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**Recent trends in minerals, ores and metals markets and
their implications for investment**

By

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The views expressed are those of the author and do not necessarily reflect
the views of UNCTAD.

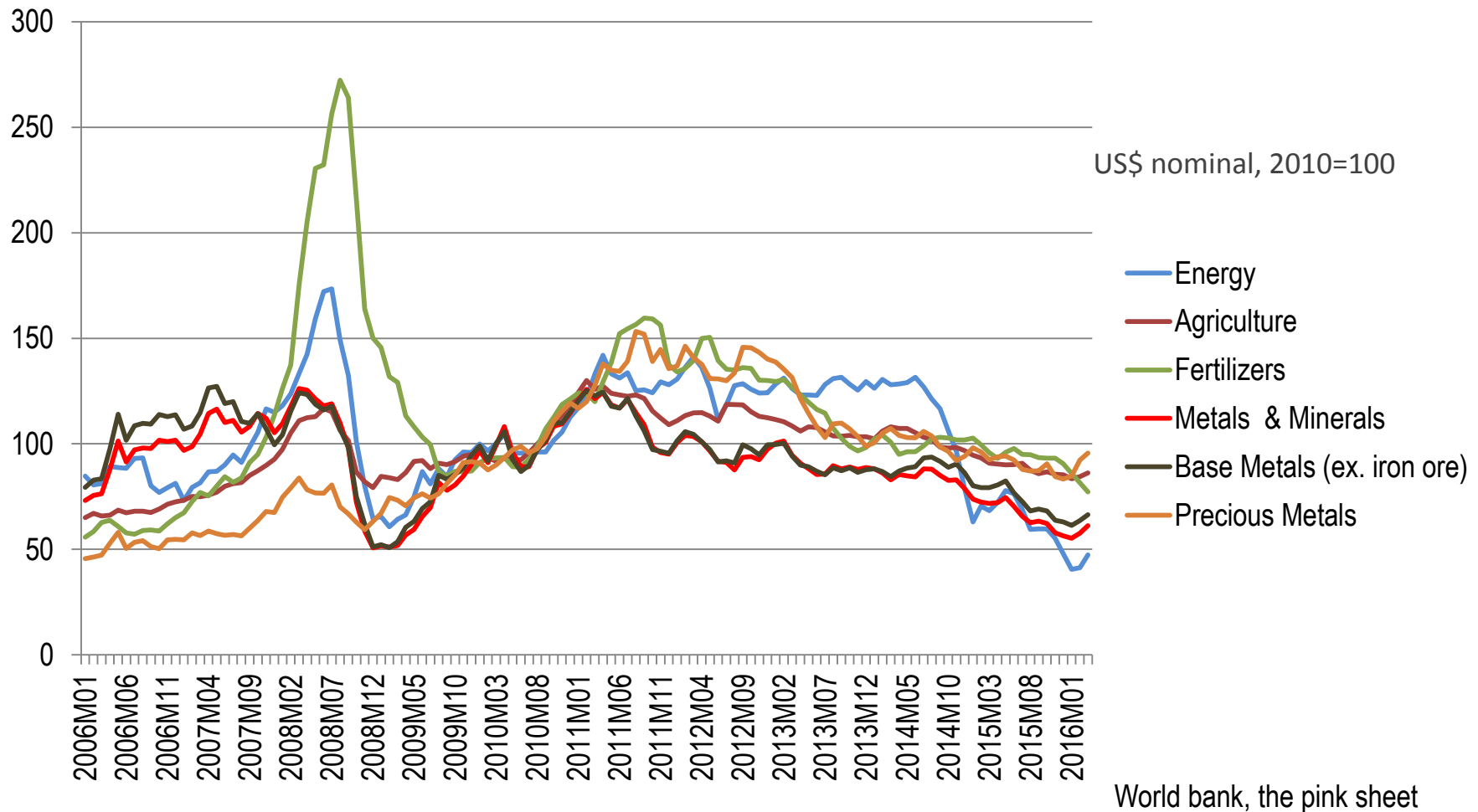
Recent trends on minerals, ores and metals markets and their implications for investment

« ... of drought and flooding rains »

Yves Jégourel

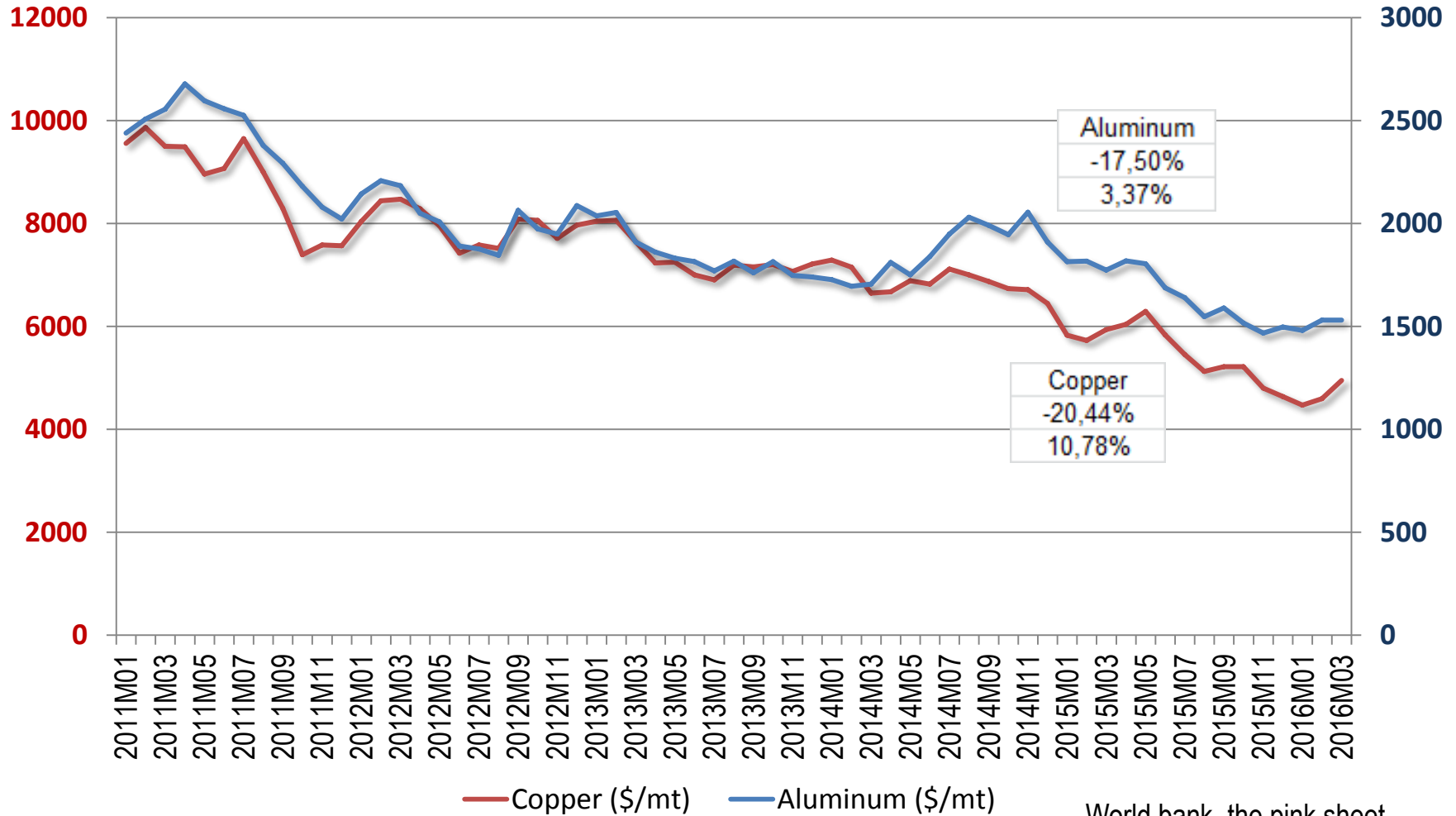
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Senior Fellow, OCP Policy Center
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The end of the so-called supercycle



