the physical side of the business."

Less experienced commodity traders are also being advised to seek out companies that offer structured mentoring. "This will give them a chance to polish their physical skills, which are key in developing a well-rounded trader," says David Allen, managing director at hedge fund AVM. "But this cannot be in the form of empty corporate rhetoric – the organisation needs to be structurally aligned to want and need to cultivate junior talent to fill the HR void that this current market crisis is likely to cause. My hope is that with public money flowing into almost all banks, mentorship and training will become a demand of the 'new' stakeholders."

It will also be important for relative newcomers to the commodity space to learn from veterans. Individuals who worked through the Enron collapse are well acquainted with this state of market turmoil, illiquidity and job uncertainty. Most senior commodities traders at some point during their career experienced significant organisational changes in their work environment in terms of reporting and compensation structure. In addition, many of them are now in a position to take early retirement, so tapping into their knowledge is even more important.

Even if senior commodity traders wish to remain in the business, the trading desk may not be the place they chose to be. "Senior people are more likely now to pursue private equity opportunities in related commodity fields – renewables, physical infrastructure, logistics and shipping/storage," says a veteran trader who wished to remain anonymous. "This is smart, as the US will need to invest heavily over the next decades to make currently unviable/uneconomical [renewables] technology work." The shift of senior professionals away from trading could exacerbate the

Getting equipped with the basic tools at the beginning of a commodities career makes for an easier, and less risky career ascent

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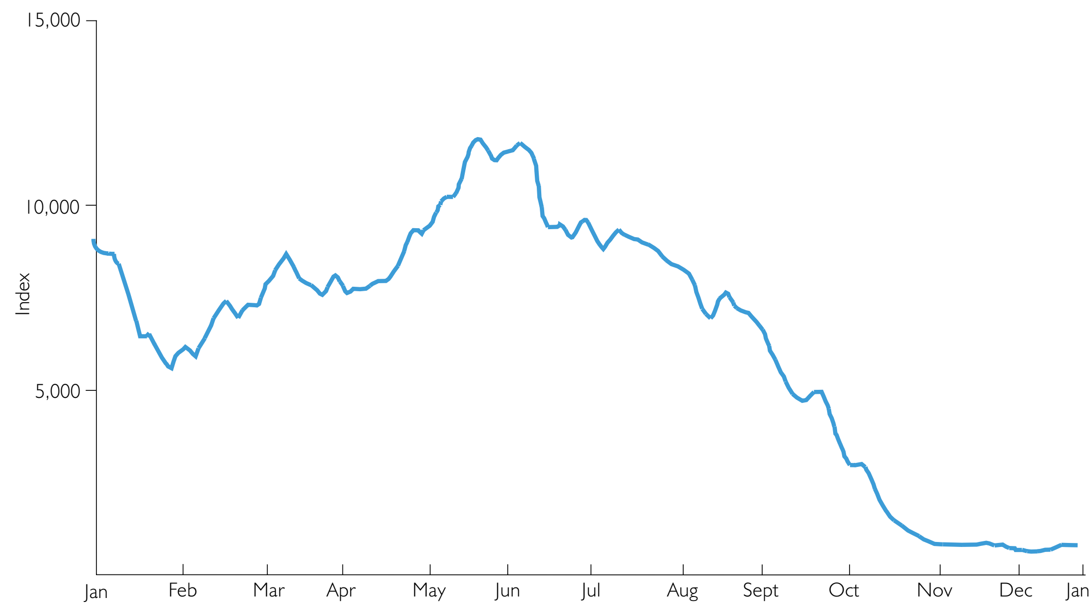
Michael Davis, First Call Associates



F1. Barometer of economic health plummets
These 2008 figures for the Baltic Exchange Dry Index demonstrate the index's dramatic fall by almost 95% from its mid-May high of almost 11,800 points, to 865 points in mid-November *Source: Bloomberg*

shortage of experienced professionals, leaving tremendous responsibility to the new generation and their employers.

Impact of financial market turmoil

One trading area hit particularly hard by the economic crisis has been the shipping market, which is considered something of a barometer of economic health and a measure of the general interest in commodities. The Baltic Exchange Dry Index (BDI) has crashed almost 95% from its mid-May high of almost 11,800 points, to 865 points in mid-November (see figure 1).

