

United Nations Conference on Trade and Development

**9<sup>th</sup> MULTI-YEAR EXPERT MEETING ON COMMODITIES AND DEVELOPMENT**

**12-13 October 2017, Geneva**

**Recent trends and outlook of Commodity Markets**

By

Mr. Yves Jégourel  
Deputy head, CycloPe  
Associate Professor, Université de Bordeaux

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



Yves Jégourel

[jegourel@u-bordeaux.fr](mailto:jegourel@u-bordeaux.fr)

Deputy head, CyclOpe

Associate Professor, Université de Bordeaux

UNCTAD multi-year expert meeting 12-13 October 2017



UNITED NATIONS CONFERENCE ON  
**TRADE AND DEVELOPMENT**  
PROSPERITY FOR ALL

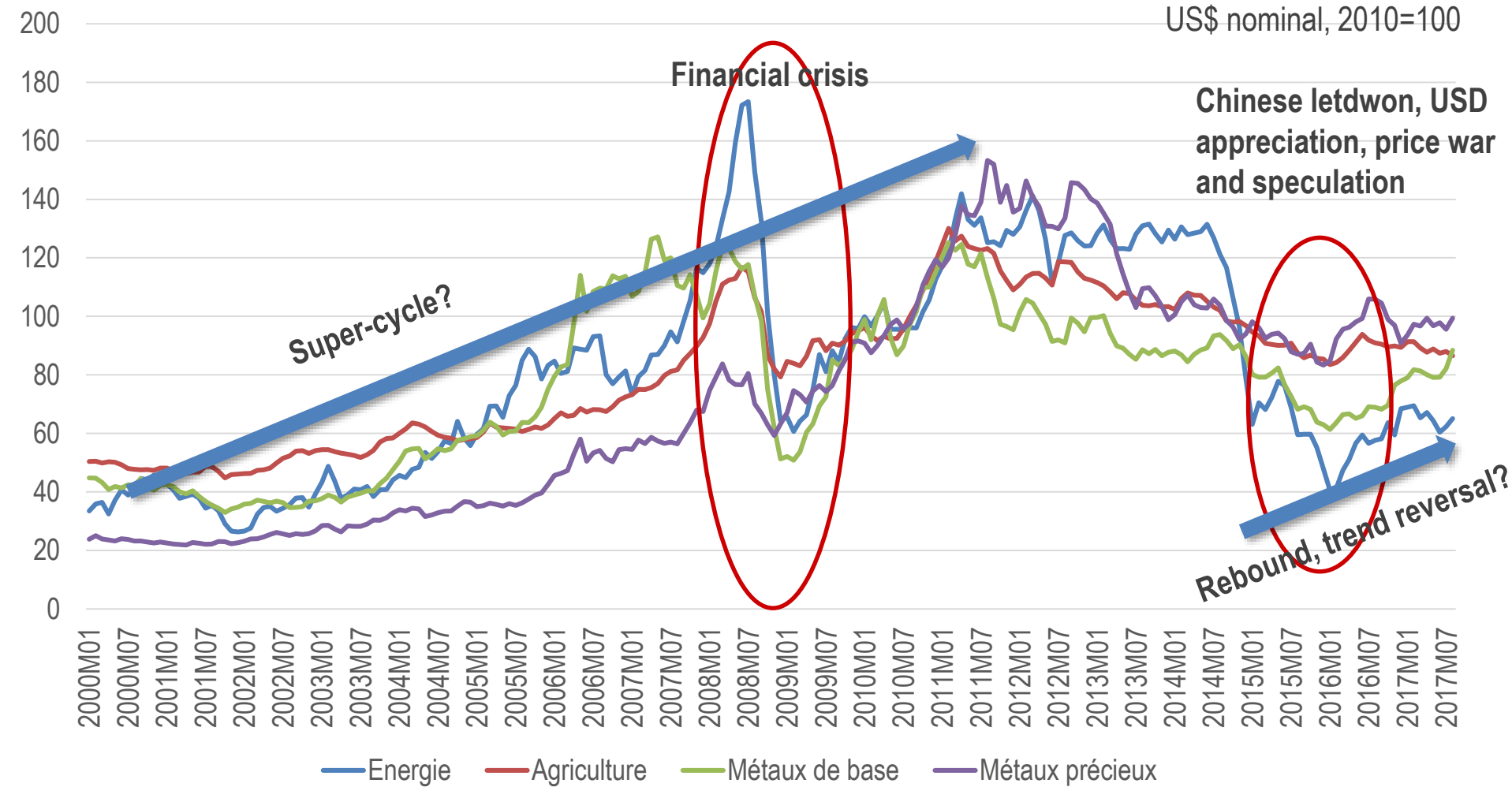
CYCL<sup>o</sup>PE

# Two basic realities of commodity markets

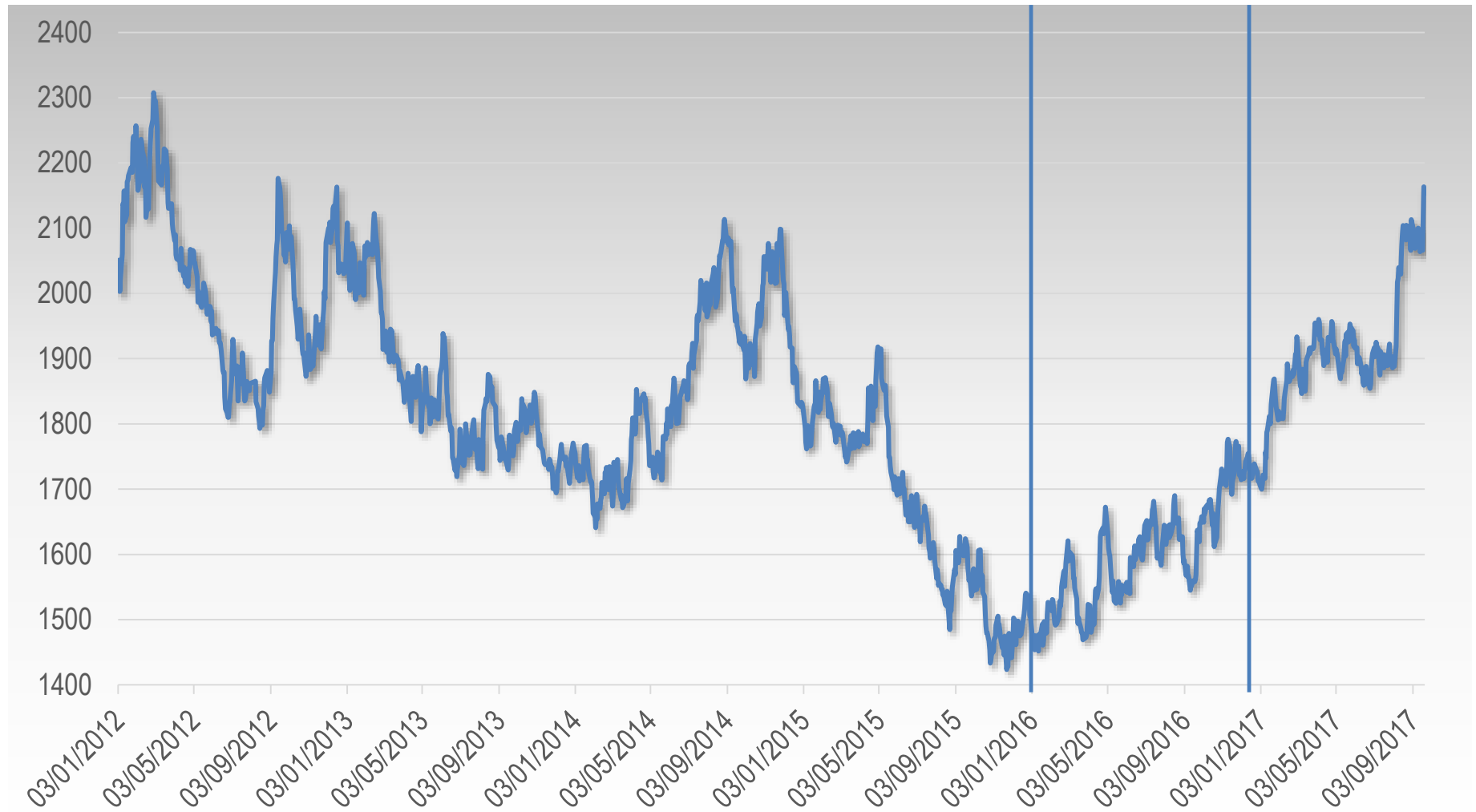
- ➔ **A series of trends (increasing demand for raw materials from emerging countries, the steel/aluminium eras, the emergence of electric cars, the domination of the Chinese metal industries) and profound disruptions which can be:**
  - Technological (from shale gas revolution to the blockchain tech)
  - 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 »