The base metals' debacle

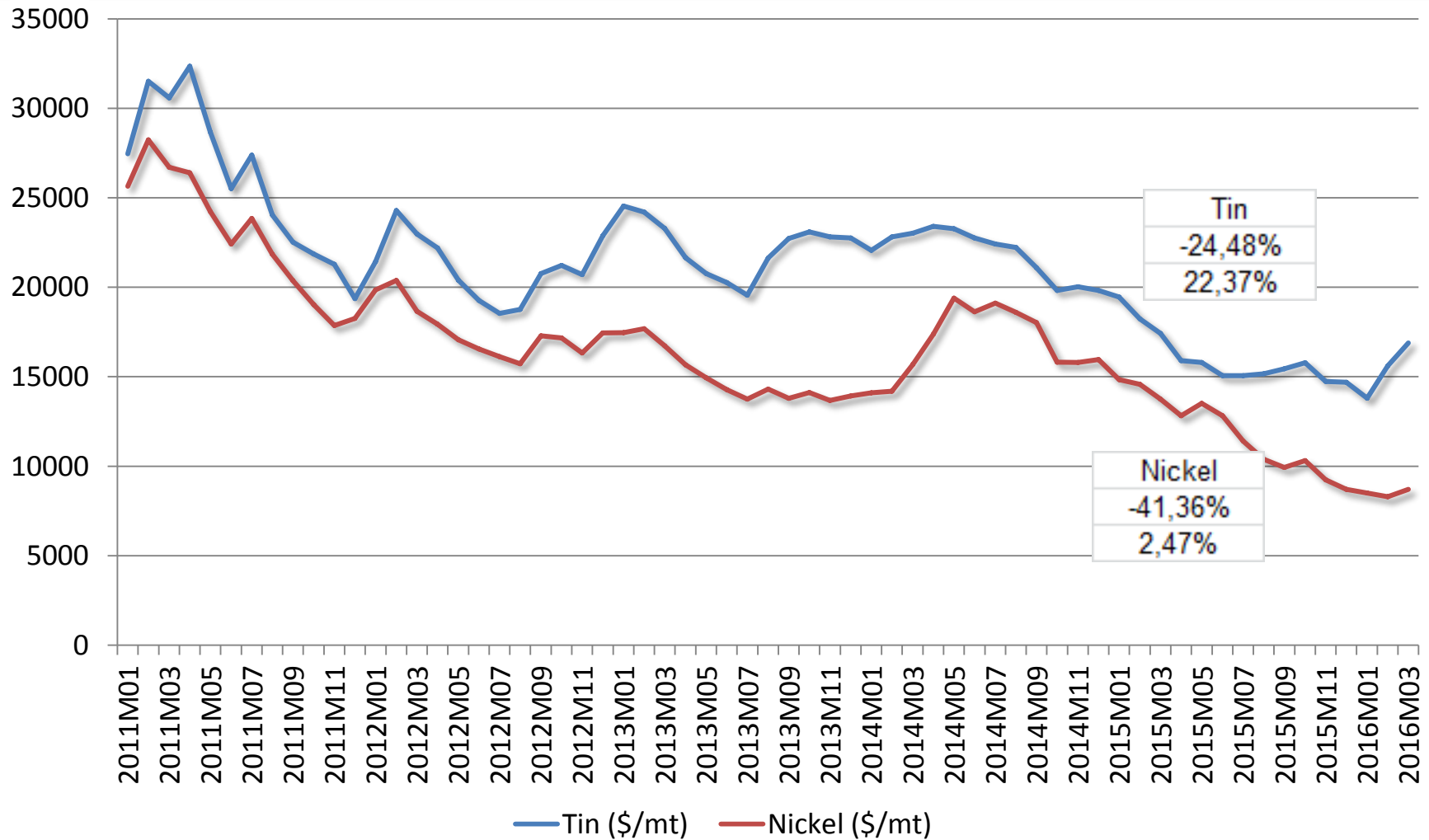
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World bank, the pink sheet

