



# Metals Prices & Mining Stocks

## What to watch out for into 2010

**Sydney June 2009**

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## Top Resources Stocks should have sufficient access to cash – and also be able to demonstrate.....

- **Attractive Price:** That the market is placing an incorrect (low) value on its future prospects – and that this value-gap will close in future
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- **Margin Capability:** That the company controls (or has a likelihood to discover) a mineral resource capable of delivering a sustainable operating margin at forecast commodity prices
- **Project Capability:** That technical & financial impediments to delivery of new projects can be overcome (without building the Titanic)



## **Commodity prices are always relevant to company prices: Metals are along the road to recovery, but watch out for bumps ahead**

- Marked recovery in prices (eg LME metals) since late 2008-early 2009
- Optimism based on microeconomic tightness, ie low(ish) stocks – but outlooks differ for each metal
- Macroeconomic stimulus filtering through to key some consumption segments – not all
- Lots of scope for rises above early 2009 levels (as observed) – but prices getting ahead of recovery trajectories from fundamentals



## Are only brave investors looking at commodities now?

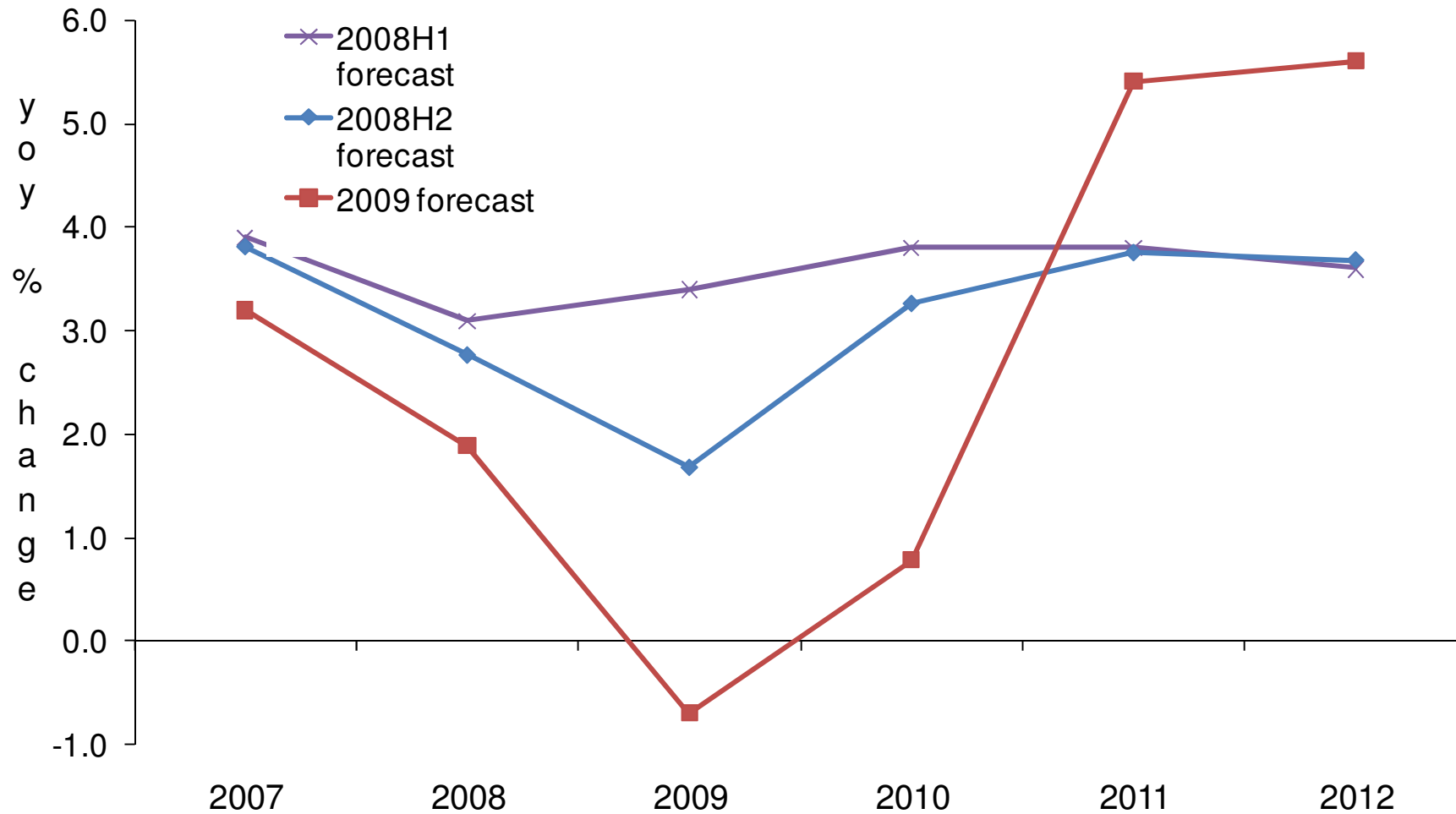
- Money returned to commodities end 2008 - the world still needs them.
- Who do you think started buying first?
- Gains in 2009 have been marked (in metals & resources stocks)