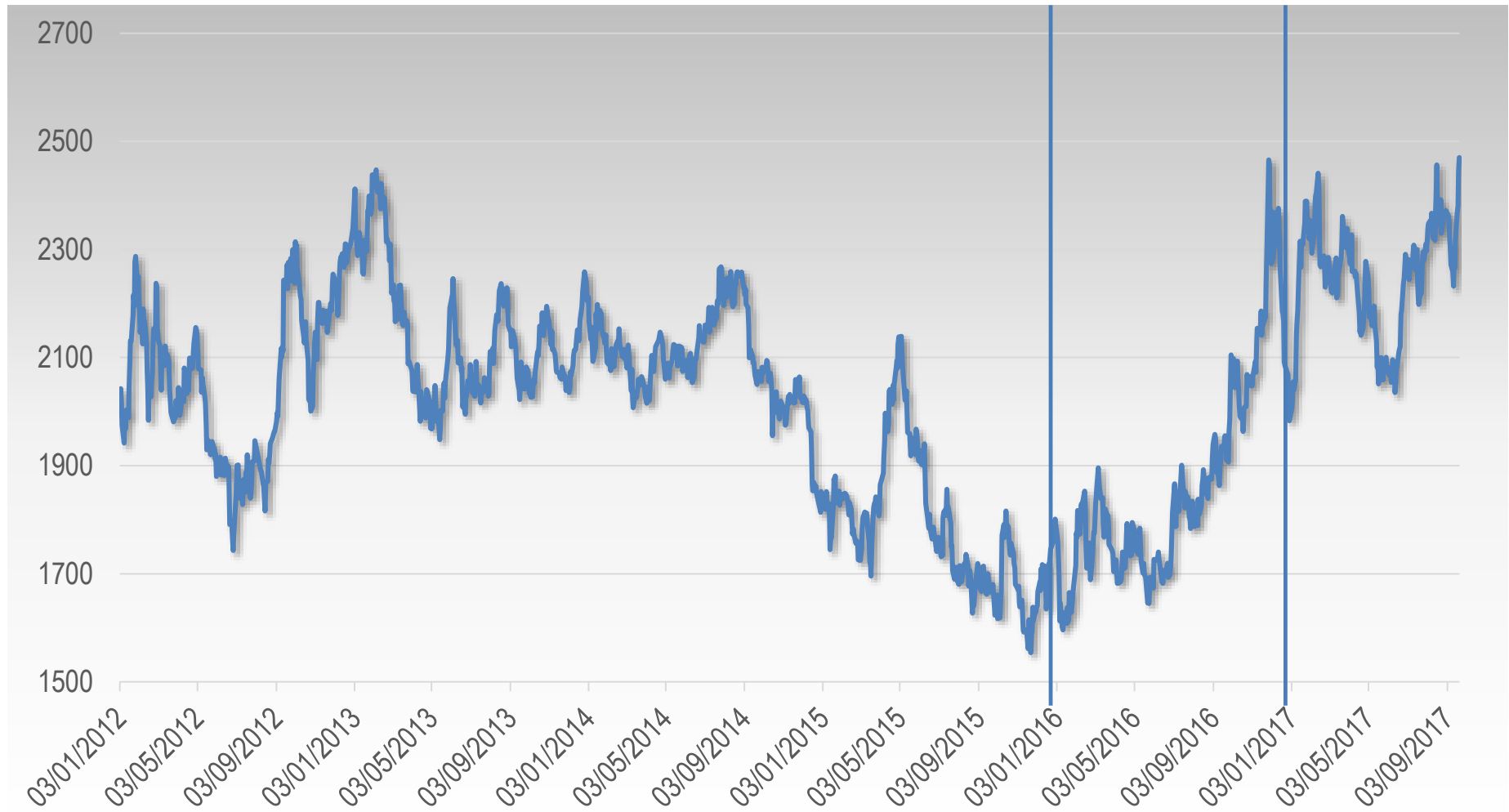


# Aluminium



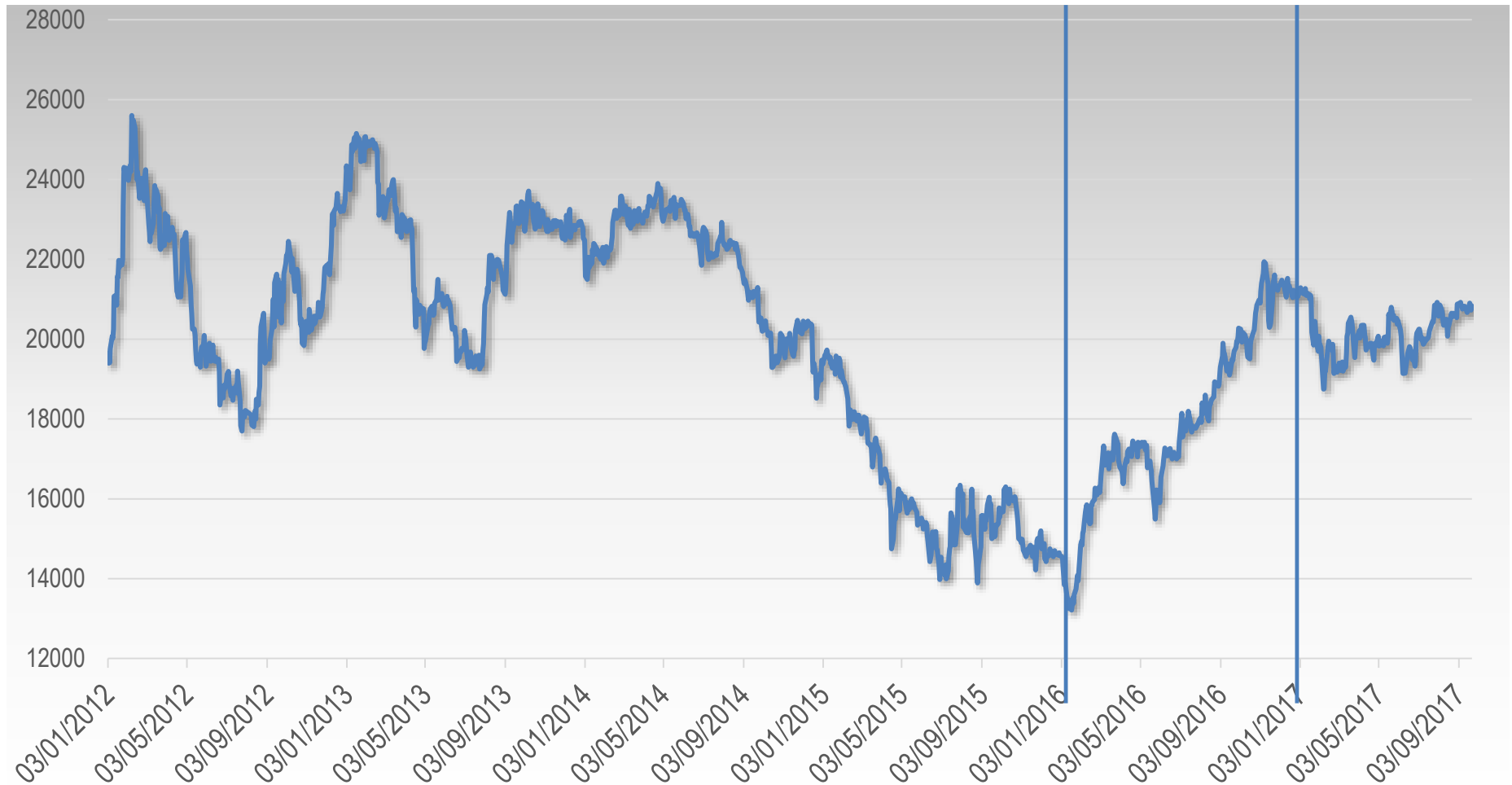
Source: LME

# Lead



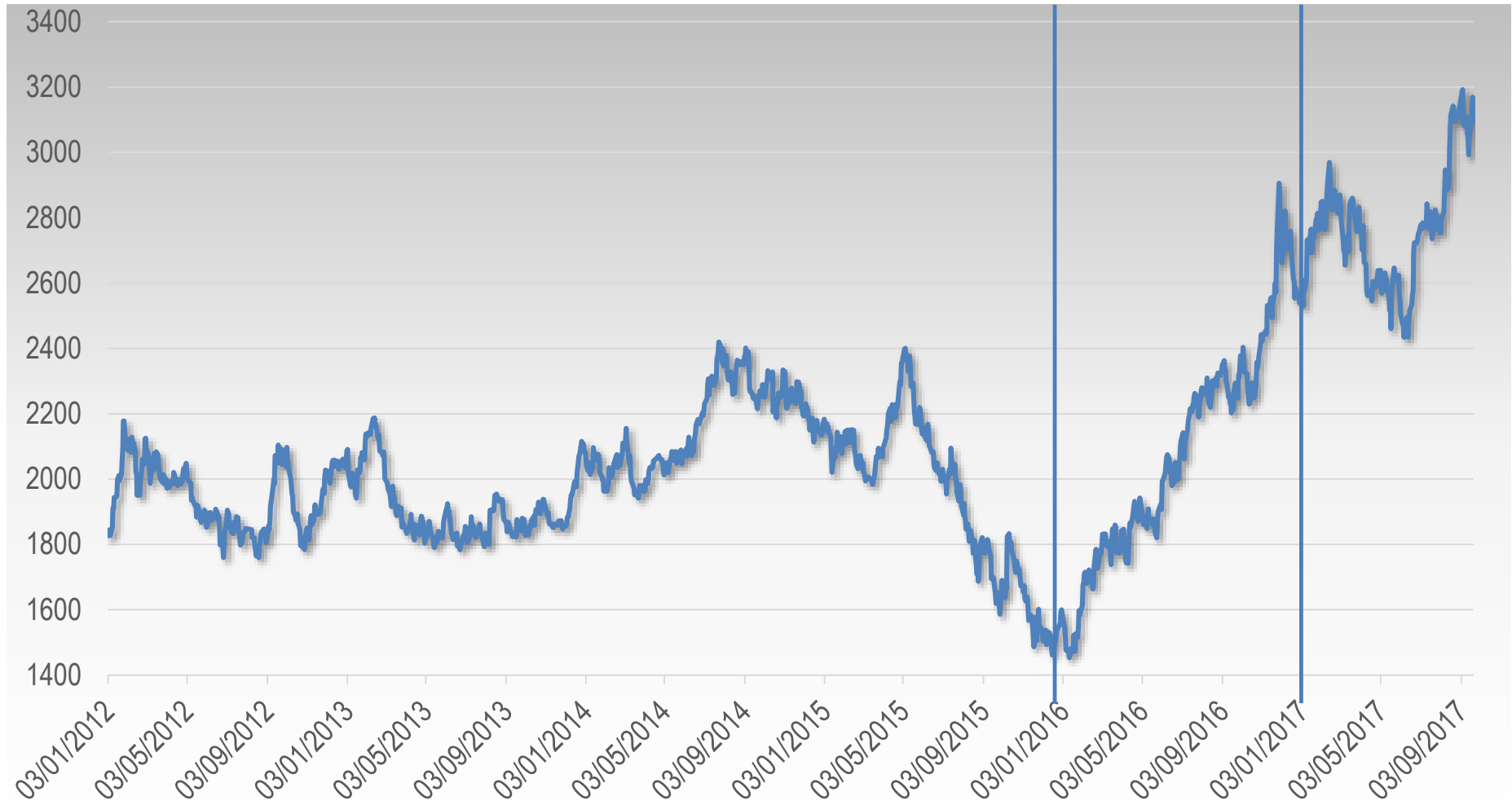
Source: LME

# Tin



Source: LME

