Lunatics Launch 'Steel Futures' Speculation

by Judy Feingold

You've seen the ever-wilder wild surges and gyrations in petroleum prices and those of other "primary commodities" such as precious and base metals, and even industrial chemicals and plastics. Now, prepare yourself for just the same thing to happen to steel prices, if some insane financiers get their way, and if they still have the time to pull it off before their system collapses.

In September 2005, Lyndon LaRouche described an ongoing hyperinflationary shock wave, "already comparable, at its primary-commodities 'spear point,' to Germany during the second half of 1923" (*EIR,* Sept. 30). The immediate cause was the hedge funds' attempting to bail out of their losses through "hyperinflationary gambles in primary materials, led by the control over petroleum markets." Subsequent developments have amply confirmed this.

As part of the same explosive breakdown process, the hedge funds and financiers are trying to suck whole new areas into the whirlpool of commodities speculation, including, now, world steel production,

The creation of a futures market in steel, up until this present financial end-phase, has been problematic for the traditional futures exchanges. This is because steel, unlike corn or gold, has such a wide variety of production qualities, chemical compositions, and types of fabrication, as well a short shelf-life due to rust and other chemical processes, that it is resistant to the standardization needed to be a widely marketable futures market product. Now, however, steel futures trading has become the next hot topic, especially at the London Metal Exchange (LME), and soon, reports have it, at the New York Mercantile Exchange (NYMEX) as well.

In hopes of providing the pricing system to be used to develop and track prices for specific steel products, many data management companies have developed indices to determine the prices of each type of steel product used in the trading of futures contracts. Given the characteristics of steel production, this was no small feat. These companies have provided pricing indices on a few of the most plentifully produced steel products. One mover in this arena is World Steel Dynamics, which, along with American Metal Market, is developing a financial product called SteelBenchmarker, which, they say, is "designed to provide a reliable set of benchmark prices for use by participants in the steel industry" that will, "starting in late 2006 or 2007. become the underpinning for an extraordinary surge in the trading of financial instruments that permit the hedging of the steel price risk."

According to Tom Stundza of the Commodity Trader, "The price of hot-rolled sheet in coil—the most common steel product—rose by 116% and then fell by 47% in the past 20 months" (up to September 2005). "So, the London Metals Exchange (LME) and the New York Mercantile Exchange (NYMEX), are revisiting the possibility of global trading in steel futures." The Multi Commodity Exchange (MCX) of India, currently in contract with the LME in energy futures, began its steel futures trading on March 12, 2004. And the Shanghai Futures Exchange (SHFE), at the beginning of June 2006, announced that steel futures will be launched soon into their market.

In mid-May, the LME had already confirmed their choice of pricing companies, Platts and McGraw-Hill, to "create, manage, and promote prices and products in the area of price risk management in the steel market." In LME's 2005 financial statement, Chief Executive S.J.N. Heale writes, "And I am pleased to say the LME is seen as the preferred exchange for the introduction of steel futures contracts. Although our first choice for ensuring price convergence is through a physical delivery mechanism, the complex nature of steel resulted in the conclusion that the LME should not seek to introduce physically settled steel futures contracts, either on an in-warehouse basis or a delivered basis. As a consequence, the only contract design that could, in our opinion, work is a 'cash settled' contract using a reference price derived from physical transactions."

For obvious reasons, steel producers, consumers, and traders alike oppose the idea. According to *Purchasing* magazine, "The LME steel futures plan has never been supported by the International Iron and Steel Institute, the trade association in Brussels representing almost all the world's steelmakers."

At the Steel Strategies Conference in New York on June 20, CEO Daniel DiMicco of Nucor, the largest of the U.S. mini-mills, said, "The folks who are going to make money off this aren't in steel," referring to speculators and other financiers. Rodney Mott, president and CEO of Stelco in Canada, agreed: futures trading in steel was unnecessary. Even Lakshmi N. Mittal, chair and CEO of Mittal Steel, said, "I don't think we need a futures market for steel."

In the past, neither the International Iron and Steel Institute, nor the American Iron and Steel Institute, the Steel Manufacturers Association, nor the Latin American Iron and Steel Institute have supported this swindle. And, on June 22 of this year, Bo Andersson, General Motors Vice President of Global Purchasing and Supply Chain, told an automotive industry seminar that he saw little need for steel future contracts to help GM hedge its exposure (a standard lying rationalization for futures markets), because, although it buys 10 million tons of steel a year, "Most of the stuff we buy. . . we have long-term contracts."

Nevertheless, the charge toward a steel futures market barrels mindlessly ahead, a harbinger of the impending financial blowout.