The base metals' debacle

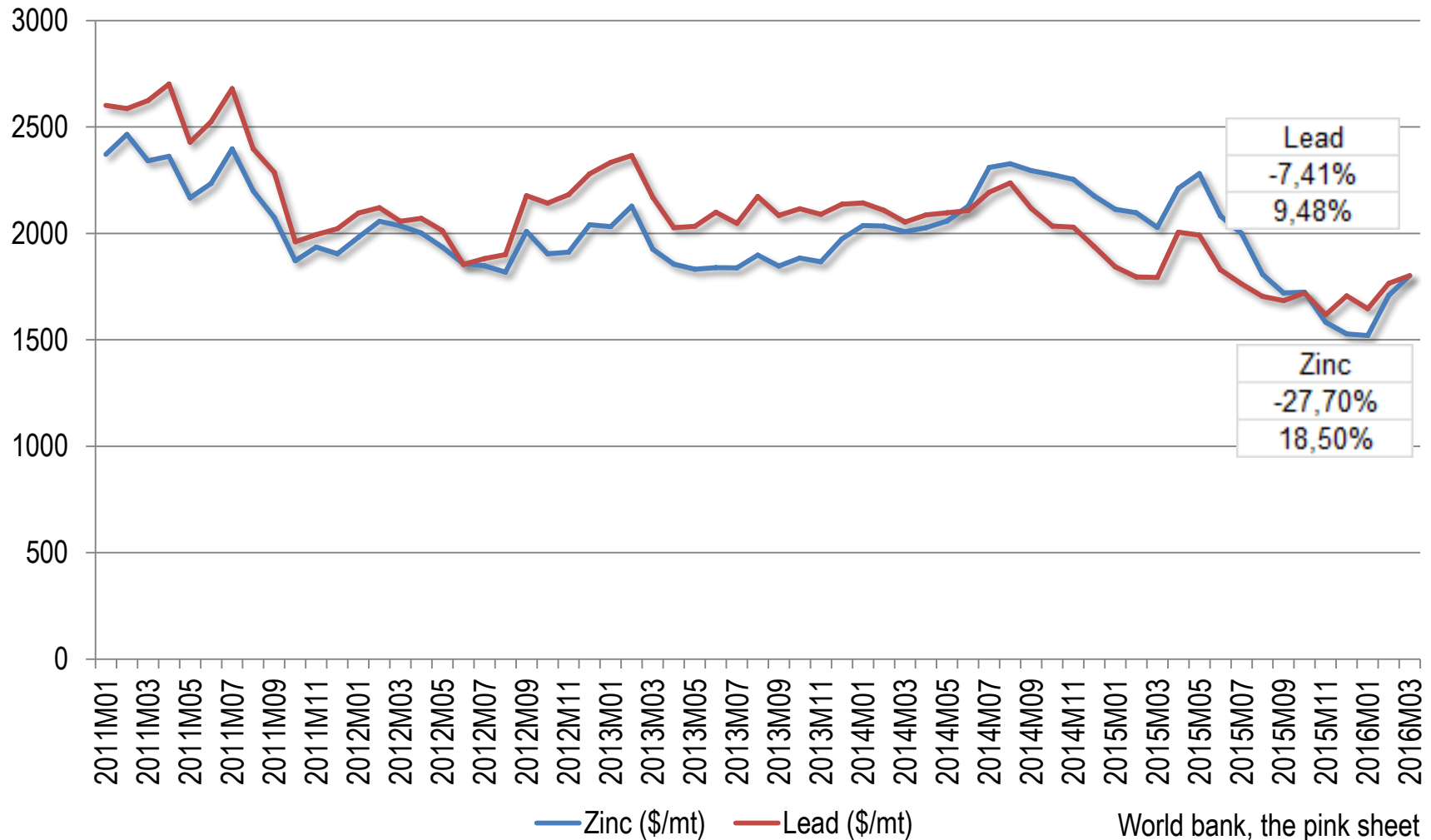
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World bank, the pink sheet