# Zinc on the rise

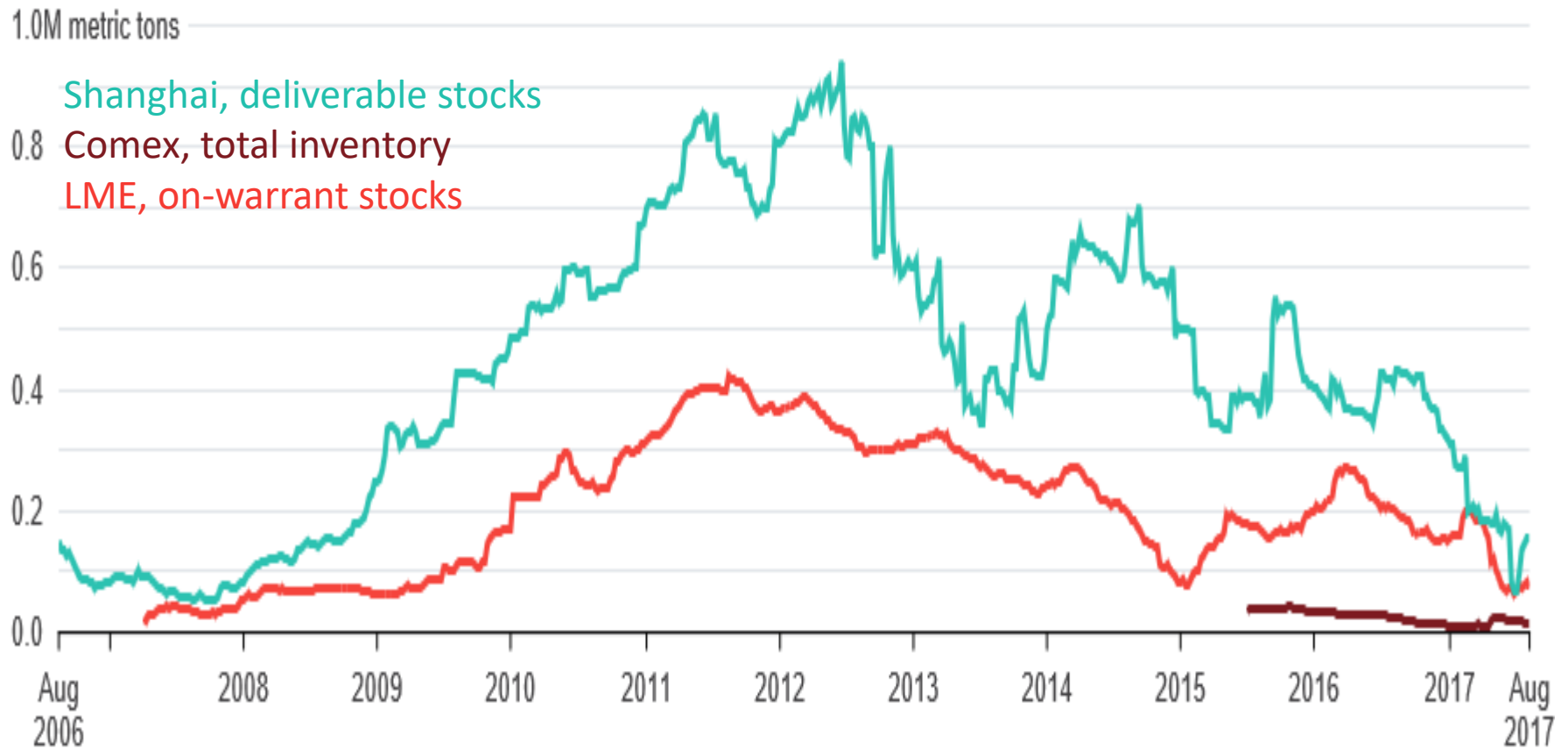


Source: LME



# Zinc on the rise

## The collapse of zinc inventories

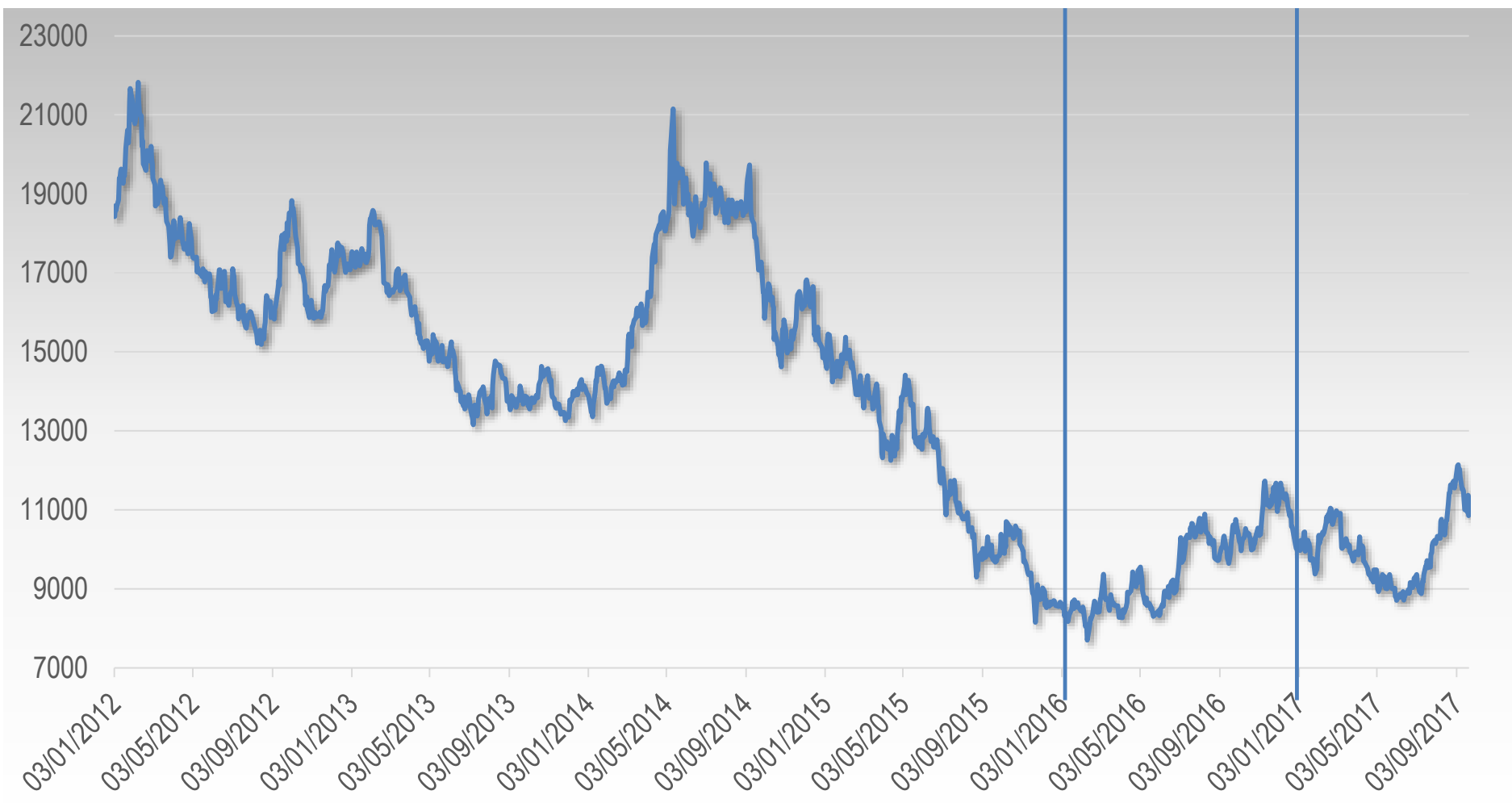


