Eurasian Resources Group Forecasts a Strong Metals Price Recovery
Commodities Market Outlook for 4Q2018 and beyond

Following LME Week, Mr Benedikt Sobotka, CEO of Eurasian Resources Group (ERG), one of the world's leading diversified natural resources groups, predicts a strong metals recovery ahead.

Our view that commodities have fallen foul of wider macroeconomic concerns and the changing geopolitical landscape was confirmed at this year's LME Week. One of the issues that came up repeatedly was the fact that global politics is impacting business as never before. This means that metal prices, which weakened significantly over the summer, do not accurately reflect underlying fundamentals. Instead, **market fundamentals indicate strong conditions in the physical market as evidenced by heavy destocking (in copper, nickel, aluminium, zinc and steel), and rising physical premiums.**

Meanwhile, China is ramping up its demand-boosting policies, having promised a larger tax cut than that of the US, leading to a sharp rally in Chinese equity markets earlier this week. With evidence of physical shortages and increasing signs that growth in demand is likely to accelerate in China, the final building blocks for a strong metals recovery into the year-end are falling into place.

Copper

Copper is no exception, it has been subject to concerns over global trade tensions against a backdrop of rapidly improving physical indicators. Based on our latest in-house analysis and conversations during LME Week, we will be raising our China demand outlook for this year to over 5%, and anticipate that prices will recover before the end of the year.

Next year, we expect prices to be supported further as supply struggles to keep pace with continued healthy demand. The increased likelihood of smelter disruptions and continuing distortions to global scrap flows were key issues discussed in London, which gives us confidence in our positive price outlook.

In the long term, we foresee that copper will be underpinned by supportive fundamentals. The severe underinvestment in mining projects in recent years will lead to protracted deficits while copper demand for electric vehicles (EVs) and renewable energy, as well as China's Belt and Road Initiative, will offer an upside. We forecast **CAGR of 1.8% on the demand side against 1.6% on the supply side to 2022.**

Cobalt

The global shift towards EVs and battery energy storage means that cobalt remains a widely discussed commodity, and this was no different at this year's LME Week. While overall passenger vehicle sales have fallen in recent months, the sale of EVs continues to grow at staggering rates. In China, for example, vehicle sales fell 12% in September, **while new-energy vehicle sales grew 55% YoY**. Meanwhile, the anticipated shift to low-cobalt batteries is proving more costly and technologically challenging than expected.

Cobalt intensive lithium-ion batteries are also becoming a feature of energy storage systems, but battery life continues to pose a concern. Tesla has increased the price of its Powerwall twice this year, which points to robust consumer demand, while solar and wind power generators are increasingly looking at battery storage to maximise profits through load balancing and emergency backup revenue.

On the supply side, the reaction to stronger cobalt prices has been remarkable, but despite **an additional 25kt of cobalt mined in 2018 compared to 2017**, price levels remain significantly higher than before. The cobalt market is undergoing a seismic shift in demand and supply will struggle to keep pace.

When it comes to sourcing cobalt, artisanal mining practices are now responsible for more than 25% of mined cobalt globally while pressure to source the material responsibly is mounting. Ethical suppliers are well-placed to gain from this trend.

Aluminium

Aluminium's underperformance was another area of focus throughout LME week. It was generally perceived as the underdog of the LME metals, lacking investors' support after significant price volatility earlier this year. Following the recent news regarding Rusal and Alunorte, aluminium prices have drifted down towards the 2,000/t level. However, we think that **the current price level is unjustified** and does not reflect fundamentals such as tightness in the alumina market, robust growth in aluminium demand prospects, and limited capacity growth outside of China. Ex-China aluminium inventories are at only 60 days of consumption (where 30 days is regarded as a critical level). **The market should remain in deficit in 2019**, with higher prices driven by a considerable cost push.

Ferrochrome

After falling to its lowest level in 15 months, largely as a result of increasing South African chrome ore exports and a depreciating ZAR, ferrochrome prices were on an upward trend again in September. That was driven by a healthy stainless steel demand in China and falling stocks at Chinese ports, which dropped by almost 1Mt from their September highs.

The market is more balanced now than we have seen recently, with chrome ore stocks falling to a typical average of 10-11 weeks of consumption. This pushed UG2 chrome concentrate prices towards a $170-175/t level. The stainless steel market is expected to remain healthy, with solid end-use segments demand **supporting rising stainless steel production levels in Q4 2018 and 2019 and thus facilitating ferrochrome demand growth in the near term.**

Steel and bulk commodities

In contrast to LME metals, steel and bulk commodities have proved more resilient with the 62% Fe benchmark price largely flat YTD. While global investors use LME metals to 'play' the US-China trade conflict, steel and iron ore prices are still not as transparent and are mostly linked to China.

With China's steel mills' order books full and steel inventories falling across the supply chain, iron ore prices should maintain their strong upside momentum. We estimate that iron ore seaborne supply growth will be largely offset by falling Chinese output, which is **expected to drop by as much as 15Mt YoY in 2018**. **Supply from smaller exporters (India, Africa and the Middle East) is also projected to shrink by up to 25Mt YoY**. Meanwhile, cuts in China are not expected to be as intensive this coming winter. However, volatility may come from measures targeting sinter and hot metal output.