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In the professionals' own words: the mark of a good commodities trader

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The environment is stressful, the demands of the job, extreme; but do it well and expect a highly rewarding career. Of course, this only applies to select candidates who meet the requirements of a commodities trader. Lloyd Blankfein, CEO of Goldman Sachs, one of the most envied Wall Street firms, was one; and so was Ivan Glasenberg, CEO of Swiss commodities company Glencore.

Fuelled by fast growing economies like China and India, the commodities industry as a whole has been seeing an unprecedented boom. Be it metals like iron, copper and gold; soft commodities, agricultural products like palm oil and cotton; or oil and natural gas – the production volume, trading volume and prices of all these commodities are not showing much signs of abating – save for sporadic short term dips. The multi-year boom, coupled with the long term fundamentals driving the boom, has led to some commentators calling this a “super cycle”.

It is not difficult to imagine that companies involved in any part of the commodities chain will see this as exciting times, and commodity traders as being in the thick of where all the action is. The trader goes to sleep at night fully aware that high stakes involving millions of dollars are at play. What makes this an even more challenging environment is that with round-the-clock connectivity, the action goes on non-stop.

“Nothing stops. Events are happening around the world as you sleep,” said Tarek Al Hassan, Crude Oil Trading Manager at Shell Eastern Trading (Pte) Ltd, who, together with four other commodity trading professionals, were panellists at a career talk organised by [International Trading Institute@SMU](http://www.smu.edu.sg/centres/iti/index.asp) (<http://www.smu.edu.sg/centres/iti/index.asp>).

Besides Al Hassan, the other panellists are Gerard Craggs, managing director of Stemcor (SEA); Jacqueline Chang, managing director, commodities, ABN AMRO Bank; Syed Azeez, senior vice president, cotton division of Olam International, and Douglas Heskamp, heavy products manager at ConocoPhillips International.

Nature versus nurture

While certain aspects of commodities trading can be learnt, aptitude and experience are critical for success. The important fundamentals that a beginning trader can pick up are an “understanding of the value chain, and the supply and demand side of things,” said ConocoPhillips’ Heskamp. What is harder if not impossible to pick up at school are things like risk appetite, “standing up (to senior management)” to defend your position, and also, living life “in a public way”.

The ability to make good decisions comes with relevant knowledge and experience, echoed Stemcor’s Craggs. Using the example of Libya, where events were just unfolding at the time of the talk, Craggs said repercussions were already being felt. Oil prices rose, as did freight and logistics charges. “The impact is very direct as crude (oil) is an extremely strategic commodity,” said Shell Eastern’s Al Hassan, referring to Libya, which sits on the largest proven reserves in Africa and exports more than a million barrels a day.

Although the situation was “dynamic” across the whole of North Africa and the Middle East, ripple effects were felt around the world. Having bought a million barrels to be delivered on Feb 27, he found that he was unable to “go to port”. He had to involve “security, the refinery people, manage risk, talk to the people at Shell Eastern, government, the UN, the US”, plus other entities. He had to look into the safety and security of the crew delivering the cargo as well as the inspectors overseeing the cargo. Good commodities traders need to keep in touch with happenings around the world and be prepared to respond to events and incidents. To do this well, knowledge and experience count.

The human touch

While there is a perception that the profession involves interacting only with a computer keyboard and several screens filled with figures that change at breakneck speed, the reality often involves travel, face-to-face interactions, and having a broad-based working knowledge of the industry. “You have to go where the commodities are, and deal with the physical commodities as well as government agencies and logistics,” said Olam’s Azeez. These embrace every aspect of the commodities business from “origination to marketing, logistics value chain, knowledge management and analytics; it is also about taking on a risk management role as well as knowing the different procedures and systems to move the commodities” from one location to another, from one process to the next.

A new trader at Olam, for example, will spend at least four weeks on the ground learning the basics; thereafter, on-

the-job learning may continue for years. The initial fortnight usually consists of an onsite visit, so as to build up links with colleagues at their respective geographic locations in a bid to understand supply chain management. The next two weeks will be spent at the destination markets "with industries that use the commodity to gain an understanding of industries and their needs," added Azeez.

Multi-faceted profession

Commodities trading is more than just about trading, that is at its simplest form, buying and selling. It also encompasses financing, both within the trading company as well as "the interchange between the trading company and its bank," said Stemcor's Craggs. And this is what ABN AMRO's Chang does at the bank – she arranges the financing that commodities traders require.

Chartering and logistics – vital for the commodities chain to function – is another big area in the profession. Trading freight (space) on ships and other modes of transport can be very exciting as it is sometimes "more volatile than the underlying commodities" that are being traded, said Craggs. Research and development (R&D) is also an option. This involves knowledge of trends, analyses and updates of businesses, industries and commodities.


Few barriers to entry


Although there is no gender bias in the profession, some organisations are more male dominated than others. "Even though diversity is extremely important and females bring additional skills and add a 'softer' touch to the profession, I think we are not doing enough to attract them," said Shell Eastern's Al Hassan. Acknowledging that women are "good at building relationships", Stemcor's Craggs agrees that there is "absolutely no reason why there shouldn't be more women (in the profession)".

"The top five commodity finance specialists are females," ABN AMRO's Chang pointed out, which suggests that the women are "going to different places" including banks, where there are also many opportunities. The "physical side of trade is a large part of the business", and it is within her job scope to go on site visits and get acquainted with the players along the commodities value chain. "We communicate with CFOs and CEOs as well as people at the operational levels," she said, reinforcing a human element that cuts across professions in banking or trading.

As for academic qualifications, it is mere coincidence that the panellists hail from engineering backgrounds and possess master degrees. The analytical skills that comes from an education in an engineering are essential – skills that can also be learnt from economics, finance or business disciplines, said Olam's Azeez. Also important is "the attitude towards assuming risks".

There is no ideal age to be a commodities trader, according to ConocoPhillips' Heskamp. "It takes maturity, experience and patience to be successful. You must be ready or you will set yourself up for failure; remember that opportunities don't come often," he said.

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