

October 2015 | Leading for over 100 years

Metal Bulletin

Magazine

**Lord Bagri on
trading metals:
past and future**



LME 2015 SPECIAL

**Interviews –
Garry Jones and
Trevor Spanner**

**Analysis, review,
Asia, nickel, freight
and oil market drivers**

Profile



STEVE FORREST/WORKERS' PHOTOS

Lord Bagri

'What matters is personal integrity, reputation and trust'

Recalling a lifetime in the metals business, Metdist chairman Lord Bagri CBE, former LME chairman, gives Andrea Hotter his views on metal trading challenges of the past, present and future

When a 19-year old teenager with a high fever turned up after 10pm at a private club in Penang and asked for a meeting with one of its members, he was unsure what kind of reception he would receive. Exhausted from travelling from Calcutta and having contracted typhoid *en route*, his pitch – to the head of a Malaysian tin producer – might have fallen on deaf ears.

But persistence paid, and the young man returned to India with a major deal under his belt.

It would be the first of many successes for Raj Bagri, later to become The Lord Bagri CBE and the longest serving chairman of the London Metal Exchange, a role he humbly says he remains “always grateful for.”

Yet it is a career that might not have been. Bagri only started work as a filing clerk for a metals firm in Calcutta because his mother wanted him to

understand the value of money. More than 65 years later, it would be fair to say that his involvement in the metals arena makes Bagri one of its modern day champions.

“The great thing about the metals trade and industry is the way in which it quite literally grows on you, and over the years my work became a passion,” he tells *Metal Bulletin Magazine*. For Bagri, who was born in 1930 to a middle-class family and lost his father when he was just three, his love affair with metals began when he was apprenticed to Metal Distributors, a Binani family company.

Then 15 years old, Bagri threw himself into devouring all the information he could glean about the world of metals, including warehousing, sales, marketing and purchasing. It was during this period that Bagri became convinced there was a better way to source the Malaysian-

produced tin his company was buying via third parties based in London. After weeks of pestering, Bagri’s bosses authorised that life-changing trip to Penang.

Bagri was hooked. In his mid-20s, he persuaded his bosses to send him on a trip to source business around the world. It included his first trip to London, but not his last; Bagri spent the next few years hatching a plan to help his bosses build out their business in London, the heart of global metals trade and home to the LME. All he needed to do was to persuade them to let him realise his vision.

Eventually they agreed. Bagri, newly married to his wife Usha, set off with a £2,000 corporate budget and set up a metals trading firm, Metal Distributors (UK).

“In my early days in the metals industry I was struck by how even the most powerful of personalities were willing to mentor, help ▶

‘The great thing about the metals trade and industry is the way in which it quite literally grows on you’

and guide a novice such as myself,” Bagri says. “I was hugely fortunate to have had the opportunity to learn from many of them and they in turn helped modify and shape my interest in the metals business. They encouraged me to think further and dream of doing things that a few years earlier I would have thought were impossible,” he adds.

One of those dreams included becoming a member of the LME. Unfortunately, Indian foreign exchange controls at the time, together with other barriers, prevented Metal Distributors from joining the LME. So Bagri set up Metdist as his own firm, running it alongside Metal Distributors for another decade, and joined the exchange.

Bagri describes the day Metdist became a Ring Dealing member of the exchange in February 1970 as one of the highs of his career.

“Having waited ten years to join the LME, Metdist became one of the first two overseas members of the exchange in 1970. It is difficult to imagine today the effort and tenacity required to persuade the LME to make the change and having opened the door to foreign membership, it is rewarding to observe such a varied international membership today,” Bagri says.

“For someone of humble origins and very modest means, gaining the trust of the metals community and becoming a Ring Dealing member was a milestone, an event that I still remember today,” he adds.

Rogue trader challenges

There have been far more highs than lows through Bagri’s metals career, but there have nonetheless been lows.

“Coming to London and setting up a business with no funds, while now a ‘low’, was certainly one of the more challenging times in my career,” he says. “A real low was the Sumitomo crisis and the financial loss and reputational damage it did to a market that I felt proud to be a member of,” he adds.