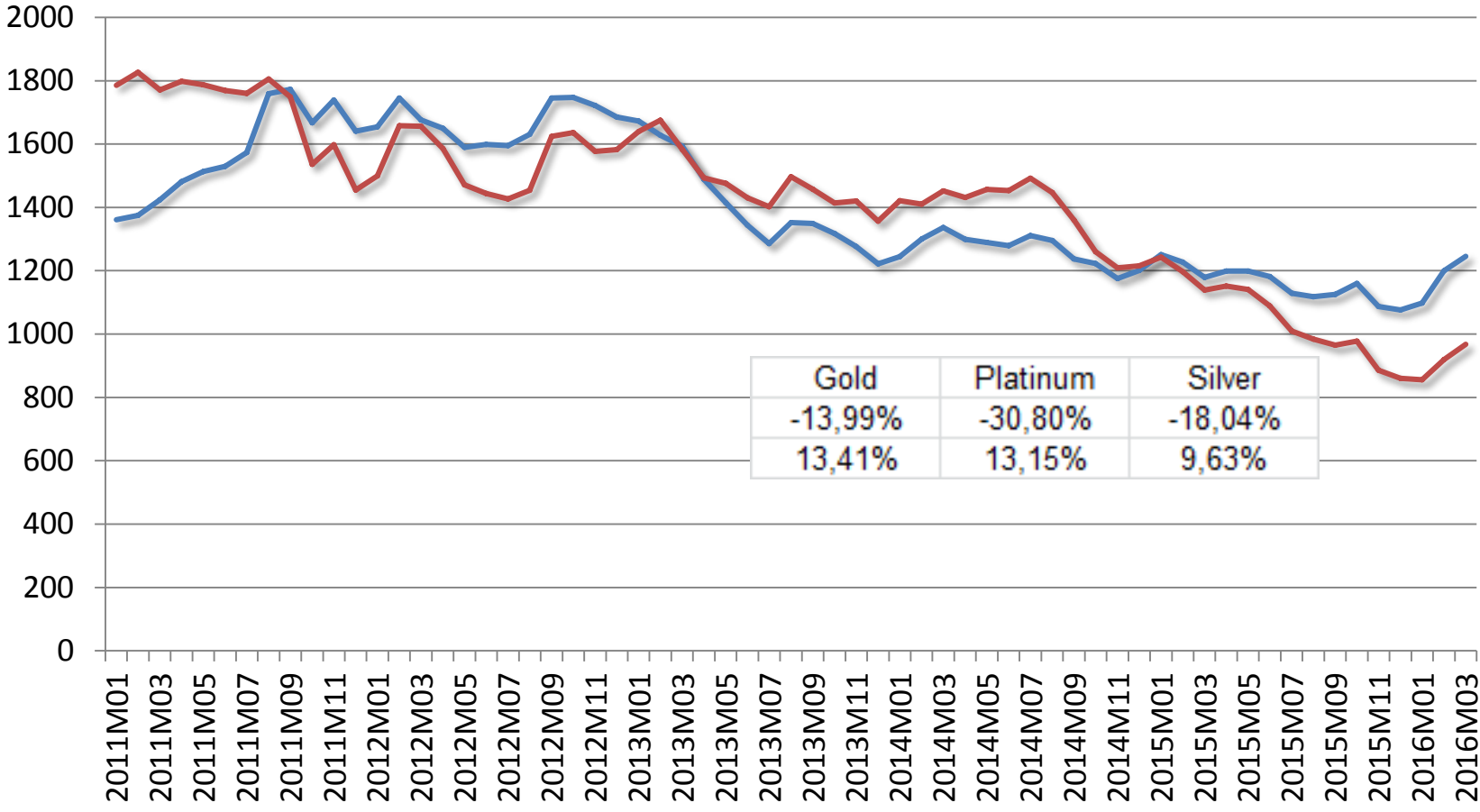
The base metals' debacle

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World bank, the pink sheet

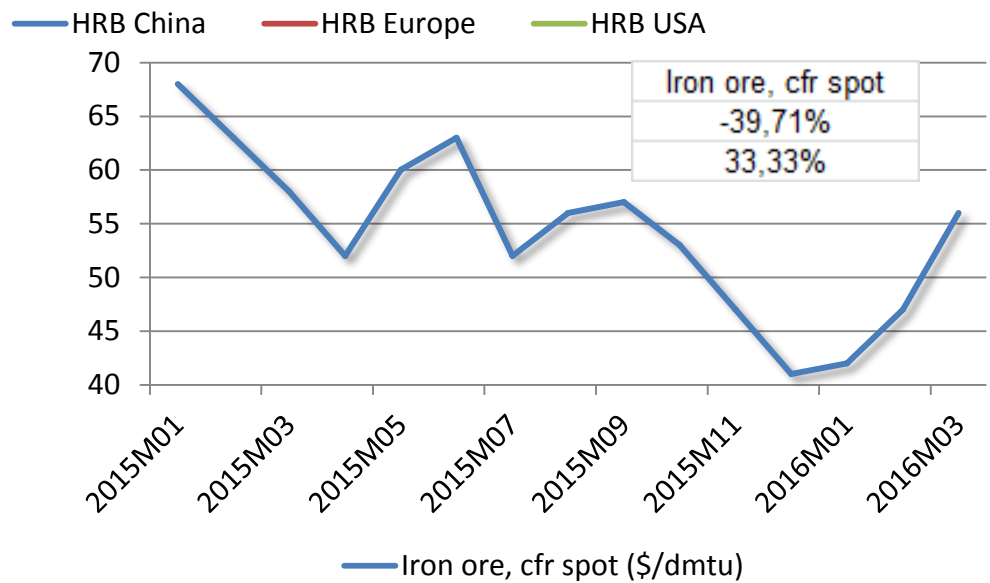
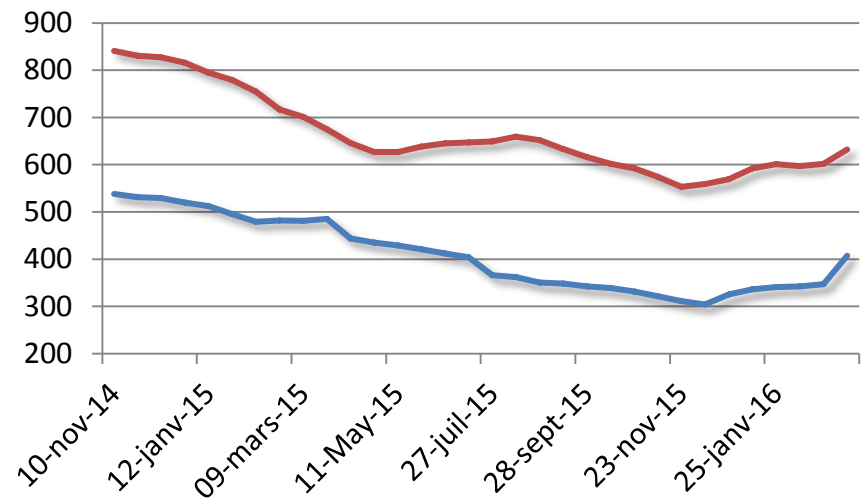
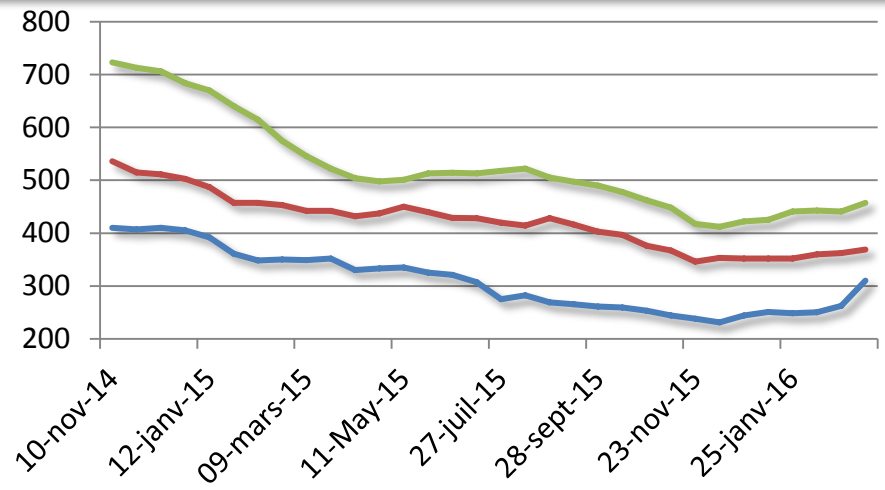
Precious metals