# But how confident are we that economists know the floor?

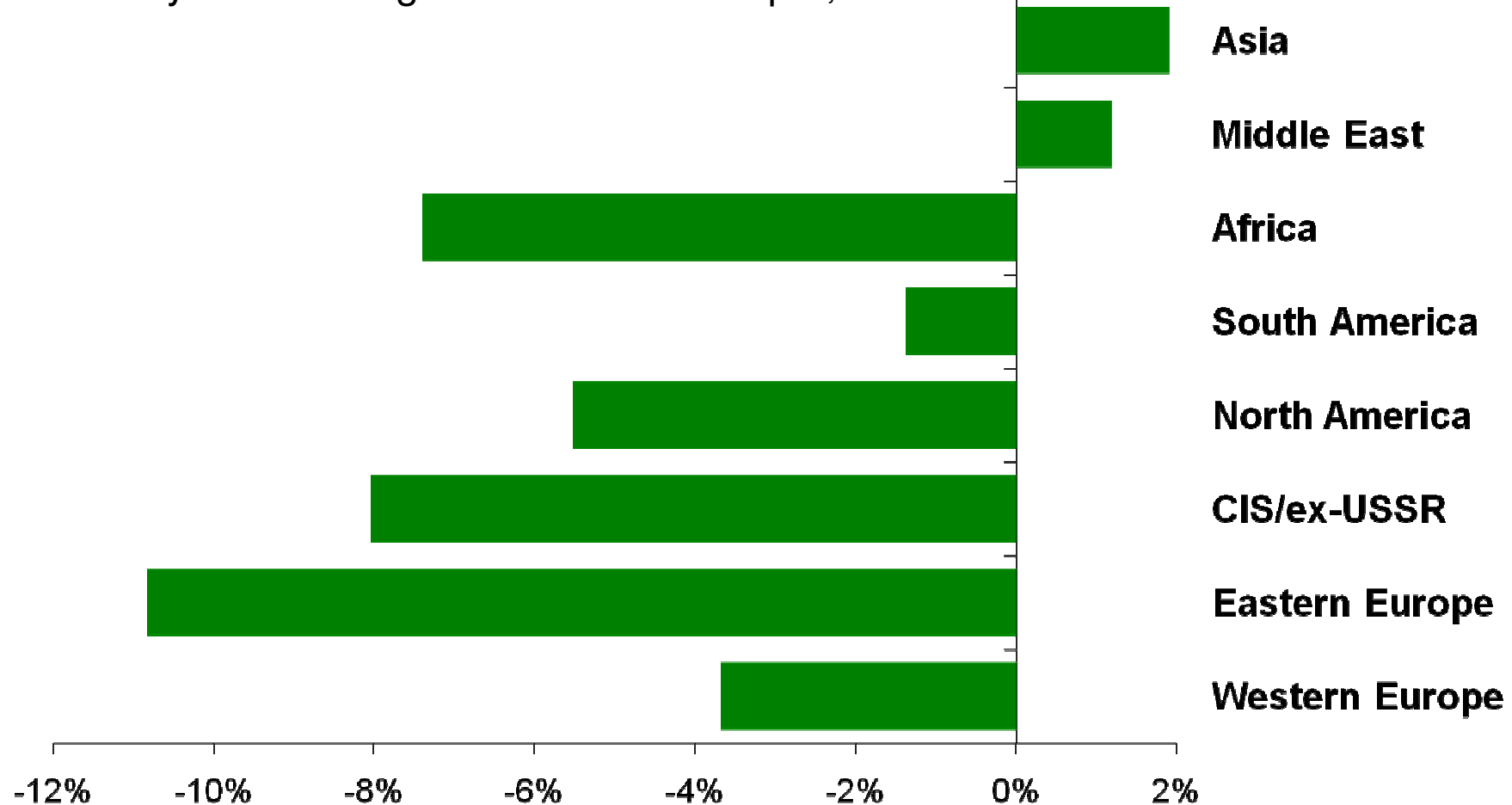
Global GDP, year-on-year change