# Buoyant cobalt



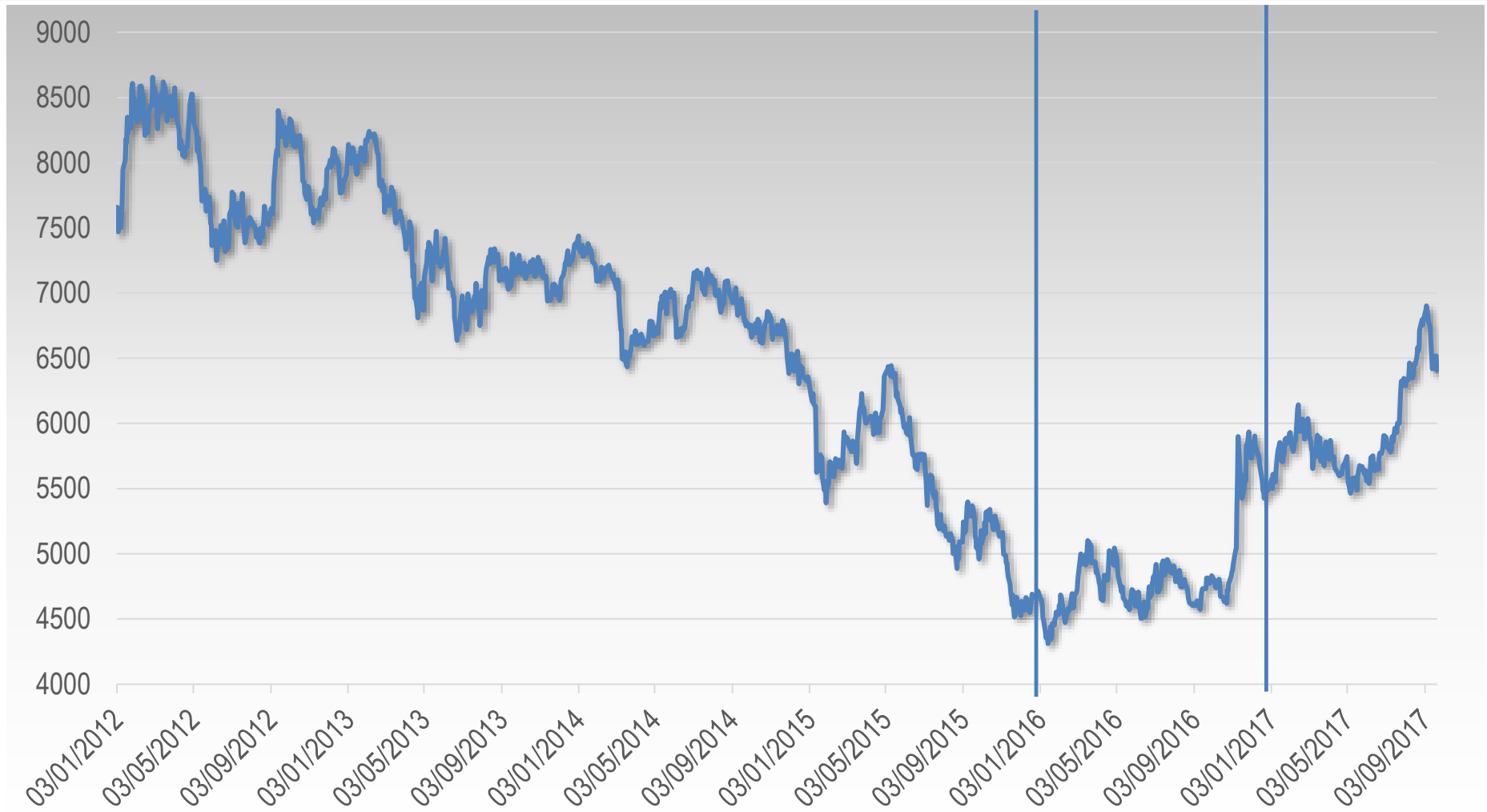
Source: LME

# Uncertainties over the nickel market



Source: LME

# Copper bouncing back



Source: LME

# Speculative bets in the copper market (1)

## Copper Bulls

### Speculative copper positions at historically high levels

■ Bloomberg CFTC CMX Copper Net Non-Commercial Futures Positions on 8/29/17 (R1) ■ LME Copper 3-month futures (L1)