Gold	Platinum	Silver
-13,99%	-30,80%	-18,04%
13,41%	13,15%	9,63%

— Gold (\$/troy oz) — Platinum (\$/troy oz) World bank, the pink sheet

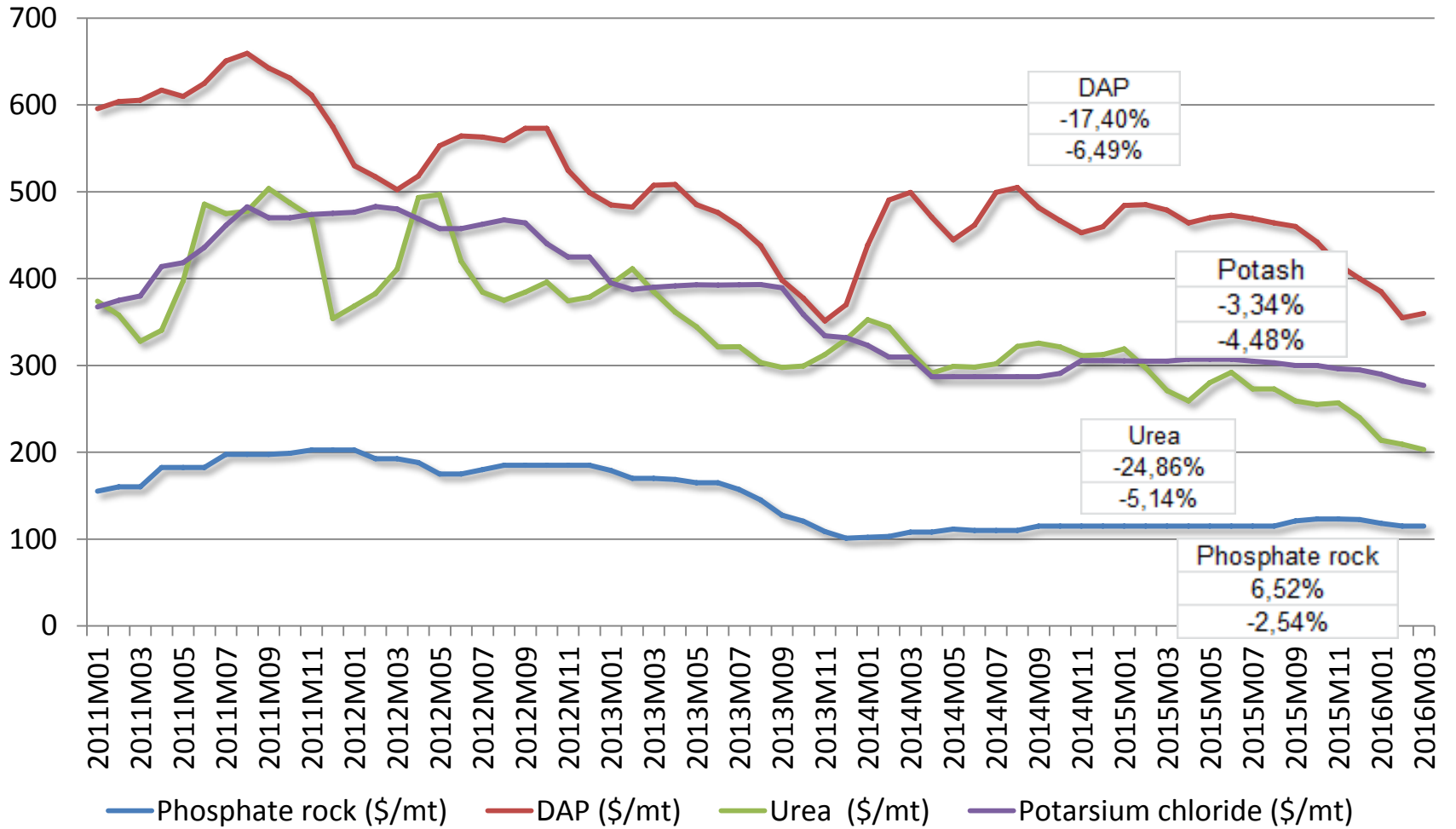
Iron ore and steel



— CRC China — CRC USA

World bank, the pink sheet and World steel

A counter-example: fertilizers



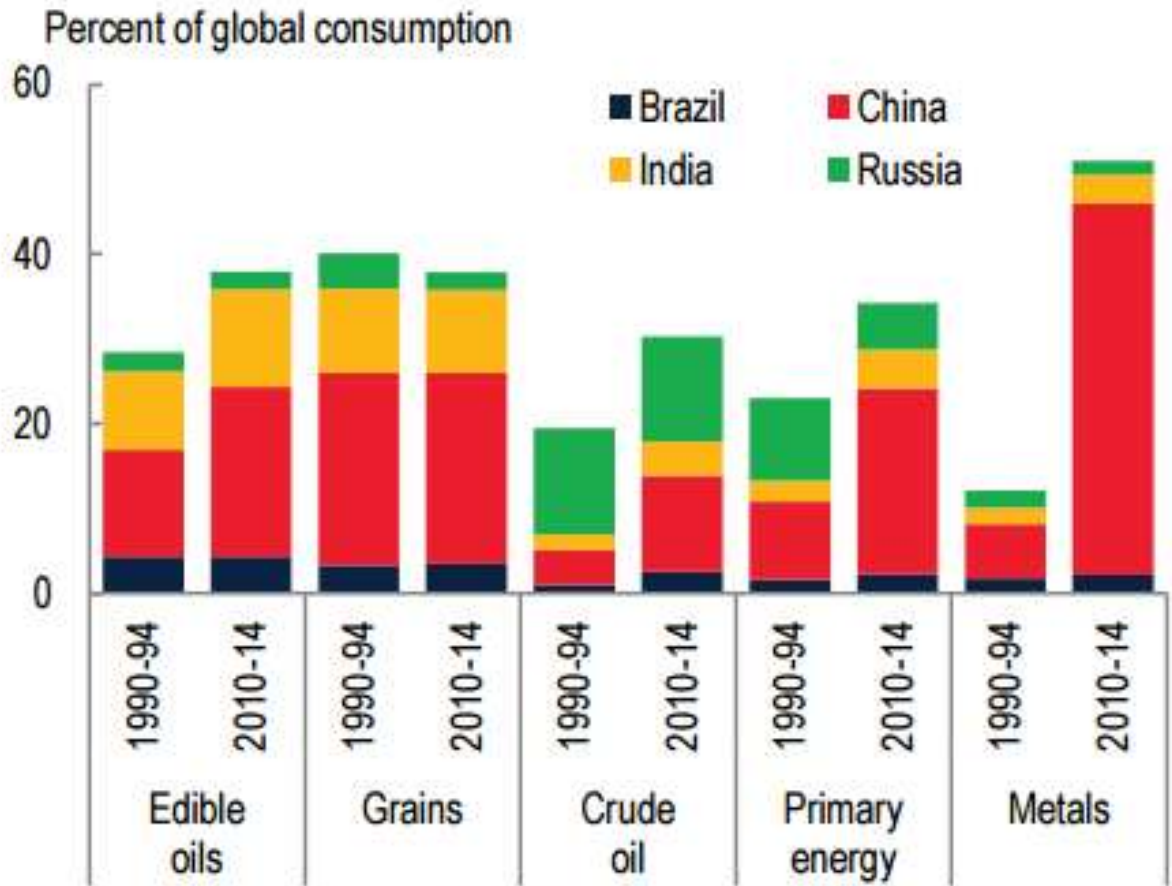
World bank, the pink sheet

Identifying the root causes of plummeting prices

The main reasons for ore and metals prices to fall are easy to find:

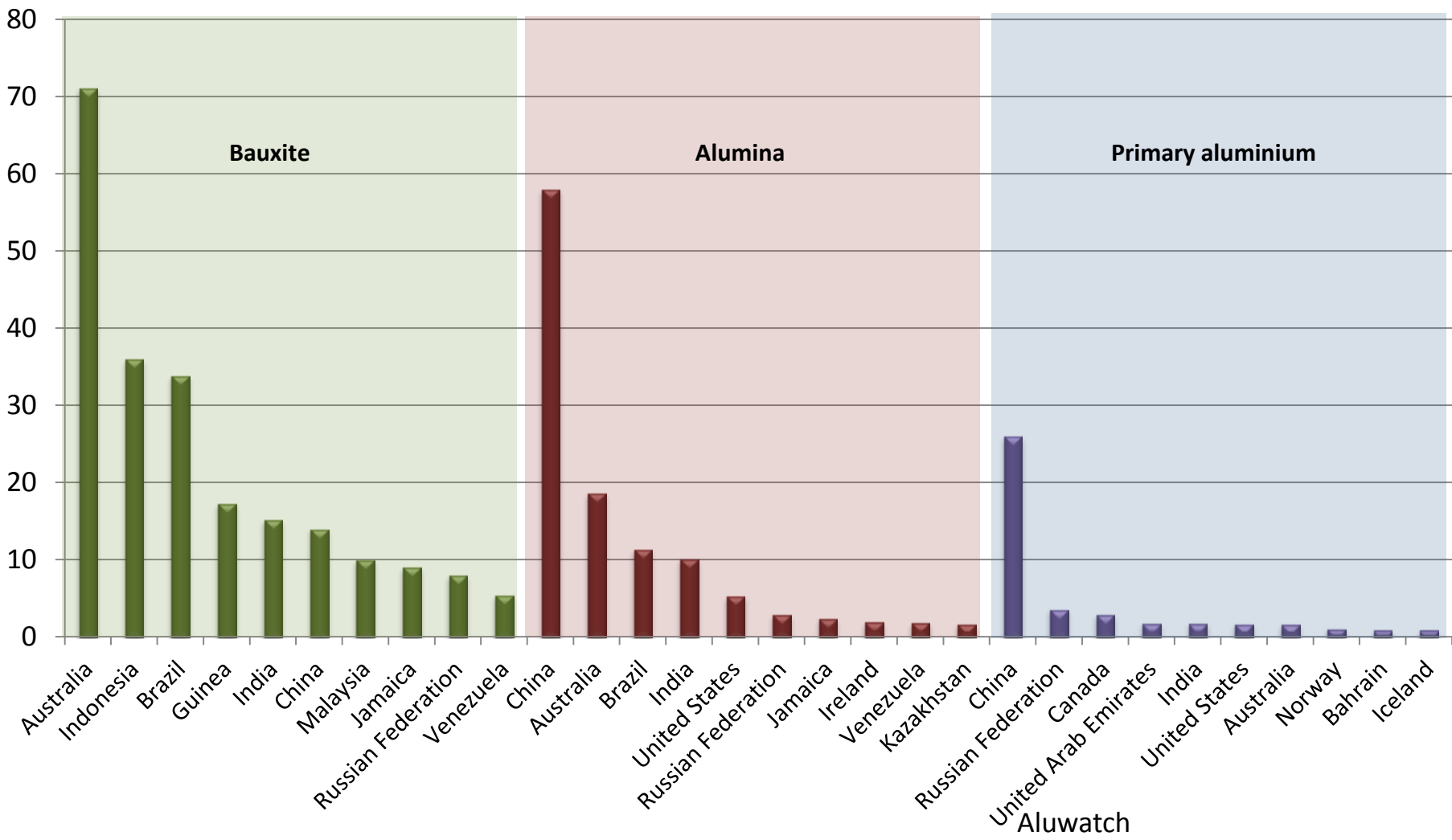
- ➔ A drop in demand, especially from China and emerging countries
- ➔ An excess supply combined with no further storage behaviours
- ➔ The end of « long speculation » from index managers and CTA's on ever increasing prices and, most probably, the rise in short speculative positions on commodity futures markets which exacerbate the drop in prices
- ➔ The key role of the US dollar whose 15% appreciation in 2015 has weighed on importing countries' purchasing power but helped producing countries (Russia, Australia, Brazil) and mining countries to mitigate their losses.
- ➔ A price war triggered by world top mining companies