# Steel is an indicator: Only Asia and the Middle East saw any growth in 2008

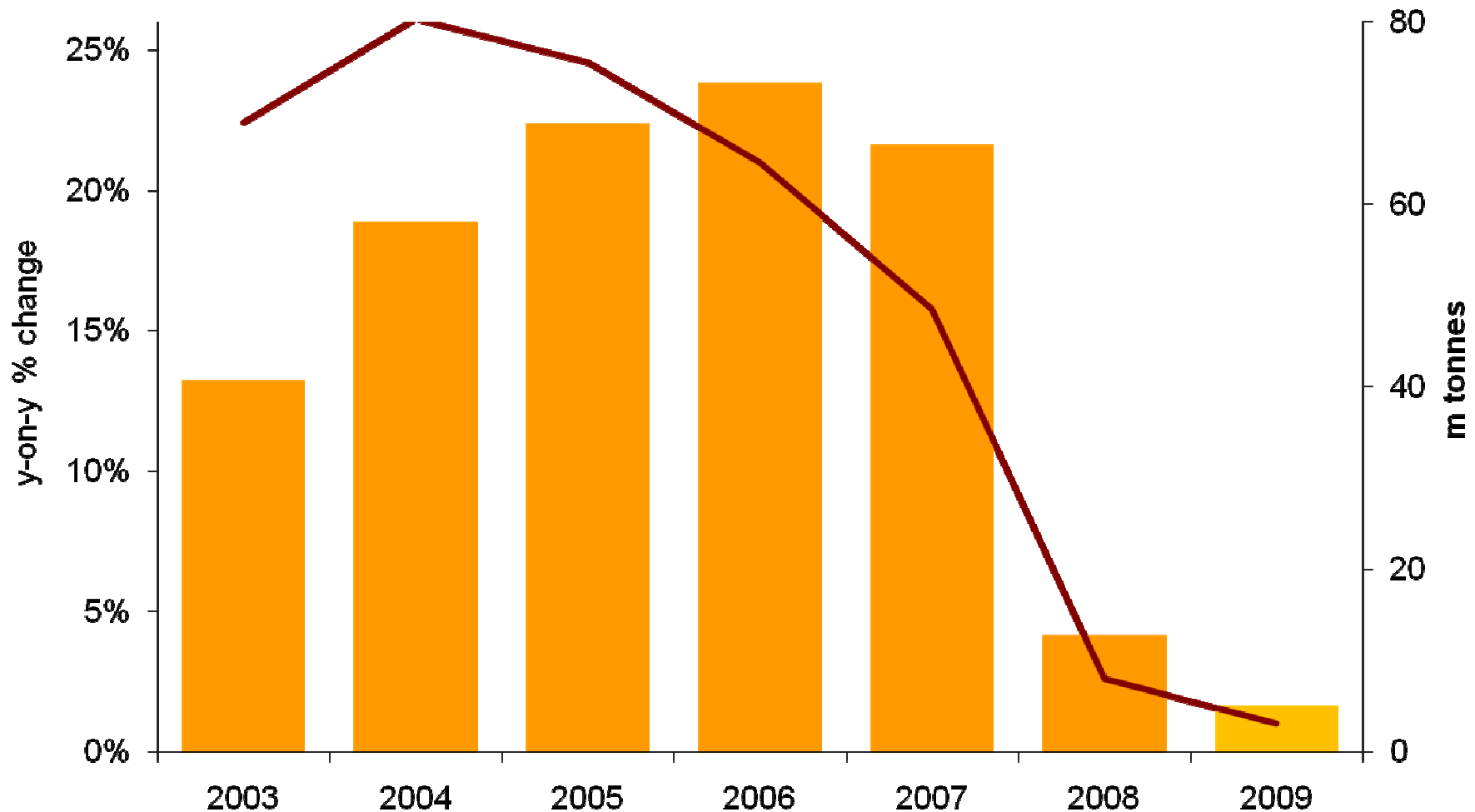
Year-on-year % change in crude steel output, 2007-2008





