LME Week – Infrastructure Metals to the Fore

Let the cliché's flow… a week is a long time in politics, what a difference a day makes, the past is another country but when it comes to mining a year ago it seems like another universe. The last week of October is LME Week which has gone from a humble promotional effort by the London Metals Exchange to become a major jamboree of the Great and Good of the metals trading space, whether their metals are traded on the LME or not. The mood this year was the polar opposite of last year. For those who recall this time last year Glencore was teetering on the brink and Noble was hotly rumoured to follow it down the plughole. Fortunately the fears proved not to come to fruition though the gravity of the situation could not be underestimated. That period also coincided with the five-year nadir of a swathe of metals.

The rest, as they say, is history. The clouds parted and sun's rays dropped upon the scorched earth and mining markets have been on the mend ever since. Indeed, the near-death experiences of two of the world's major trading houses seemed to be the cathartic event that was required to turn the mining Titanic away from its date with destiny. Indeed it makes one wonder if the sidelining of these large players was what was needed to turn the market upward. Those who thrive on conspiracy theories have often maligned traders (and big banks) as being the hidden hands that would wish the metals markets ill, even when logic might indicate that higher prices would be better for them.

Whatever it was it did the trick. Closures of mines, particularly in base metals, have been given credit for prompting the recovery, but many of the announced closures never actually happened and there was an element of smoke and mirrors to the whole retrenchment process. Still it seemed to work.

The Chief Takeaways

This year LME Week was bordering on the euphoric but tinged with a sense of trepidation with "easy come, easy go" being the thought on everyone's minds. Some of the moves had been so sudden and so stunningly good that it was almost too good to believe. The chief things that struck us were:

- Infrastructure spending is the new mantra with steel potentially being the biggest beneficiary, so much so that we are declaring 2017 to be the year of "Infrastructure Metals".
- Companies are frantically attending as many shows as they can, unsure as to who the investors are these days or what they are interested in
- Loads of unemployed geologists roaming around as money raised is not really trickling down into fieldwork or hiring (yet)
- Coking coal has soared in value while iron ore has continued to languish (excluding some speculative runs fired by Chinese retail interest)
- Alloy metals have moved up strongly. Manganese, Chromite, Vanadium and Zinc have done really well and now nickel has also come to the party. Manganese has rocketed and is at its highest level since 2010
- Electricity industry problems in South Africa have not gone away but low demand for metals has obscured the issue. Now it will come back into play.
- Antimony has moved up strongly due to a secular decline in Chinese production and the shuttering of many polluting roasters
- Tin is very healthy these days as alluvial mining in South-East Asia runs towards the buffers. Hand-wringing as to where future production might come from has not generated much interest from miners
- Lithium has bottomed after a brief sag

- Someone presented the famous "resources clock" showing that ASX-listed golds, in particular, were on the verge of heading into the overvalued end of cycle period

And some important charts presented by Argus Metals at their event:

Manganese:

Vanadium Pentoxide prices rising (Europe up 88.1%, China up 100% YoY):

Lithium prices coming off their bottom:

Antimony picking up again after its swoon:

Conclusion

There were more than a few who, at times, claimed that the slump of the last five years was the end of mining as we know it. Our response was "cut the drama". I can vaguely recall the 1970s when many miners on the ASX stayed mired, trading at half a cent for the whole of the decade. My first mining share purchase was around $300 worth of BHP shares in 1981 and they were just over $2 per share.

Mining always comes back and sure as day follows night, the light has dawned. Some have attributed the turn to production cuts but we have suspected that many of the announced cuts and disposals were somewhat fake (maybe the reason why copper took longer to rebound than other metals). Our suspicion is that the real reason for the rebound was that production in China of many metals (e.g. Antimony) is now well past its peak. Meanwhile the Chinese, in rebalancing away from US Treasuries, have been stockpiling or hoarding metals as a store of value. Destocking by corporations around the world has also left many end-users operating on a Just-in-Time basis that has now left them scrambling for material for their processes.

A perfect storm of excess cast the mining industry onto the rocks and holed the ship threatening to send it to the bottom. Now a new high tide is sweeping in and lifting most boats (Uranium and Iron ore being obvious exceptions). LME Week partygoers were right to feel ebullient but after the bitter experience of recent years they were not about to go crazy and start counting on markets evolving as they did under the now defunct Supercycle.