Disappointing China's economic growth

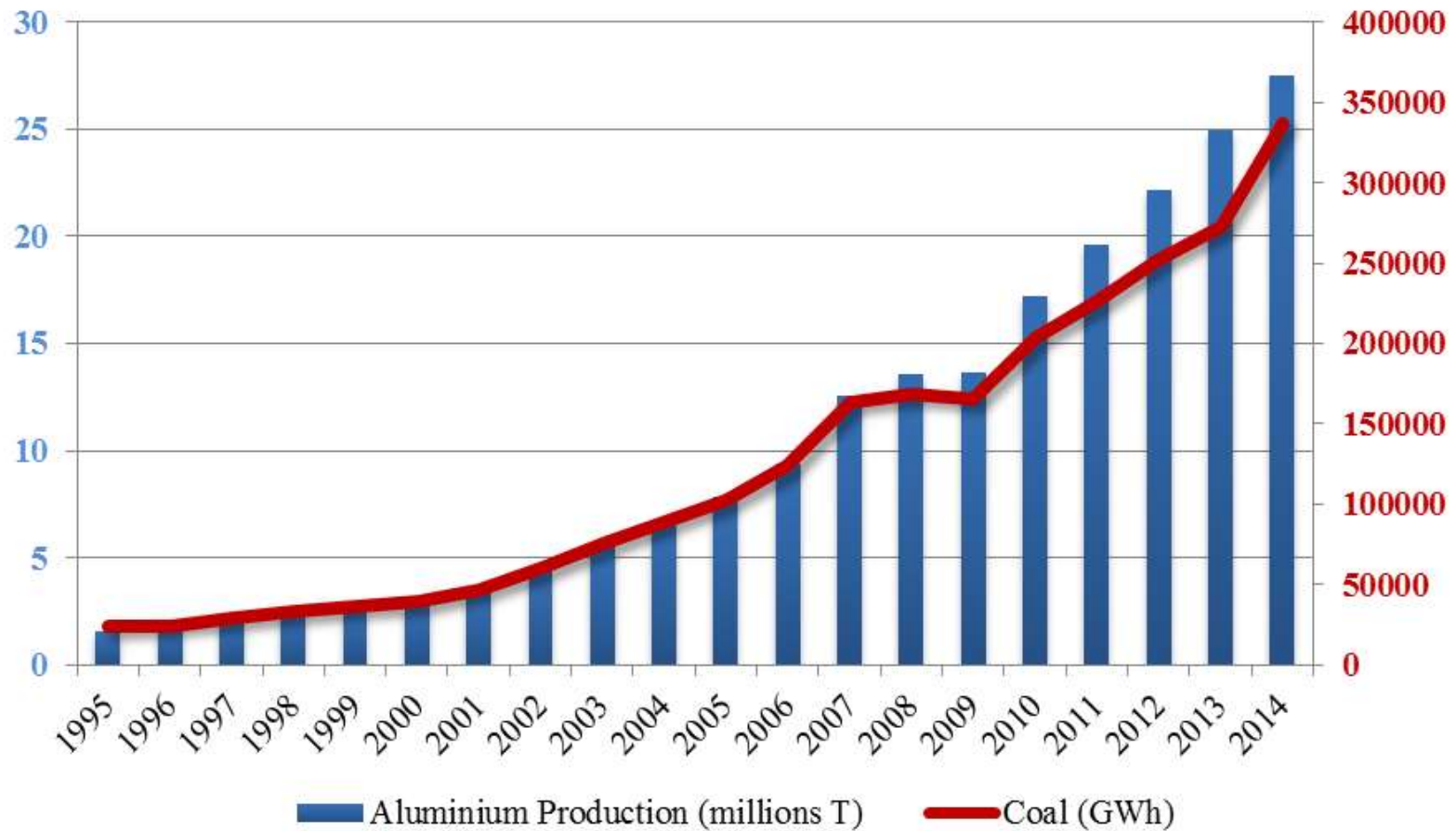


Sources: BP Statistical Review, U.S. Department of Agriculture, World Bureau of Metal Statistics.

Steel & primary aluminum: the Chinese juggernaut



Steel & aluminum: the Chinese juggernaut



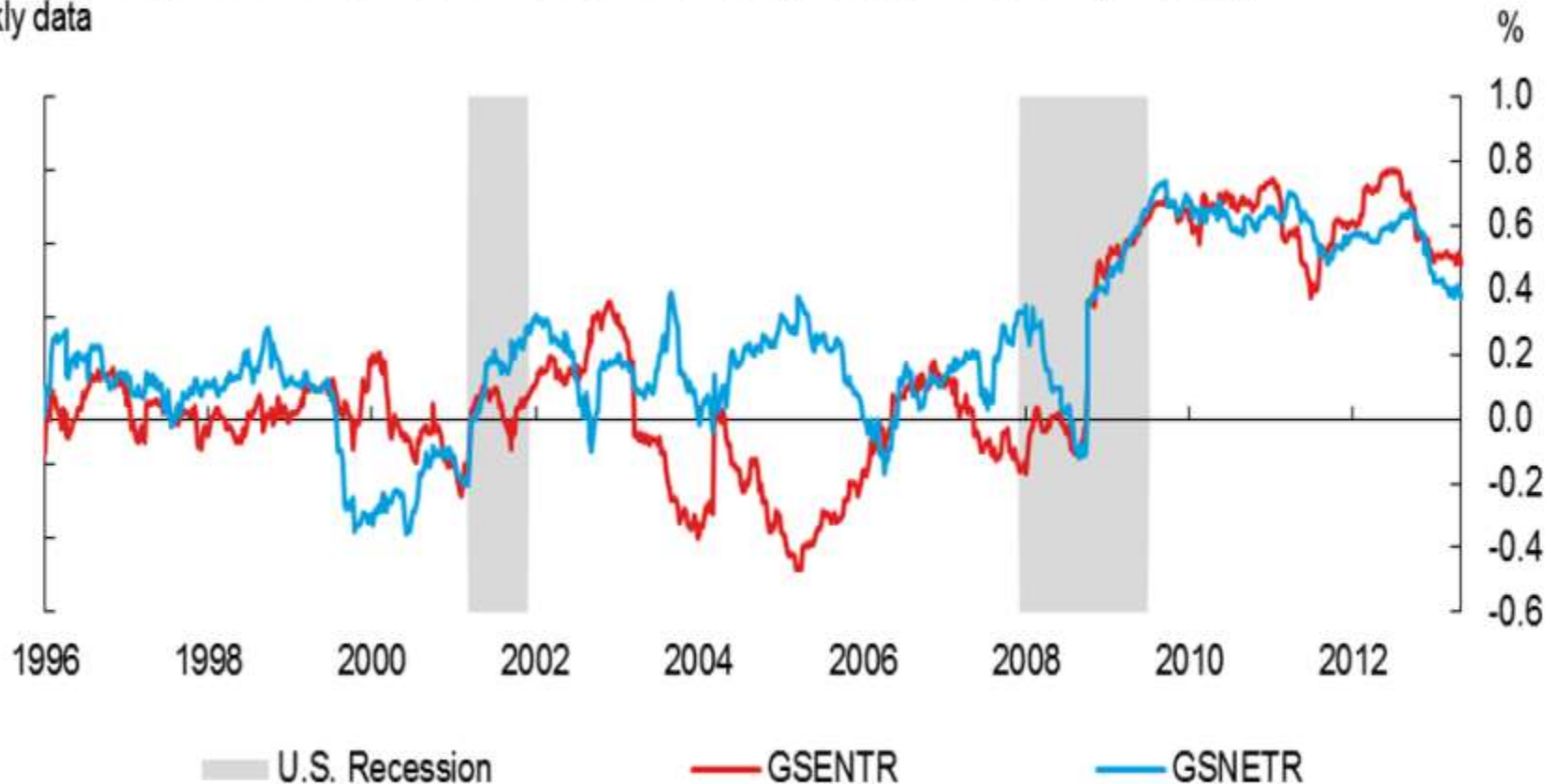
Steel & aluminum: the Chinese juggernaut