# Much slower growth in Chinese output to continue this year

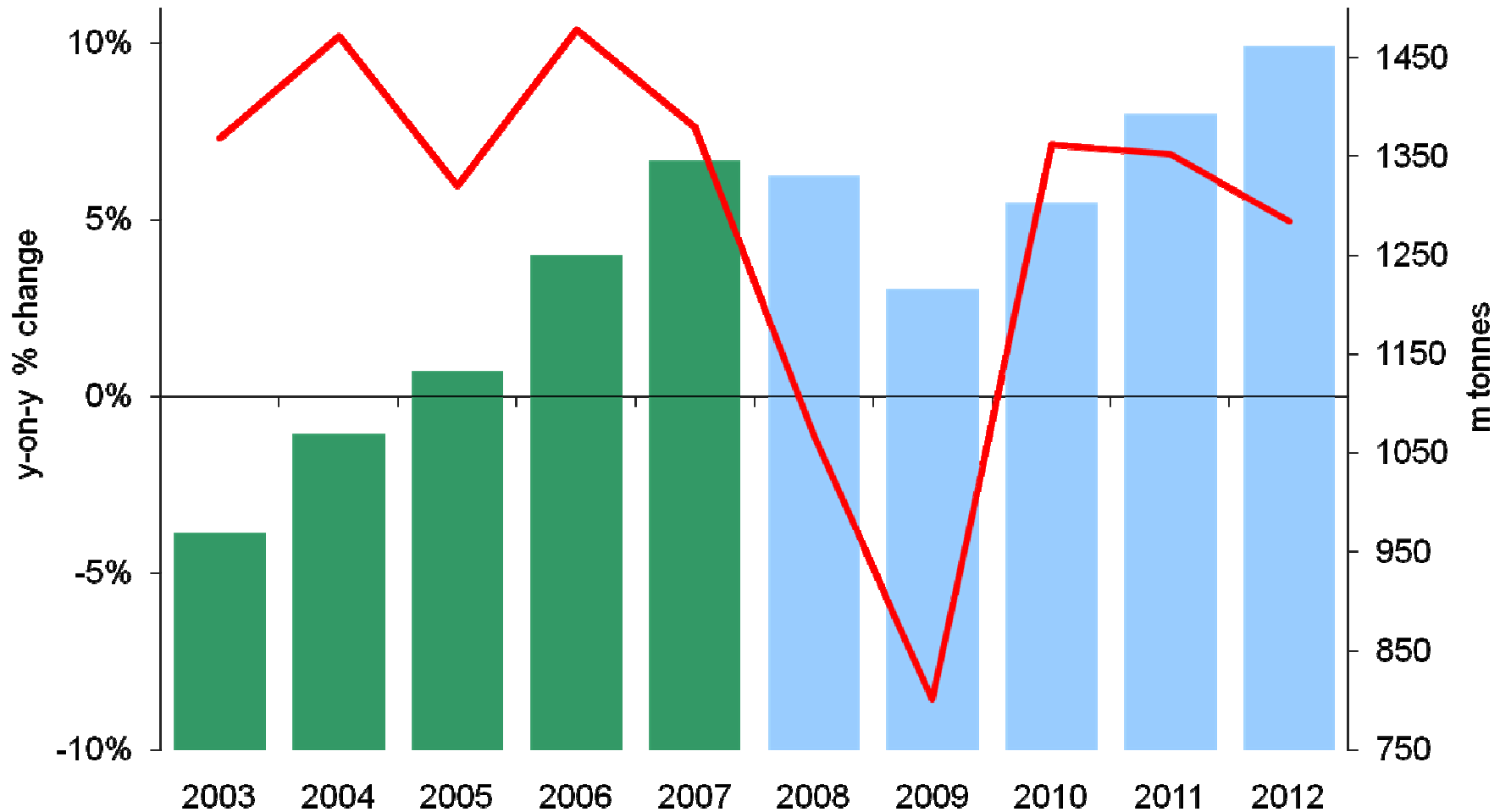
Year-on-year change in crude steel production, China





# Global output should start to grow again in 2010

Crude steel production, Global





## Metals & Mining: Market perspective in a nutshell ...

- Nobody rings the bell when metal prices and mining stocks are under-valued (or at fair value)
- The market is emerging from bear mood; but old adages from the pre-resources boom still apply (cash is king...)
- Metals markets owe no company a living: An under-valued stock can stay under-valued for a long time. Companies must focus upon triggers for market revaluation
- If you have a good manager in a bad industry, then the industry will beat the manager – Similarly, a bad manager in a good industry will look like a star. So “which commodity” remains critical.



