Recent trends and outlook of Commodity Markets

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
The rebound in ores and metals prices: separating the wheat from the chaff

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UNCTAD multi-year expert meeting 12-13 October 2017
Two basic realities of commodity markets

A series of trends (increasing demand for raw materials from emerging countries, the steel/aluminium eras, the emergence of electric cars, the domination of the Chinese metal industries) and profound disruptions which can be:  
- Technological (from shale gas revolution to the blockchain tech)
- Logistical (LNG)
- Political and economical (QE, Trump, OBOR)
- Financial (LME aluminium future contract in 1978, DCE iron ore futures contracts, alumina…)

A necessary arbitrage for industrial players between short time, i.e. the one that prevails in financial markets (stock & derivatives) and long time on which investment decision should be made.

2016-2017: two fundamental years with one main question: should rising ores and metal prices be considered as a temporary rebound or as a trend reversal?
The (lost?) bet of the so-called « super-cycle »

US$ nominal, 2010=100
Chinese letdown, USD appreciation, price war and speculation

Financial crisis
Super-cycle?
Rebound, trend reversal?

Energie  Agriculture  Métaux de base  Métaux précieux
Tin

Source: LME
Zinc on the rise

Source: LME
Zinc on the rise

The collapse of zinc inventories

Shanghai, deliverable stocks
Comex, total inventory
LME, on-warrant stocks

1.0M metric tons

Buoyant cobalt

Source: LME
Speculative bets in the copper market

Copper Bulls
Speculative copper positions at historically high levels

Source: Bloomberg, CFTC
Speculative bets in the copper market (2)
Iron ore

Fe65% BR CIF China

Chart showing iron ore prices from 02/01/2012 to 02/09/2017.
Switching from platinium to palladium
Precious metals at a glance

Silver

Gold

Palladium

Platinium
The main explanations for this upward momentum

1. Favorable winds on the demand side
   - An improved macroeconomic environment in China, the US, and in the euro area
   - Profound changes in the automotive sector (lithium, cobalt but also copper & nickel)

2. ...An increasingly restricted supply
   - Reduction in production capacity (although with ambiguous effects on ores demand)
   - Tighter environmental and (unprocessed ores) export regulations (China, Philippines, Indonesia)
   - Depletion of existing mines (zinc), lower ore grades (copper)

3. The collapse of inventories

4. And return of “long” speculators
Betting on price cyclicality

- **Commodity prices**
- **Supply < Demand**
- **Supply > Demand**

**Bullish speculation**
- Increasing production and decrease in inventories
- Appreciation of mining companies stock market price and investment

**Bearsish speculation**
- Price war and increasing in supply
- Decreasing supply

**Collapse of stock market values and deleveraging**

**Increase in inventories**

**Collapse of stock market values and deleveraging**

**Investment recovery**

**Temps**
In conclusion

Improved market fundamentals for ores and metals markets in 2017 but

1. Major questions remain
   - How will the Chinese economic model evolve in the coming years?
   - What would be the next sources of global economic growth (India? Africa?)
   - How will the USD behave in response to the tightening of the US monetary policy?
   - What will be the future of Trump economic and geopolitical policies?

2. Some personal thoughts
   - An underestimation of the economic consequences of geopolitical realities
   - An overvaluation of commodity prices based on the « soon to come shortage » rhetoric which mainly benefits to commodity investment funds
   - A financialization phenomenon which gets stronger