	Crude steel	2008	2009	2010	2011	2012	2013	2014	2015	
World production		1 341,2	1 235,1	1 431,7	1 529,2	1 552,9	1 642,2	1670,1	1598,8	
dont China		512,3	577,1	638,7	694,8	724,7	815,4	822,7	803,8	
EU		198,2	139,3	173,8	177,7	168,6	166,3	169,3	166,1	
Germany		45,8	32,7	43,8	44,3	42,7	42,6	42,9	42,7	
Italy		30,6	19,8	25,8	28,7	27,3	24,1	23,7	22,0	
France		17,9	12,8	15,4	15,8	15,6	15,7	16,1	15,0	
Japan		118,7	87,5	109,6	107,6	107,2	110,6	110,7	105,2	
United states		91,4	58,2	80,5	86,4	88,7	86,9	88,2	78,8	
India		57,8	63,5	69,0	73,6	77,3	81,3	87,3	89,6	
Russia		68,5	60,0	66,9	68,9	70,4	68,9	71,5	70,9	
South Korea		53,6	48,6	58,9	68,5	69,1	66,1	71,5	69,7	
Turkey		26,8	25,3	29,1	34,1	35,9	34,7	34,0	31,5	
Brazil		33,7	26,5	32,9	35,2	34,5	34,2	33,9	33,2	
Ukraine		37,3	29,9	33,4	35,3	33,0	32,8	27,2	23,0	
	<i>(million tons)</i>			<i>(Source : Worldsteel)</i>						

The end of « long spec » strategies

Correlation Between Weekly Return on S&P 500 and Goldman Sachs Energy Total Return Index (GSENTR) and Goldman Sachs Non-Energy Total Return Index (GSNETR)

Weekly data

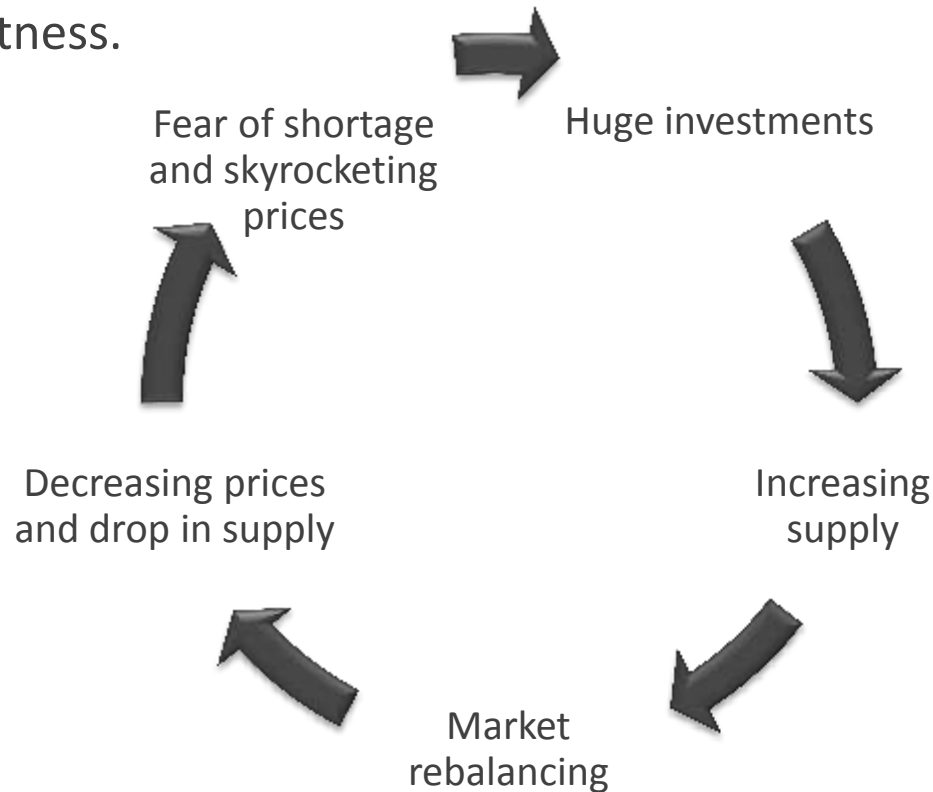


Source: Bank of Canada calculations

Last observation: 29 April 2013

The procyclicality of investment strategies

- The procyclicality of investments in energy & metals industries is a historical constant: too much investments when prices soar and, conversely, a high level of sell-offs when prices plummet to cope with negative net profits and growing indebtedness.



Towards a paradigm shift?

- ➔ The combination of rising prices and the abundance of monetary liquidity in international markets had led most to engage in vertical integration strategies
- ➔ The end of the bullish momentum naturally changes the game and thus integration strategies fall out of favor. Companies that are indebted are obliged to reduce their balance sheets, which implies a strategy to divest less profitable assets allowing them to focus on their “core business,” while the need for securing supplies for consuming businesses diminishes.
- ➔ Since the overall market offer is in surplus, buyers can now seek supplies at the best prices, while producers, constrained financially, try to compensate for falling prices by increasing their sales volume and thus their sales outlets. In other words, **this should result in strengthening the position of the international "independent" trading companies of producers and users.**