Asia’s influence on global base metal markets

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LATIZA Conference
Lima
July 2011
Asia is dominant market

- Asia was important for global base metal markets in first half of 2000s...
- ...but **vital** since 2005, and more recently in leading the global economy out of recession
- The story is mostly about China...
- ...but many other economies in the region have benefitted from growing Chinese demand
- Are projections for growth in China reasonable?
- What would slower growth in China, Asia, mean for global metal markets
Asia’s contribution to global IP growth 2005-2010

Annual average growth 2005 to 2010

- China: 12.5%
- India: 7.5%
- Korea: 5.0%
- Brazil: 2.5%
- Russia: 2.0%
- Germany: 1.0%
- Japan: 0.5%
- USA: 0.5%
- Other: 0.5%

S America & Europe: 3%
Africa: 7%
Other Asia: 31%
China: 59%
Asia’s dominance today reflects rapid recovery from recession

- The speed and scale of the increase in Asia’s share of manufacturing output and raw material consumption is breath-taking...especially since 2005
- With the exception of Japan, Asian economies also weathered financial market crash and following recession very well
- Stimulus spending, low interest rates and temporary tax cuts provided the impetus for rapid recovery in Asia
- Non-OECD output now +16% from peak in Q3 2008....Asia ex-Japan +23%
- OECD output (North America, much of Europe, Japan and Korea) in Q1 2011 still almost 7% below previous peak in Q1 2008
Asia’s strength is in many sectors.
Metal consumption - Zinc

Global Zinc Consumption - million tonnes

Share of Global Zinc Consumption

Source: CHR Metals

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Metal consumption - Lead

GLOBAL LEAD CONSUMPTION - million tonnes

SHARE OF GLOBAL LEAD CONSUMPTION

Source: CHR Metals

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China, China, China... but what has really been the key factor in such rapid growth?

- Exports and fixed asset investment have been main drivers of Chinese growth.
- Further growth at the pace seen in last 5 years in exports and investment cannot be sustained.
- China’s competitiveness in foreign markets is being eroded principally by domestic cost pressures plus some currency appreciation... costs would be much higher if damage to environment taken into account.
- China needs to develop domestic consumer demand to offset inevitable reduction in investment spending.
China is intensive consumer of metals

- China
- Korea
- Germany
- Taiwan
- USA
- EU
- Japan
- India
- Brazil
China is an intensive consumer of metals.
China is an intensive consumer of metals.
The value of Chinese exports has increased at an annual average rate of almost 16% over last 5 years.

This increase has been driven mainly by larger volumes not higher unit values.

Imports have risen at a similar rate but higher unit values have made a significant contribution.

Higher natural resource and raw material prices, including energy products, a key factor in rising imports.

China’s competitiveness being eroded by higher domestic costs (wages) and gradually appreciating currency.
Huge overhang in real estate

- Construction of real estate (residential & commercial) has soared over the last 5 years
- There is a very large number of projects currently under construction, and vastly outpacing completions
- Data may not be accurate but evidence on the ground supports this opinion
Billions spent on road, rail, airport and other ambitious infrastructure projects now threaten local government finances.

Many major projects now completed or nearing completion.

Next wave of projects likely to offer ever-diminishing social and/or financial returns.
Japan remains an important producer and consumer of zinc and copper – role in lead is diminishing

Production of copper and zinc stable but consumption on declining trend

Japanese economy continues to face many problems now made worse by the recent earthquake

Korea remains a force in copper, zinc and lead.

Production in Korea is stable or rising while consumption is stable

Korean economy dependent on exports – and China

Taiwan is important processor of metals and semis producer –and dependent on export markets
South East Asia

- ASEAN countries badly affected by the global financial crisis
- Most in this group have struggled to regain previous levels of industrial output
- Domestic problems and dependence on exports
- Exception has been Thailand *despite* political crisis at home – strong growth in consumption of copper, zinc and lead
- Significant potential remains in region especially for manufacturers looking for alternative locations to China
- Vietnam and Indonesia look well placed to take advantage of inward investment
India was successful in avoiding the worst of the global financial crisis

Government introduced tax cuts, subsidies and lower interest rates to stimulate demand in early 2009

Domestic consumer demand has been strong (e.g., vehicle sales) and there has also been significant capital spending.

Inflation and government deficit is a problem – higher interest rates are slowing growth and the government needs to curb spending.

India’s per capita consumption of metals is low and will rise only slowly – poor infrastructure (power & transport) is a handicap.

However, India’s growth more balanced than China’s.
CHR Metals expects some increase in interest rates in mature economies over next 6-12 months

Concern over inflation has already resulted in higher rates in several Asian countries, including China, and in South America

Higher US & European interest rates will change investor portfolio preferences with less speculative/investor interest in commodities...

...leading to weaker commodity prices in the absence of support from supply/demand fundamentals

Interest rate scenario depends on avoiding new banking crisis

US dollar at all-time low in real terms also a factor in determining price expectations
Price outlook - Zinc

- Large global surpluses in 2009 and 2010 – much in China
- Surplus smaller in 2011 and 2012 but the market will not return to deficit until 2013
- Current zinc prices (+Pb/Ag) are still high enough to provide strong incentive to develop new zinc mine projects
- Slowing global economic growth, notably in Europe, North America and China, will inevitably lead to slower growth in zinc demand than seen in 2010
- Weaker prices in near term but picking up in 2014/2015 as market tightens
- Large global surpluses in 2008, 2009 & 2010 – most in China
- The price of lead is significantly higher than average production costs, especially recycling which accounts for >60% of global output
- Large speculative element in current price...
- ...but strong (irrational) support from Chinese market at around $2000/t
- Expect lead prices to trend lower to re-establish some connection with production costs
Faltering output, higher costs & political uncertainty feature in copper mining.

Market fundamentals and price look good through to 2013 but poor further out.

High prices are encouraging end-use substitution resulting in slower demand growth in the future.

Expansion of mine output is in the pipeline.

Large market surplus forecast by 2015.

Data provided by Bloomsbury Minerals Economics – latest quarterly outlook.
Closing comments

- Asia, more especially China, has dominated developments in base metal markets over the past decade
- Structure of growth in China is not sustainable and this is clearly recognised by the authorities
- China’s economic model must move from dependence on exports and investment to domestic consumption and greater social development (health, education, environment)
- Next phase of China’s development will not be as intensive in terms of materials consumption as the last 5-10 years
- CHR Metals is not forecasting a slump in metals demand but believes that many projections of continued very rapid growth in metals demand based on recent developments are too optimistic
In-depth analysis of the global lead and zinc industries
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