# Mineral Commodities – Plenty to choose from.....

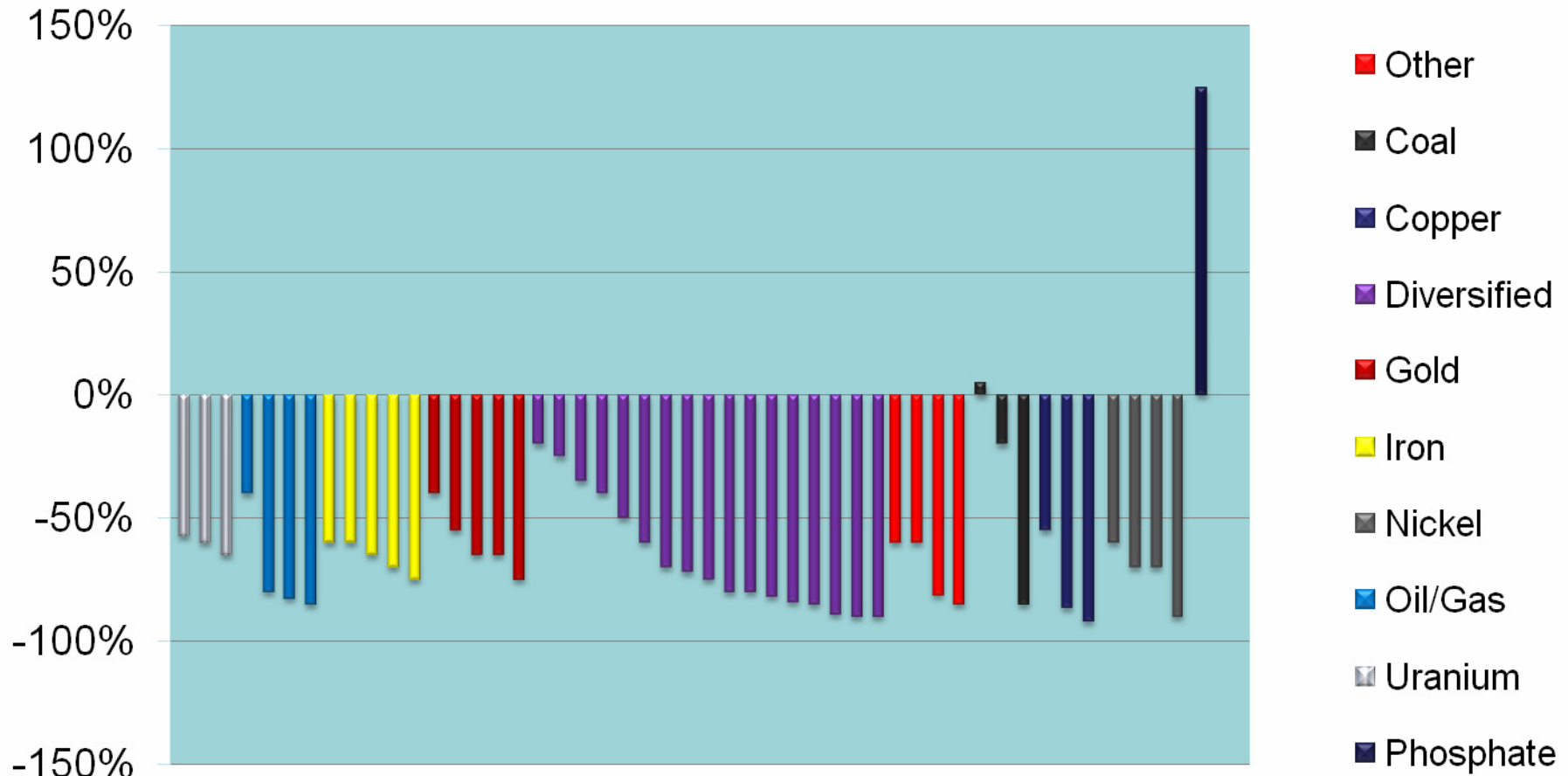
1 H																	2 He														
3 Li	4 Be											5 B	6 C	7 N	8 O	9 F	10 Ne														
11 Na	12 Mg											13 Al	14 Si	15 P	16 S	17 Cl	18 Ar														
19 K	20 Ca	21 Sc	22 Ti	23 V	24 Cr	25 Mn	26 Fe	27 Co	28 Ni	29 Cu	30 Zn	31 Ga	32 Ge	33 As	34 Se	35 Br	36 Kr														
37 Rb	38 Sr	39 Y	40 Zr	41 Nb	42 Mo	43 Tc	44 Ru	45 Rh	46 Pd	47 Ag	48 Cd	49 In	50 Sn	51 Sb	52 Te	53 I	54 Xe														
55 Cs	56 Ba	57 La	72 Hf	73 Ta	74 W	75 Re	76 Os	77 Ir	78 Pt	79 Au	80 Hg	81 Tl	82 Pb	83 Bi	84 Po	85 At	86 Rn														
87 Fr	88 Ra	89 Ac	104 Unq	105 Unp	106 Unh	107 Uns	108 Uno	109 Une	110 Unn																						
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																		90 Th	91 Pa	92 U	93 Np	94 Pu	95 Am	96 Cm	97 Bk	98 Cf	99 Es	100 Fm	101 Md	102 No	103 Lr