Source: Bloomberg, CFTC

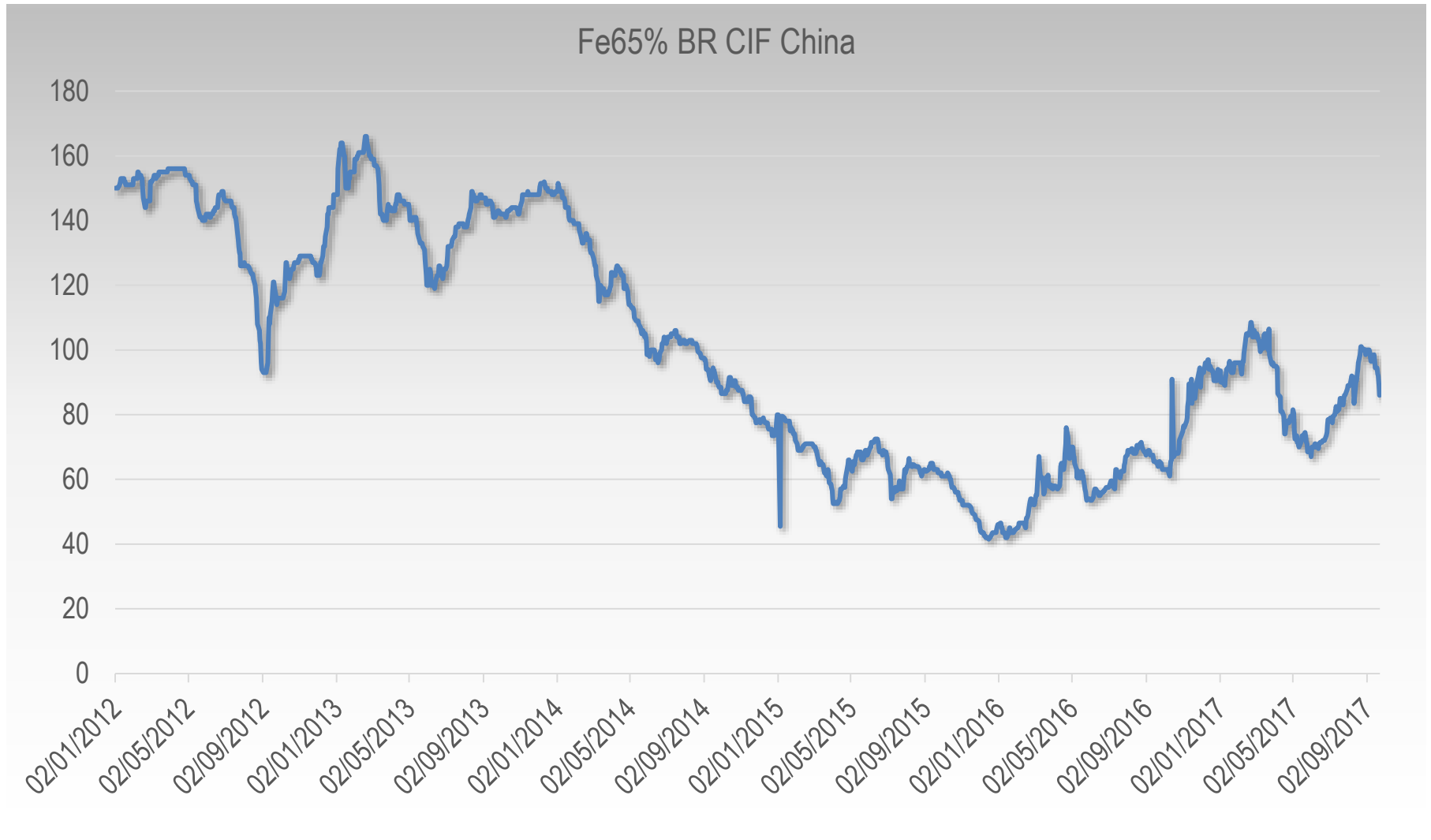
Bloomberg

# Speculative bets in the copper market

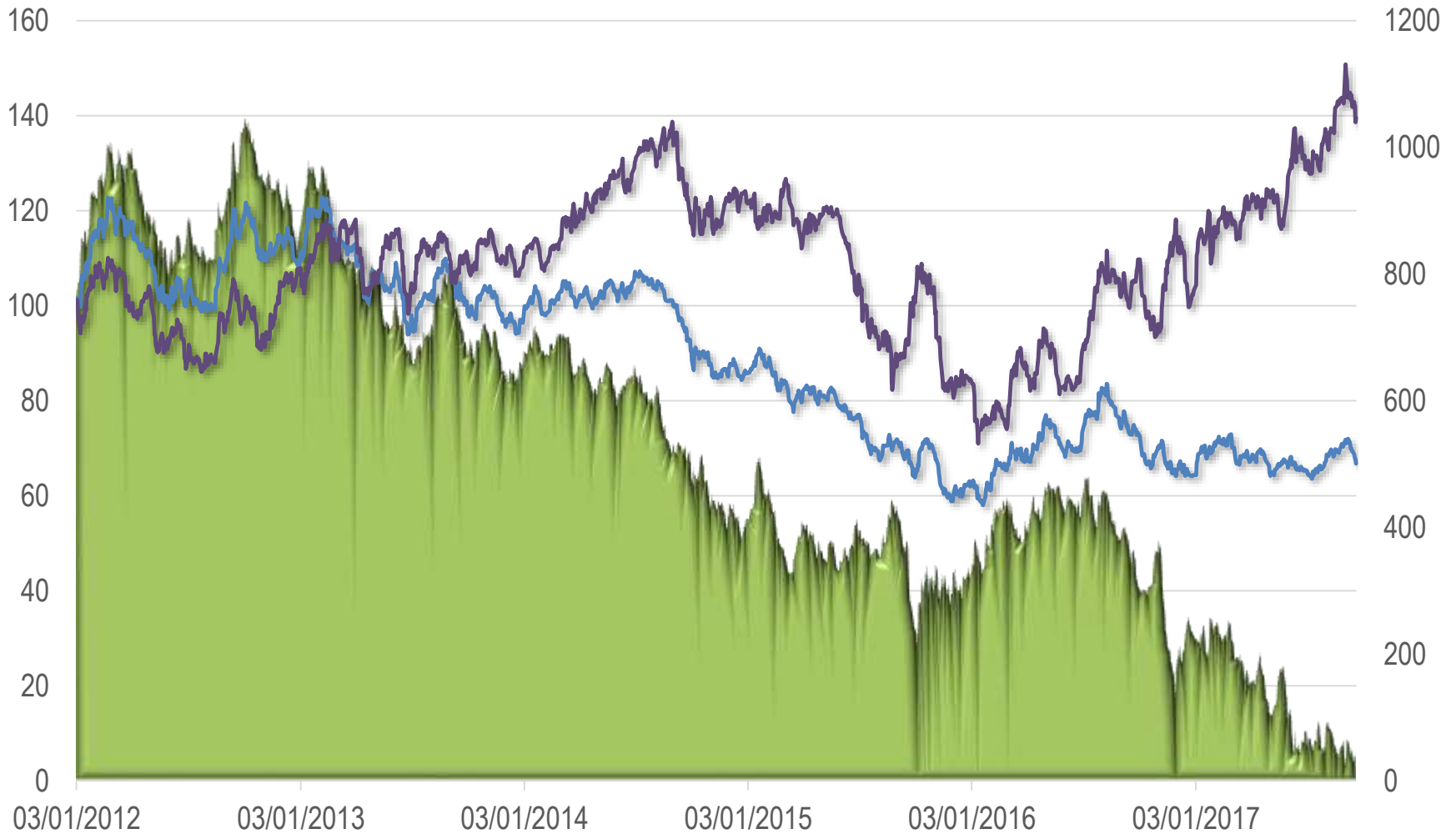
