Eurasian Resources Group

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MARKET COMMENT

Eurasian Resources Group: Market Outlook 2018

12 April 2018

Mr Benedikt Sobotka, CEO of Eurasian Resources Group (ERG), one of the world's leading diversified natural resources groups, looks at the industry's performance in 2018 so far and sets out what we can expect for the rest of the year

The past couple of months have featured a broad retracement of the metals complex, away from the recent highs. Markets were taken aback by rising uncertainties, including an early February equity market sell-off, and the trade conflict between the US and China. As Q2 unfolds, some of these uncertainties should be easier to interpret. However, price volatility and sporadic periods of increased market concerns will remain on the agenda in 2018.

While it may be premature to suggest that a peak risk-off sentiment has been reached, we continue to believe that many commodity markets have oversold in recent weeks. Despite some market uncertainty, the global economy is still expected to grow at its fastest pace since 2011. The US economy is still to feel the effect of the tax cuts, and emerging market economies are expected to contribute half of this year's global growth. This should help many commodities to regain their positive momentum, once the risk of trade wars has diminished or is fully priced in.

Copper

We believe that the copper market is able to withstand the downtrend, and bounce back above the levels seen so far this year. We believe that we have entered a period of long sentiment for copper. Mining companies need to commit to new Greenfield projects to avoid looming copper supply shortages. The concentrates market balance is set to tighten markedly, with the 2018 benchmark TC/RC (treatment and refining charges) trending at multi-year lows. Moreover, China's environmental overhaul has targeted the country's scrap sector through restrictive regulations that are set to limit scrap imports and shutter some scrap processors. The effects are already being seen - since November China's monthly scrap imports have fallen at double-digit rates. Polluting copper smelters have also been targeted as part of the environmental clean-up, with some enforced production cutbacks already announced. If this continues, it is likely to constrain refined metal availability.

Cobalt

Meanwhile, the cobalt market continued to reach new highs. LME cobalt hit USD 95,000/t in late March. Metal Bulletin's prices, on which most contracts are settled against, trade above the USD40/lb mark. These are price levels we haven't seen since the rally of 2008. However, whereas 2008 rises were largely the result of a general exuberance amongst speculators, today's rally is based on extraordinary demand fundamentals. The cobalt market has not seen anything like this previously, largely due to the increasing importance of two key demand drivers - game-changing technologies and regulatory changes. The impact of these drivers is hard to predict with total accuracy. Nevertheless, we believe that metals such as cobalt and copper will be the primary beneficiary of these changes in the long-term.

Iron Ore

We believe that iron ore prices have returned to more realistic levels. The market could soon be confined to a narrow, range-bound trading. This would repeat the pattern observed for most of 2015, except that the "value over volumes" strategy that has been adopted by the major producers currently should prevent iron ore prices to plunge back to the lows of 2015.

Aluminium

Aluminium prices have tumbled over 10% in Q1. Recently, the market has been dominated by headlines concerning factories and plants in China restarting production following the end of winter cuts. However, we think that the news on China's 2018 production increase has been overblown in the media. In our view, rising production costs in China will be the main supporter of aluminium prices going forward.

Overall, considering the sector's strong comeback in 2017, global investors are increasingly turning to commodities to diversify their portfolios and improve returns. We have seen changes in the investment climate, and portfolio allocations. Remarkably, this January marked the largest inflow into commodities since the end of the last decade; even surpassing the cumulative inflow for the whole of 2017, as estimated by JP Morgan.

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About Eurasian Resources Group:

Eurasian Resources Group (ERG) is a leading diversified natural resources producer with integrated mining, processing, energy, logistics and marketing operations. It has a portfolio of production assets and development projects in 14 countries crossing four continents, and is represented by more than 80,000 people globally, being a major employer in the industry.

Today ERG is the world's largest ferrochrome producer on a chrome content basis and a key supplier of iron ore. The Group is also among the global top-10 alumina producers and a principal copper and cobalt manufacturer.

In the Republic of Kazakhstan ERG represents about one third of the country's metals & mining industry. It is also a key power supplier and a large railway operator in Central Asia. Kazchrome, SSGPO, Aluminium of Kazakhstan, Kazakhstan Aluminium Smelter (KAS), Eurasian Energy Corporation (EEC), ShubarkolKomir and Transportation Group TransCom LLPare among the Group's major assets located in Kazakhstan.

In the Democratic Republic of Congo ERG mines copper and cobalt and processes the ore at Boss Mining, Frontier and Comide. Some other key development and near-production assets, including the Metalkol Roan Tailings Reclamation (RTR) Project, are also located in the DRC.

ERG's smelter, Chambishi Metals PLC, is a major enterprise in Zambia and a large producer of copper and cobalt metal. The Company also has a number of development projects in coal, manganese, platinum, bauxite and fluorspar across the African continent, embracing the Republic of South Africa, Zimbabwe, Mali and Mozambique.

In Brazil ERG continues development of Pedra de Ferro project, a 20mtpa iron ore production complex.