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## 2008 proved a graveyard for new mining investment

Australian Initial Public Offerings (IPOs) investment returns by commodity





# Remember that commodity choice influences market-value independent of the state of the market

Value  
(Share Price)



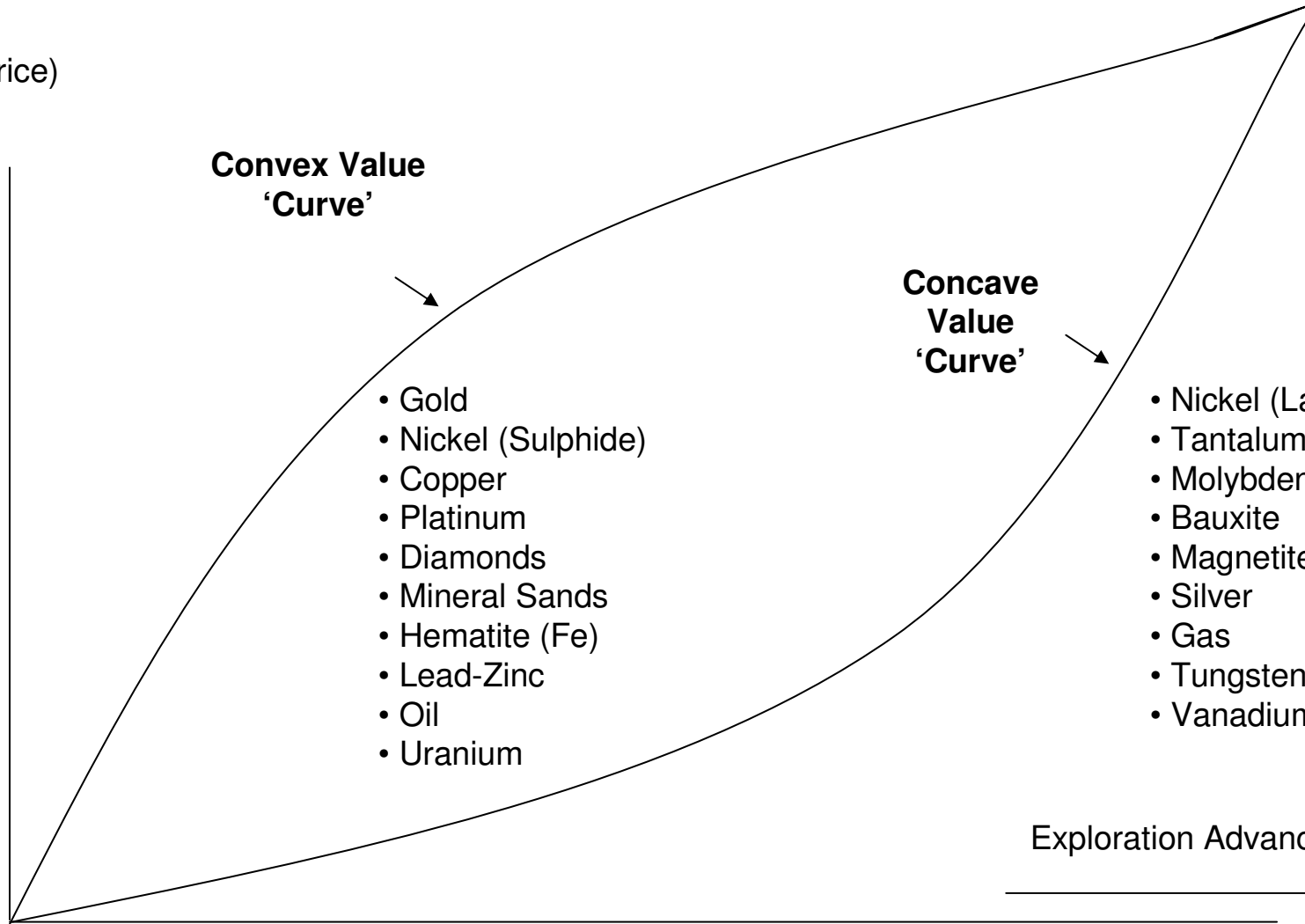
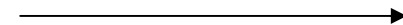
**Convex Value  
'Curve'**

