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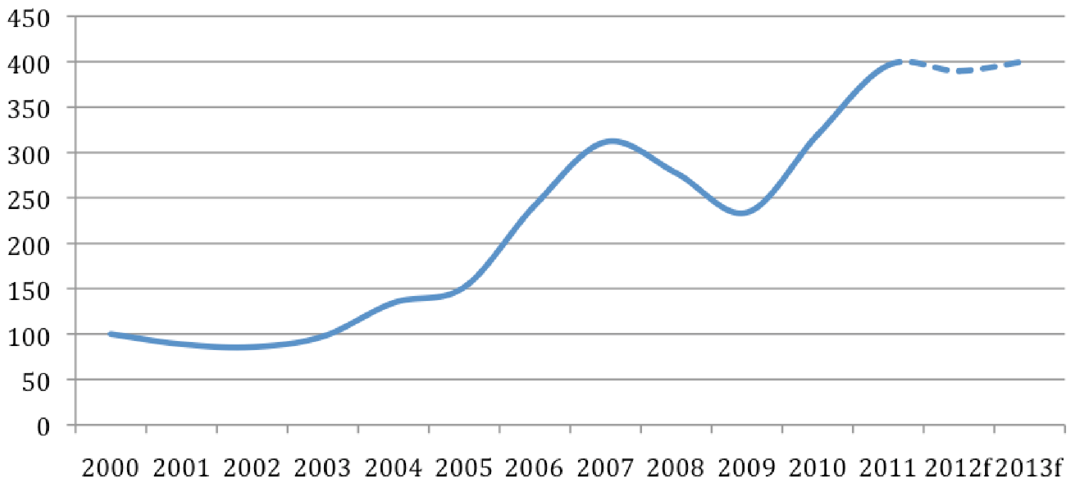
Metals: Searching for direction

One year ago, Stockholm-based Raw Materials Group (RMG) forecast that a basket of base metals (copper, nickel, lead and zinc) and precious metals (gold, silver, platinum and palladium) would continue to recover from the global financial crisis. They did. Indeed, they reached new highs in 2011, with gold achieving US$1,861/oz (weekly average basis), silver US$46/oz and copper US$9,974/t.

But what lies ahead?

Concern over debt in Europe and inflation in China will clearly dominate market sentiment this year, with a particular impact on the base and precious metal sectors. However, in its annual metal price forecast for 2012, RMG (which recently merged with Australia's Intierra) predicts that the remainder of the year will see a return of consumer confidence**,** and hence increased demand for commodities.

Figure 1 – Raw Materials Group: Metal Price Index



Source: Raw Materials Group

RMG's predictions are shown in the following table. The forecast, on a yearly average basis, is flat for the majority of the metals covered, unlike last year's predictions. The two exceptions are gold (up 13% year-on-year) and nickel (down 12.4% y-o-y).

Gold increased 28% y-o-y in 2011, being only outperformed by silver (up 74%) and palladium (38%). The metal continued to reach all-time highs due to the influx of investor interest, investors searching for safe havens and the low real interest rates.

This strong increase in the demand for gold (against fears of contagion in Europe), coupled with a flat supply of mined gold, required large influxes from secondary sources and created a highly volatile gold market.

RMG believes that this uncertainty in the financial markets is likely to maintain the current gold price, and drive it towards (but unlikely to reach) a weekly average price of US$2,000/oz.

Down-side pressure from the strengthening US dollar and improving US economic conditions, and hence less likelihood of another round of quantitative easing, are likely to reduce market volatility. This is especially likely if the European sovereign debt issues and the trend of moderating global inflation (the forecast includes China controlling inflation within its economy) are contained.

For nickel, 2011 saw the metal perform below expectations (RMG's forecast was 9.5% above the actual price) due to the softer than expected steel industry through the final three quarters of the year. In 2011 it was expected that delays in high pressure acid leach would keep the nickel market near balance; as it did.

This year, and over the coming years, this supply is expected finally to arrive, creating a supply surplus which has the possibility of being exaggerated in the first half year due to the expected 'soft' steel industry.

Nevertheless, RMG expects 2012 to see a new high in the group's metal price index.

For 2013, RMG forecasts that the largest price movements will be for the base metals, particularly zinc. This metal is forecast to average US$2,400/t next year, up 14.3% y-o-y. RMG also forecast that demand will return for platinum and palladium due to consumer confidence returning to the automobile industry, and precious metal traders moving away from the forecast flatter gold market into the PGMs.

Table 1 – Metal price forecasts (US$/t unless stated)

		2011	**2011 Forecast**	**Difference (%)**	**2012 Forecast**	**y-o-y (%)**	**2013 Forecast**	**y-o-y (%)**
Copper		8,810	9,600	9.0	8,600	-2.3	8,900	3.5
Zinc		2,190	2,400	9.6	2,000	-8.7	2,300	15.0
Nickel		22,838	25,000	9.5	19,000	- 19,000	21,000	10.5
Lead		2,395	2,500	4.4	2,250	-6.1	2,450	8.9
Gold	US$/oz	1,571	1,500	-4.5	1,775	13.0	1,825	2.8
Silver	US$/oz	35	30	-14.8	33	-6.3	30	-9.1
Platinum	US$/oz	1,719	1,850	7.6	1,700	-1.1	1,800	5.9
Palladium	US$/oz	731	830	13.5	710	-2.9	750	5.6

Source: Raw Materials Group

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Raw Materials Group's team comprises leading independent mineral economists and mineral strategy/policy analysts. We specialise in global analysis of the mining industry starting with our proprietary ownership and production database, Raw Materials Data. RMG's clients include equipment and service providers, mining companies, junior exploration companies, governments, international organisations, banks and financial institutions.

Intierra Resource Intelligence provides business intelligence for the international mineral resources sector by delivering context-rich information to mineral resource industry professionals. Our solutions offer unique insights into company evaluations, M&A, risk management, due diligence, competitor intelligence and project pipeline evaluation.

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