Bagri was chairman of the LME when the global metals industry was shaken in 1996 by the declaration of \$2.6 billion losses by

‘For someone of humble origins and very modest means, gaining the trust of the metals community and becoming a Ring Dealing member was a milestone’

Japan’s Sumitomo Corporation, caused by a rogue trader in its copper department. Many predicted the event would substantially damage, or even destroy, the LME.

That same year, the Securities and Investment Board gave the LME a clean bill of health after accepting its invitation to review the exchange post-Sumitomo, an event that Bagri describes as a ‘rewarding moment’. “To receive regulatory endorsement of the LME’s unique *modus operandi* allowed the valuable and different facilities afforded by LME brokers to the trade and industry, such as credit, to continue,” he adds.

That endorsement is widely attributed to be the result of tireless work by Bagri, whose hands-on guidance, unwavering belief in the exchange and dedication to the metals world he loved is credited to the LME emerging unscathed and, remarkably, a stronger market.

“Major corporations, despite or maybe because of the complexity of their systems and controlled processes, are as vulnerable as small ones to unauthorised trading or even potential systematic fraud. Human behaviour, even in a well-regulated environment, will always depend on the individual decisions of a small group of people and if they choose to circumvent the system the result can often be quite catastrophic in terms of financial and reputational damage,” he says.

“What good regulation can and does do is reduce the likelihood of such events and hopefully provide a framework in which, when things do go wrong, shocks can be managed and absorbed by the system without significant dislocation,” he adds.

Could such an event reoccur?

“History pre- and post- the Sumitomo crisis, in many different markets, has demonstrated the difficulties for corporations to administer fool-proof systems to eradicate rogue trader events,” he tells *Metal Bulletin Magazine*.

“There is no doubt that lessons have been learnt by international trading organisations and within the regulatory framework, and

that regulatory, compliance and monitoring systems have been substantially enhanced. However, it would be a brave man that forecast that rogue traders were confined to history,” he adds.

A changing landscape

Throughout his career, Bagri – who served as an LME board director from 1983, LME Vice-Chairman from 1990 and LME Chairman from 1993 to 2002 – has never been afraid to move with the times. His approach to change evolved over time, he says, engineered from practical business experiences.

“My philosophy is simple: change is a vital part of a business evolving and staying ahead of its competitors, whether in manufacturing, trading or in the context of an exchange such as the LME. However, change for change’s sake rarely delivers value,” he adds.

“A static organisation is one that is almost certainly bound to fail. I feel strongly that change allows for renewal and that renewal is the catalyst for growth,” he says.

“As a family we embrace change in the way we manage our businesses and activities, and the generation of new ideas is at the heart of a vibrant and growing exercise. The LME’s origins and history helped create the most dynamic and important futures market in metals in the world. However, I and colleagues recognised that embracing change would be key if this success was to be maintained and reinforced,” he adds.

Demutualisation of the LME in 2000 was a necessary part of this process, Bagri says: “A difficult decision for many LME members, but one I hope they now have come to see as being crucial in that the market has been able to unlock shareholder value whilst maintaining the pre-eminent position it enjoyed.”

An event which changed the foundations of the LME, demutualisation in September 2000 transferred the market from a cooperative-style structure to a private shareholder-owned exchange, which in turn

accelerated the market's modernisation and ensured its continued growth. In 2012, the LME was sold to Hong Kong Exchanges & Clearing for £1.388 billion.

"In helping the Exchange demutualise, I always knew that this was the first step in a process that would end up with it being a for-profit organisation. To me this always made sense simply because I never saw a contradiction between market efficiency and a for-profit objective, with both mutually reinforcing each other," he says.

"Thinking about the Exchange today, it is good to see that it remains hugely relevant to trade and industry and that its core principles remain the same. It would be wrong though to assume that this status can be maintained, so just as it was 20 years ago, equally today evolution and change are integral to maintaining pre-eminence," he adds.