- Gold
- Nickel (Sulphide)
- Copper
- Platinum
- Diamonds
- Mineral Sands
- Hematite (Fe)
- Lead-Zinc
- Oil
- Uranium

**Concave Value  
'Curve'**

- Nickel (Laterite)
- Tantalum
- Molybdenum
- Bauxite
- Magnetite (Fe)
- Silver
- Gas
- Tungsten
- Vanadium

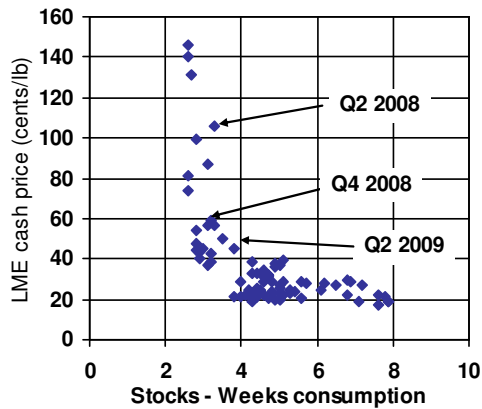
Exploration Advance



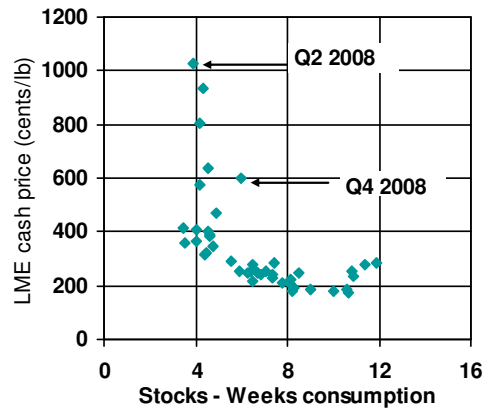


# London Metal Exchange Prices mostly at pinch points in 2009

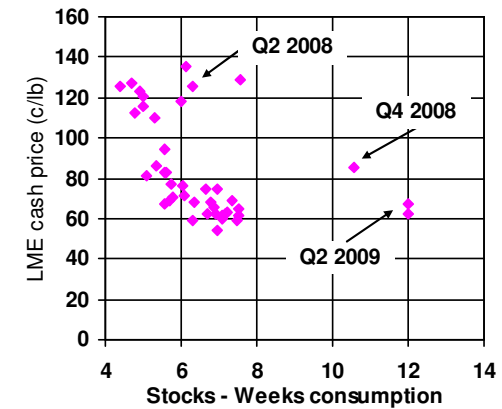
**Lead**



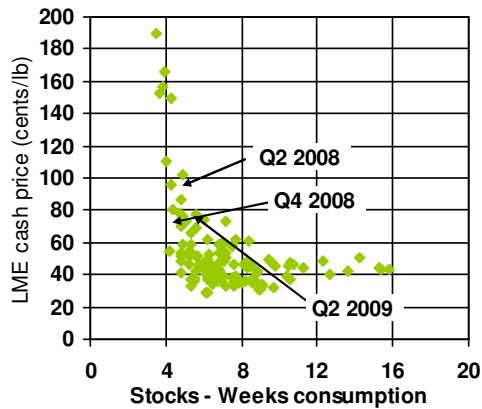
**Tin**



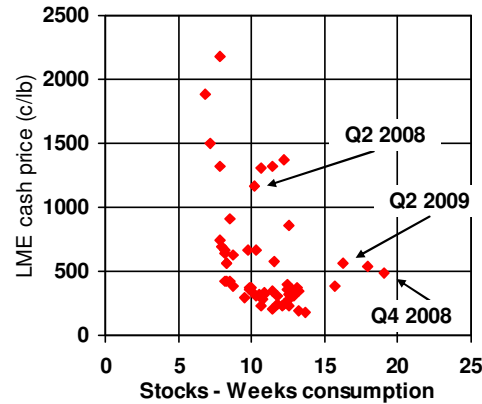
**Aluminium**



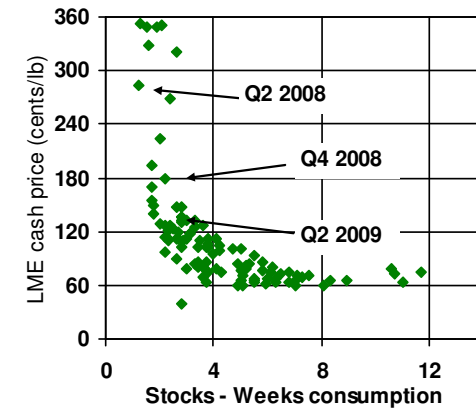
**Zinc**



**Nickel**



**Copper**



Data points: quarterly data points for past 20-30 years (Al and Cu – last 10 years)  
 Data to Q4 2008 Actual whilst Q1 & Q2 2009 CRU forecasts



# Winners and losers – but historical lows will not be revisited

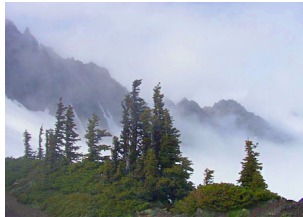
## Commodity Climatic Zones – What’s hot to 2011



– “Torrid”



– “Warm Temperate”



– “Cool Temperate”



– “Frigid”

<p><b>Gold, Aluminium, Alumina,, Tin, Met Coal, Met Coke Manganese, Nickel Zinc, Platinum, Palladium, Cobalt Copper, Phosphate Rock, Vanadium Bauxite, Iron Ore, Silver, Uranium Sulphur Sulphuric Acid</b></p>
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\* Indicative forecast average 2011 prices versus Q1 2009 base