(2)



# Iron ore

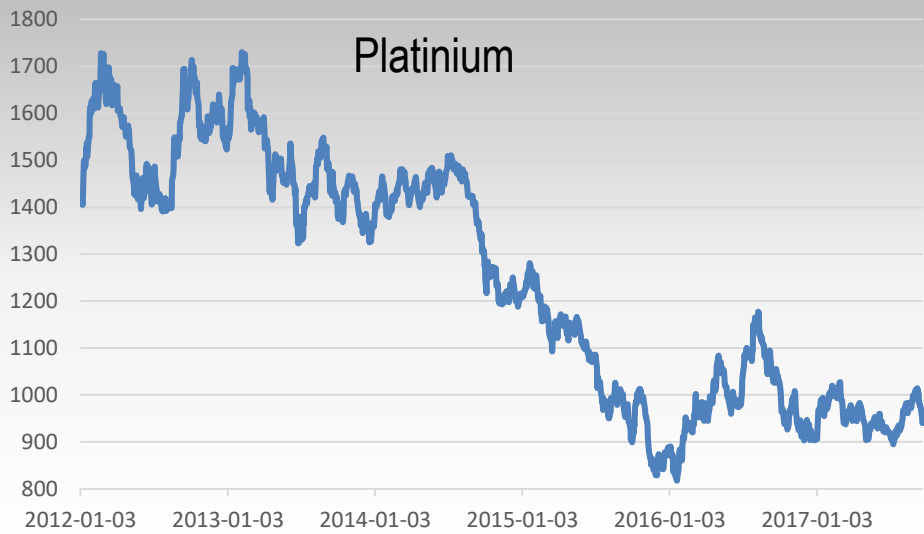
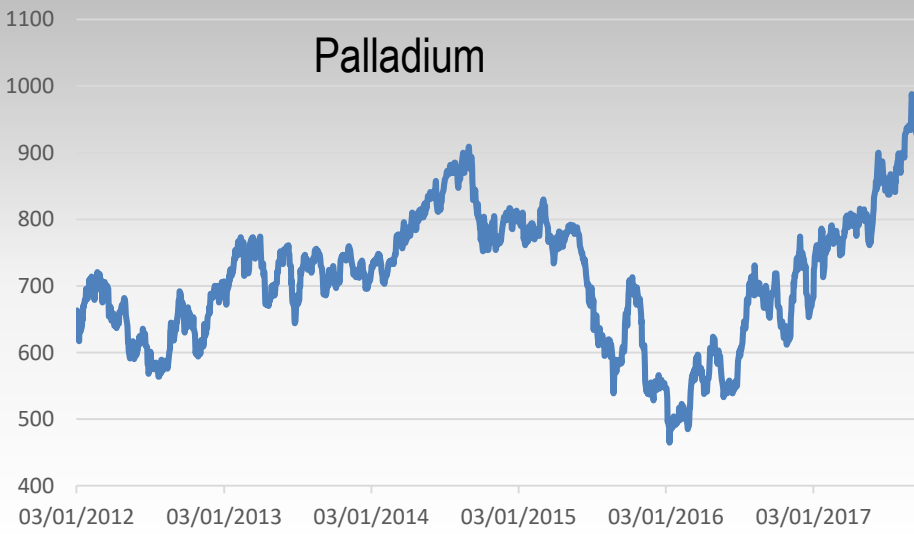
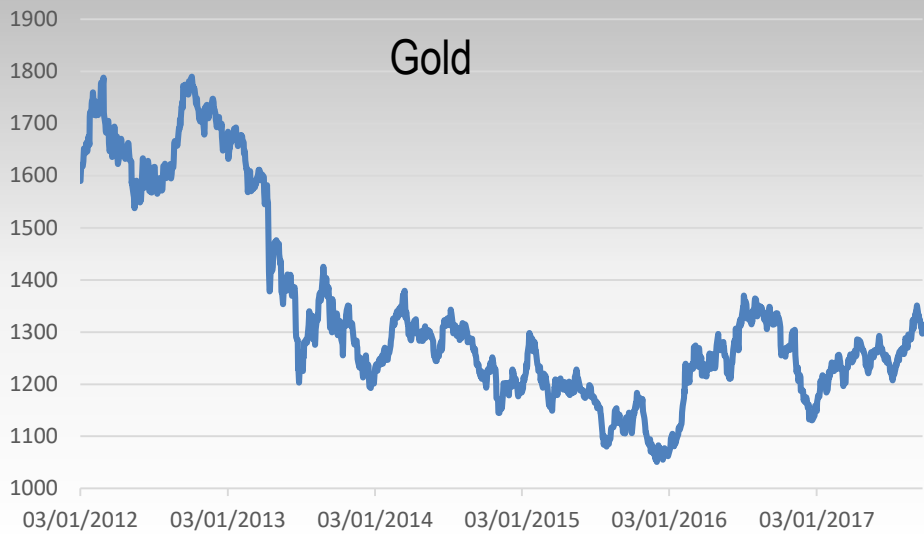