How the LME changes and adapts over the next 15 years is a topic of hot debate, and Bagri says it is possible that not everything that is done will either be popular or right. "Nonetheless that should not stop the process and change as the market must continue to see how it can serve an industry that is itself changing in terms of geographic areas of net consumption and the types of customer that use our market," he adds.

Electronic trading arrives

Bagri also oversaw the introduction of an electronic trading platform at the LME, launching LMEselect in February 2001.

"With the pace that modern technology was developing, the LME creating a proprietary online trading platform was never in doubt, but we had to get the timing right and to deliver a system that would protect our other unique trading methodologies, namely phone and open outcry," Bagri says.

"As all three systems remain active today, I would reflect that the LME board's approach and timing were a success which delivered, and continues to



STEVIE FORREST/WORKERS' PHOTOS

Even today I continue to learn something new almost every day, says Lord Bagri CBE

deliver, the clients of the market a multiple choice of trading venues, unlike its competitors," he adds.

Retaining the position of the LME as the pre-eminent market for base metals trading is an ongoing challenge for the exchange, which has this year rolled out a Liquidity Roadmap to deliver more electronic trading, more transparency and greater market participation. It includes enhancements to membership categories to allow direct access to LMEselect, plus liquidity and market making programmes which will focus on third Wednesday contracts.

"Above all else, our market must fight against complacency and recognise that at key inflection points we are vulnerable to competitors who seek to occupy part of our market place," Bagri says.

"LMEselect, electronic trading and the globalisation of terminals and prices are the key part of the LME's response. While there should rightly be debate about membership categories and the rights and application of different categories of membership, it is necessary for the Exchange to continue to broaden its appeal – hopefully by expanding membership whilst ensuring that members themselves are able to operate in a healthy and profitable way," he adds.

Financial investment

Just as membership of the exchange has changed over the years, so too have levels of financial investment, which have increased significantly in the past decade. Hedge fund and speculative flows often have a dramatic impact on prices, but Bagri says the involvement of financial institutions in the LME has helped create the dynamic market place that it is today.

"Much has been said and written about the impact of this financial investment on prices and I am sure that whatever the LME does, this will continue to be something that is talked about for years to come," he adds.

At the centre of the current discussion is the LME's unique

prompt date structure, which Bagri says remains a "key weapon in the LME's arsenal in terms of its links with trade and industry."

The fear among some LME members is that the move to promote third Wednesday contracts may take investment volumes from the prompt-date system. Hedge funds typically prefer to use cash-cleared, monthly contracts instead of the prompt date structure of the LME; it is what they trade on the majority of global commodities exchanges.

"I know that [the dates system] too is now being discussed, but I hope that whatever the outcome of those discussions, the LME's owners and other stakeholders always remember that just as the market place needs the involvement of financial players, so too does it need the participation and support of trade and industry," he says.

Industry relies on LME prices, which remain the global benchmark, and there is no reason to suggest this will change unless the exchange itself took steps that alienated it from its core trade and industry customers, Bagri notes.

"My sense is that this is something that the LME's owners are conscious of, and – as someone with deep roots in trade and industry – I hope that the importance of this group to the wellbeing of the market is given adequate recognition," he adds.

Bagri nonetheless acknowledges that the exchange cannot stand still. "The reality is that as a mature exchange the LME already holds the dominant position for global hedging in the base metal markets, so most trade and industrial companies already use LME pricing either directly or indirectly. Future growth has to be sourced from the investment community and through the opening of certain emerging markets" he tells *Metal Bulletin Magazine*.

"As the LME futures price is convergent with the physical market then the investment community prefers LME contracts for metals exposure as opposed to more domestic

facing exchanges. So, investment volumes will continue to increase and the key to the future success for the LME will be to maintain its close links to the trade and industry, whilst harvesting new flows for the exchange and its members,” he adds.

A different world

The metals community is a different world from when Bagri first entered it in the 1940s. For starters, India has undergone huge change. Its liberalisation and growth story has been a key driver of commodities consumption and which many are optimistically tipping as the ‘next China’, a comparison which he says has become fashionable.