## **The mid-term future for prices (to 2011)... Potential for winners amongst commodities – and certainly to 2013**

- Potential for speculative runs for juniors exposed to next generation ‘sexy’ commodities (tin, gold, met coal)
- Insufficient supply growth, higher costs than last cycle provides some price support for higher prices
- Demand-side solid (It’s China, still - India remains off a far lower base) – The global crisis has set the scene for the next commodity price cycle
- High 2007/2008 prices set an elevated benchmark – so forecast prices are relative – Prices will not return to peaks in 2010



# 2009 price caution – Copper demand example

000t

150  
50  
-50  
-150  
-250  
-350  
-450

## 2009 forecast net change in refined demand, y-o-y

- USA
- Japan
- Germany
- S.Korea
- Taiwan
- Italy
- Russia
- Spain
- France
- Mexico
- Poland
- Belgium
- Thailand
- Brazil
- Other
- Sweden
- Turkey
- Other E&C Europe
- Canada
- Malaysia
- Australasia
- India
- Indonesia
- Greece
- Finland
- Iran
- Vietnam
- Chile
- UK
- South Africa
- Other W Europe
- Netherlands
- Peru
- Argentina
- Other Africa
- Former Yugo.
- Philippines
- Other
- Venezuela
- Saudi Arabia
- North Korea
- UAE
- Egypt
- China

Data: CRU Analysis



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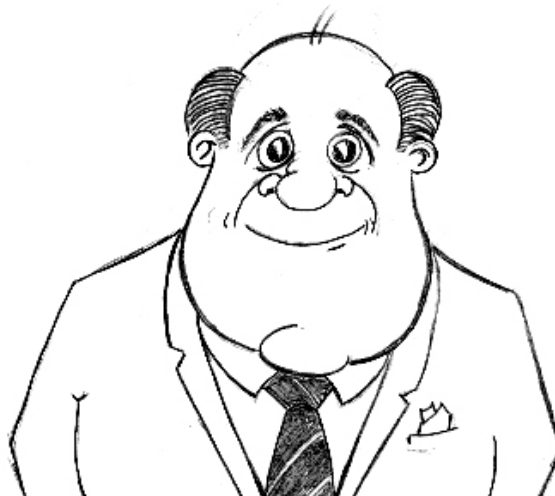


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## THANK YOU



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