# Switching from platinum to palladium





# Precious metals at a glance



# 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)

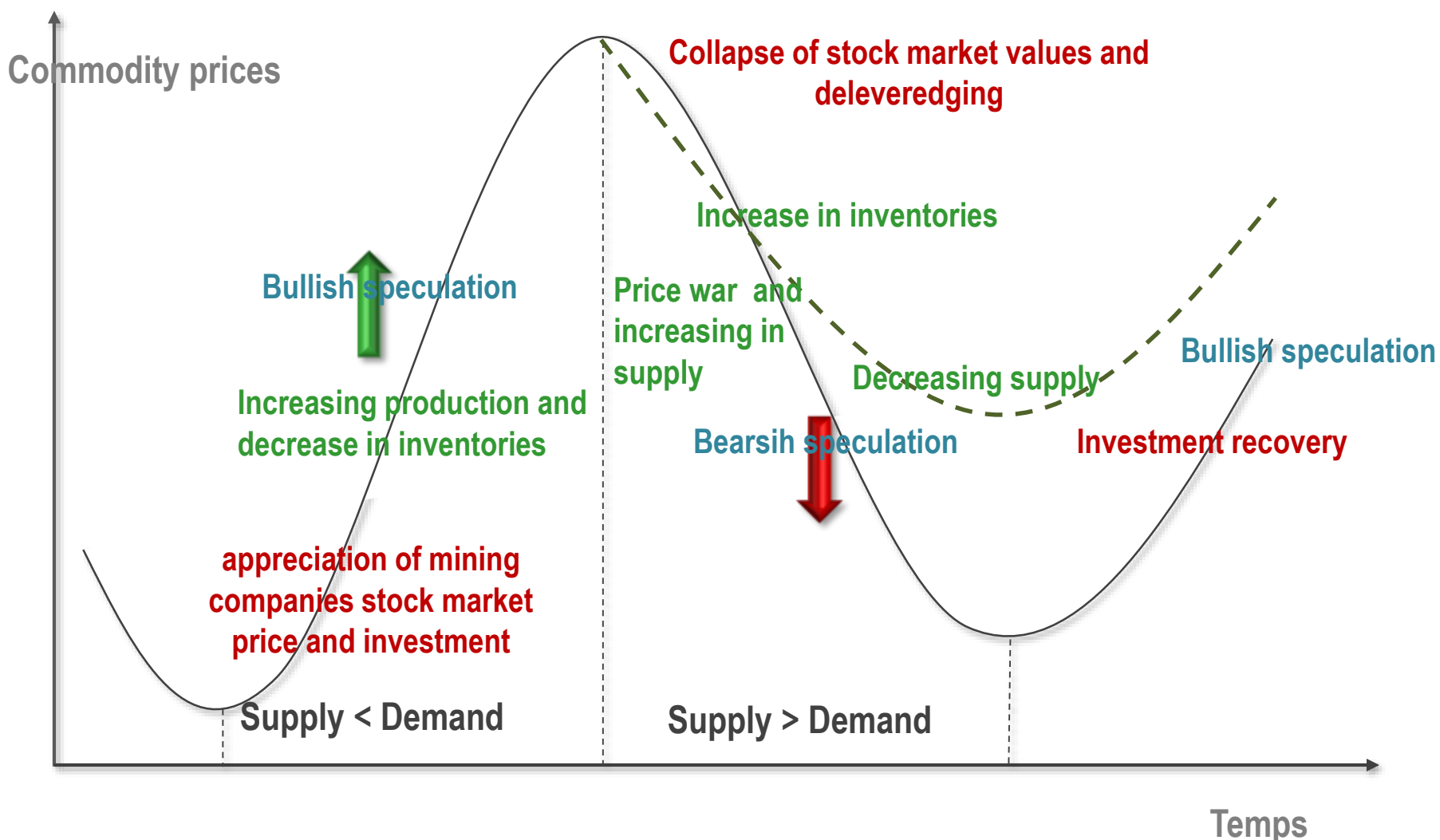
## 2. ...An increasingly restricted supply

- ➔ 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



# 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