The shipping market is now one of the more difficult markets in which to operate. Jeremy Flores, director of Latin America for Mid-Ship Marine, one of the largest and most successful dry cargo broker-shops worldwide, says the fall off in brokerage revenues is steeper than the weak market he saw from 2000–2001. "Routes we were fixing for $80 a ton not that long ago, we are now fixing for $12 a ton," he adds.

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David Allen, AVM

A stellar broker in the dry cargo business makes more than $500,000 annually. The ship broker who did 10 to 12 large transactions in 2008 to earn an annual income in that bracket may find he/she has to do 100 smaller transactions in 2009 to earn the same amount.

The economic downturn has caused a steep drop in demand for commodities and therefore shipping, but the shipping market has also been particularly hit by the credit crunch. A steel executive, who wished to remain anonymous, admits to telling many of his traders to take their vacations now since almost no steel is currently being sold, mainly due to their customers' inability to secure a letter of credit (L/C), usually provided by the firm's bank. These L/Cs are the backbone of a majority of dry bulk trade, allowing sellers and shippers to be paid while the sale is taking place and commodity is being transported. With the current credit freeze in the financial markets, banks are simply not willing to support these L/Cs and this is wreaking further havoc on the shipping industry.

"While we are all hearing about these bailout packages from the government, very little if any real credit or money is being used by banks to give their customers the necessary tools and L/Cs to recommence trading and dealmaking. Without the banks role as suppliers of credit to activate trade and sales, the shipping sector will continue to flounder," says Flores.

Job security in the shipping world is also on much shakier ground since the financial crisis, with several shipping companies facing bankruptcy, and layoffs taking place across the board from vessel owners, traders, brokers and commodity houses.

However, out of some of the worst circumstances come the best ideas. Partners at a major North American dry cargo brokerage recently sent a memo to its employees based in offices around the world, which reassured them of their job security. The memo asserted jobs were not in jeopardy and despite the global financial crisis, the lack of liquidity in the market, the lack of credit available, the lack of demand for commodities and the resulting downturn in demand for dry bulk transportation, the firm would reinvest 2008 profits, cut costs and attempt to keep all of its employees, at least through the end of 2009.

The management of this dry cargo chartering company has just demonstrated its appreciation of its value for its finest asset – its people. When the crisis is over, the firm is likely to reap the rewards of this decision in the form of greater loyalty from its staff than ever before.

The outlook

Overall in commodities trading, the imbalance of job seekers to the number of job vacancies is widely anticipated to last into the first quarter of 2009. However, some can see light at the end of the tunnel already. "I don't really think the market is as bad as everyone thinks it is," ventures one long-time industry executive. "It's bad, but I have been through tumultuous times before."

And in fact, demand for risk management is likely to be strong as a result of the credit crisis many experts believe. "Much of the growth over the last year has been in the middle office (that is, risk and compliance related) because many companies and hedge funds that trade and market in the energy commodity space are moving away from the same level of speculative trading as existed previously and thus there are fewer trading positions available," says Chris Schoettelkotte, president and CEO of Manhattan Resources. "At the same time, given the levels of commodity price volatility and uncertainty, there is seen to be a greater need to make sure that risk models and risk control functions are accurate and that compliance oversight is rigorous."

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George Stein, commodities recruiter

George Stein, a New York City-based commodities recruiter formerly of bankrupt search firm, Whitney Group, says he is receiving a steady stream of calls from clients and candidates. "There is still life in commodities recruiting," he says. "Some clients are putting the search process on hold, but others are exploring opportunities particularly when a stellar candidate is able to bring a business that moves the needle for a client. It also helps if they bring investors with them," he notes.

Lars Gloessner, head of global markets Americas at Huxley Associates says: "As the banking area shrinks and the influx of qualified candidates proliferates the job market, some Asian, Latin American and European banks will seize the opportunity to create a bigger identity here in the US by expanding their operations. This is bound to create opportunity in certain areas of the market. However, in the current market condition, most of the hiring activity will be 'upgrade hiring', which means that groups will try to replace average or under performers with more qualified candidates."

The bold reality is that until banks begin lending again, the market will continue to endure tough times. The firms who will survive this economic downturn will be those who implement innovative business plans that include global possibilities and make a serious investment in the acquisition of highly skilled, talented and loyal personnel who can make a serious impact. It is only fitting, as the laws of nature have proven that the creatures that ultimately survive are not the largest or the fastest, but those that are most able to adapt. ER

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