Tricks of the trade

CEO of Totem Steel, "JR" Meyers on the current climate for international steel trade

RICHARD L. MEYERS, CEO of Totem Steel in Portland, Oregon, is better known to his business associates and friends alike as "JR." After a successful career as one of the top steel traders at North Pacific Group and Greenwood International, JR followed his entrepreneurial spirit and founded Totem in 1998. Through his deep relationships with customers and suppliers, he was able to "hit the ground running," quickly establishing Totem as a valued trading partner. Since its founding, JR has assembled a core group of experienced traders and significant financial backing, enabling Totem to grow into the robust steel and wood products trading enterprise that it is today. Not merely content on building a successful business, JR has continued to share his leadership skills as an active member of Young Presidents Organization (YPO) and has served on a number of boards of charitable organizations in the Portland area. Totem, together with The Meyers Foundation, is a recognized leader among local companies in giving back to the community. (For more information on Totem, visit www.totemsteel.com).

In 2008, Mr. Meyers spoke at SteelOrbis' Annual Steel Trade Conference in San Diego and now shares with Prime Magazine his outlook for the trading segment of the global steel business.

How have the dynamics of the steel trade changed in recent years? Do you think any of these changes are here to stay?

JRM: The biggest change in steel trade from my view is the increased pace at which all the global steel markets are moving, either in the increase of prices or decrease of prices. Steel trading has really become a 24/7, 365-day business compared to previous years. We shifted from quarterly offerings, then we went to monthly, and now it is daily. These changes, I feel, are here to stay, as with all the modern technology and transparency, the pace of trading will only get more intense.

At SteelOrbis' Annual Steel Trade Conference held in July '08, you were one of the only speakers that seemed wary of the bullish spirit in the market at that time, commenting that prices were "going up too much too fast." What signs of the coming fallout were you already seeing last summer?

JRM: The biggest problem that I saw was that most of the suppliers had forgotten to check with the end-users to see how they were dealing with the massive price increases. Most of the customers were understanding part of the raw material connection to the increase in prices, but when the "surcharges" started and deals were renegotiated, they had no way to pass it on as fast as it was coming to them. This led to a lot of panic buying, which did not make the best economic sense for them or their customers.

Do you think that a US flat rolled market recovery is in sight, or do you think prices still have much further to fall?

JRM: Prices seem to be at the bottom as long as there is some stabilization in the world economy for steel demand. There might be a little reduction but I feel the biggest drops have occurred. However, I think the recovery for the economy, as well as the steel market, will be gradual. We may see some interim snap-backs in price for certain items due to lower inventories. But overall steel demand will revive slowly, particularly in those industries that suffered the most: autos, appliance, construction and capital equipment. A slow revival in demand coupled with the low operating rates of domestic mills (45 percent of capacity) will keep downward pressure on any dramatic upswing in price. The housing market will have to stabilize and unemployment levels recede for the economy, as a whole, to have a significant and sustained recovery. We may not see this until sometime in the first half of 2010.

Do you think that the US government will keep China in its cross-hairs as regards steel trade?

JRM: Not necessarily the US government, as they need China to continue to buy our T-Bills to finance our debt. But certainly, the US steel mills have targeted China as well as other countries for antidumping cases for coated steel and potentially other flat rolled products. It seems to be standard operating procedure for them during any prolonged downturn. I am not convinced they can prove injury as imports are down significantly this year as well and the US mills are coming off record profits in 2008. I guess they are waiting to show a couple of quarters of losses before they file. Perhaps winning the case is not all that important as the dumping investigation takes the better part of one year and effectively shuts out imports from the targeted countries during this time.

What is a bigger challenge in this market -- lack of demand or lack of financing?

JRM: Certainly lack of demand is the biggest challenge. You have auto demand falling from an average of close to 17 million units for the last several years to well below 10 million units this year and new housing starts declining to 50-year lows from a 1.7 million average

Mr. Meyers speaking at SteelOrbis' Annual Steel Trade Conference in 2008

prior to 2008 to what could range from 450,000 to 600,000 this year. This has a profound impact on demand for flat rolled steel. This is clearly evident in the flat rolled monthly shipping rates from the Metals Service Center Institute, which are down by close to -44 percent for the first four months of this year versus 2008.

However, lack of financing has also caused its share of headaches in the marketplace. Capital constraints for metal consuming industries have significantly contributed to the downturn in demand. The two go hand-in-hand. There are anecdotal reports that lack of financing has adversely impacted certain segments, particularly commercial construction.

It seems like the biggest issue standing in the way of steel trade a year ago -- high freight rates -- is not even a factor anymore, with bulk freight rates down at least -75 percent in the past year. Are there any freight-related challenges traders are currently dealing with?

JRM: The bad news is that there are fewer bulk vessels coming to the US due to lack of demand. So it has been somewhat challenging to ship from some countries. The good news is that the rates have, indeed, come down significantly. These rates may continue to stay low for awhile given the amount of new construction of bulk and Handymax vessels in the past few years. Of course, this is subject to change if China, India and the developing world resume import and export activity to former levels. I guess this just highlights that freight rates are even more volatile than commodity prices.

What is the feeling you get from end-users that you sell to? Has their business fallen off as dramatically or perhaps more-so than that of steel companies?

JRM: Most of the end-users have told us that their business is down in the range of -25 to -30 percent compared to last year. Of course, there are some who have seen more of a drop-off and some who have done a little better. The biggest issue is that they cannot necessarily use historic demand data to forecast current requirements.

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