

Copper's wild price swings test recyclers' mettle

Stock market speculators set value based on current events

By **CLAUDE SOLNIK**

You'd be hard-pressed to find a location that looks more different from the stock exchange's trading floor than Gershow Recycling's scrap metal yard in Medford, with its mountains of metals and huge magnets that lift cars, which are then shredded and turned into scrap metal.

But lately, Gershow and other metal recyclers have been riding their own market roller coaster, as copper prices, in particular, swing wildly.

Copper prices, unlike many other metals, are pinned to futures prices set by commodities traders, rather than demand from companies that use the metal.

Due to its relatively short supply and many uses, copper attracted hedge funds and other investors making it highly volatile and posing unique problems for recyclers, who sell to foundries, exporters and manufacturers.

"When we see the market go up, it's not because there's more demand for copper products," said Elliot Gershowitz, vice president at Gershow, with eight Long Island sites. "When it goes down, it's not because there's less demand. It's because of demand

for copper futures."

While volatility may provide opportunity for speculators, who profit on price swings, recyclers said it's bad for their business.

"It's all over the place. It's scary," Gershowitz said. "When it's \$3.50 (per pound) today and tomorrow you wake up and it's \$3.10 like a helicopter dropped out of the sky, you can't plan or prepare for it. And it's harder to deal with."

While speculators can stop buying when prices rise, recyclers said they need to keep buying even if margins thin.

"If you go into the supermarket to buy a steak and it goes up \$10 in one day, you won't buy the steak," said Bill Golkind, owner of Crestwood Metals in Holbrook. "I can't afford not to buy metal."

Gershowitz said companies that need cash to pay expenses can't afford to stockpile copper and often are forced to sell, even at a bad price.

"If they could hold out a month, they would break even or make money," he said. "As a rule, I don't like these volatile markets. When the markets are volatile, it's hard for me to get sales. The mills are skittish."

He said his firm grew from five to eight locations over three years, in part by acquiring sites caught in price swings.

"Quite a few scrap companies closed up or went out of business over the past three

years," Gershowitz said. "They didn't have enough cash to sustain themselves."

While China remains a huge copper market, Golkind said Chinese buyers are joining the speculation, hoping to get better prices or make money on price shifts, increasing volatility.

"Chinese buyers have got cheap money and are speculating on copper," Golkind said. "They'll buy or sell the material three or four times before it gets over to China."

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The copper pendulum swung to \$3.45 a pound on the futures market as of mid-Wednesday, down from \$4.62 on Feb. 14 but up from the \$2.99 on Sept. 29.

"The paper traders are reacting to world events," said Kevin Gershowitz, a Gershow vice president. "Government in desperation. A mine that may shut down. A union goes on strike in Chile. A typhoon in India. Certain events around the world can affect the flow of commodities."

In addition to global volatility, the dollar's rise against the euro is affecting copper, making it more expensive to buy from the United States and cheaper to buy from Europe.

"If you're a seller in the United States, you have to compete," Elliot Gershowitz said. "The United States seller in that situation has to lower his price point to compete."

Although volatile copper prices make recyclers' business more risky, other metals give them a buffer against dramatic swings in this core metal, used for pipes, wires and in manufacturing many other metals.

"Aluminum is very prevalent, so it doesn't attract much speculation," Golkind said. "Steel is an industrial metal. Demand is slow. Steel prices aren't as volatile."

Gershowitz said "steel is still the old and true physical economy," and isn't "actively traded in the futures market."

Although copper prices may remain volatile, recyclers said it will remain a key commodity, which could provide a safety net despite speculation.

"We're building fewer houses, fewer cars. But we're still producing copper products. Copper foundries still need copper," Elliot Gershowitz said. "They still need it, although not in the same volume."

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