But Bagri says although it is true that China’s population is now ageing whilst India’s continues to grow younger, this “demographic dividend” does not automatically assure India of a prosperous future.

“Complicated regional politics and the economic omission of a decade mean that India’s starting point is low, and creating change and putting in place the infrastructural support needed for economic development is both time and capital consuming,” he tells *Metal Bulletin Magazine*.

“Despite some recent setbacks, India’s new government led by prime minister Modi recognises the scale of these challenges, but progress will be slow and unlikely to match the speed at which China was able to grow GDP. Recent falls in commodity prices will of course help the economy, but while this is true, growth in domestic consumption remains the key to short-term GDP growth,” he says.

“That said, I have huge faith in India’s long-term economic prosperity, recognising that our demographic framework does make decision-making more complex,” Bagri adds.

Similarly, the peers in Metdist’s world have changed. “Our community has always had a cohesiveness and uniqueness that has made it special, which is why most of us happily and willingly spend a lifetime within it,” he reflects.

‘As metals themselves become a financial asset class, the line between the metals community and financial community is more blurred than it was’

“These boundaries are changing and as metals themselves become a financial asset class, the line between the metals community and financial community is more blurred than it was. Companies within our business have also consolidated, with the result that there are fewer market participants,” he says.

“Taken together, this is changing some of the unique characteristics that made being part of this community so special,” he adds.

Support from his family has also been unwavering. Bagri has two children: a son Apurv, who took over as ceo of Metdist in 1991, and a daughter Amita, who lives in India. He also has four grandchildren, Aditi, Amisha, Avani and Avanti. His wife of 61 years has been at his side throughout, including when he received the CBE in 1995 for services to the metals industry and was granted a life peerage two years later.

“For me personally, it has been an extraordinary journey made possible by the support and help that I have had from my family, most especially my wife Usha, who has stood by me both when the sun was shining and on days when it never stopped raining,” he says.

Importance of trust

Bagri’s personal philosophy is that ‘simple is best’, and that the tendency to overcomplicate business decisions can easily lead one astray. “In the end though, what matters is personal integrity, reputation and trust. Trust from one’s family, colleagues and everyone else with whom we make contact. I have been fortunate to have had that trust and hopefully I have never let anyone down with whom I have sought to build that trust,” he adds.

Bagri says that throughout his career, and culminating in his role as chairman – “a humbling experience,” along with presiding over the exchange’s 125-year anniversary – what mattered most was ensuring that all he did for and with the LME was done

with “absolute integrity”; irrespective of the outcome in relation to Metdist’s own metals business.

He made a conscious decision not to comment on the LME when he stepped down as chairman in 2002, but it is clear that many years later, his own personal as well as his son Apurv’s commitment to and fascination with metals remains. Bagri, now Metdist chairman, still goes into the office daily and colleagues say he avidly dissects market developments, particularly in the global physical copper market.

“As a family, our involvement in the metals area has expanded considerably and now spreads well beyond the brokerage and trading business that were the starting point,” he says, referring to the group’s extensive global industrial operations, including metal production facilities. “Whatever else we do and wherever we do it, metals remain the core part of the family’s business activities and one we are proud to champion,” he adds.

What tips does Bagri have for newcomers to the world of metals?

“As a starting point I would remind everyone wanting to be a part of this business that ‘no-one owes you a living’. This applies to markets, companies, and also individuals,” he notes.

“Become a part of this market if you believe you have the staying power to understand it, the tenacity to withstand its volatility and unpredictability, and have the integrity to work hard and not take anything for granted. These principles of course are true for many businesses, not just ours, but I do hope that the uniqueness of the metals markets and our community continues to make this an exciting environment in which to build a career,” he says.

“It has served me well for over 65 years and whilst that might seem a long time, the one thing that I can say with pride is that, even today I continue to learn something new almost every day. The key to success is to enjoy what you do and I have been lucky that I have,” he adds.