Five takeaways from the 2018 S&P Global Mining Outlook

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02 October 2018

On Tuesday, financial analyst S&P Global hosted its second annual Global Mining Outlook panel, looking ahead to trends that could affect the global mining industry.

While the industry has enjoyed a resurgence in 2018, uncertainty remains as to how long this pattern could continue. Here are five key takeaways from the discussion.

A fractured industry

Altus Strategies non-executive chairman David Netherway said that growing demand for precious metals, especially in China, has led to activity from large mining companies that could disadvantage junior miners, defined as those with a market capitalisation of between $30-$40m.

While Barrick and Randgold have agreed to an $18.3bn merger, Netherway described exploration, which is a staple of many junior mining operations, as “way out of the junior space now.

“[The demand] from China is huge, certainly in base metals and bulks, that’s a huge market,” he said. “On the precious metals side, gold prices are down, equity prices are down, there’s no money for juniors, there’s a complete lack of exploration.”

Colin Hamilton, managing director of commodities research at BMO, agreed, saying that “people do not want to commit capital to new projects,” emphasising the uncertainty and unpredictability of the industry.

“Of course, it didn’t really grow for 20 years preceding the China boom. So what is the right level? Well we’re supporting an asset base that’s now double what it was in 2000 for many of these commodities, so therefore you need to keep capital going in.”

Where are we in the growth cycle?

The panel spoke about the difficulties of establishing exactly where the mining industry could be placed on the cycle of positive and negative growth, with Hamilton pointing to a lack of supply as evidence that the industry has already passed peak growth.

“We’re probably past the peak point in the cycle now. And yet we haven’t seen that pick up [in committing money to new projects]. That, of course, means we’ve got a lack of supply coming through the pipeline, and there’s nothing that can be done about that now, over the next two or three years.”

Conversely, JP Morgan portfolio manager Neil Gregson, who had for months described the industry as ‘mid-cycle’, but had not commented on whether the peak had yet been reached, was more optimistic: “I see that as a good sign, that we’re not at peak cycle, and I think interest will return.

“If we think back to the end of 2010, the cycle was in full flow, and certainly leading up towards the end of the year, the final weeks of December, we were getting phone calls every single day of small-cap equity raise.”

Electric vehicles increase demand for new minerals

The rise in production of electric vehicles (EVs) could lead to significant changes for the mining industry, as demand for minerals such as lithium, cobalt and nickel, used in the production of EVs rises.

According to Statista, global demand for lithium stands at 252,653 tonnes of lithium carbonate equivalent in 2018, but this will increase to 422,614 by 2025, as the metal is a key component in batteries that power electric vehicles.

However, Hamilton stressed that there will not be a dramatic short-term change in the fortunes of these metals, adding that nickel would have to reach a price of $20,000 per tonne (up from its current price on the London Metal Exchange of $12,320 per tonne) before companies would significantly invest in nickel.

This was echoed by S&P director of corporate ratings Simon Redmond, who said: “In the short run it’s the capital investment that’s arguably at risk, that companies get out there and plough in a load of capital that isn’t actually yet needed for another ten years.

“Looking out, five years, 25 years, it’s a different story, maybe.”

The unpredictable predictability of gold

“It doesn’t obey any rules these days,” said Netherway on the future of the precious metal. Gold has enjoyed a period of relative stability from 2013 to 2018, consistently valued between $33,957 and $44,577 per kilogram. Despite a fall from from $42,464 in April 2018 to its current price of $38,627, the price remains close to the median of the two extremes recorded over the last five years.

This is despite the fact that the first quarter of 2018 saw gold demand down 7% from the last quarter of 2017, the lowest first-quarter demand for the metal since 2008.

The tone of much of S&P’s discussion was one of cautious optimism. With encouraging, if unconvincing, performances from many minerals over the last year, gold remains an anomaly due to its consistency and slight negative trend, compared to an unpredictable and slightly optimistic industry.

“It’s obviously not following oil prices at the moment,” said Netherway. “I think it’s cyclical; it will come back up, but when? Who knows?”

The potential for Chinese dominance

Netherway also spoke about Chinese influence in junior mining operations, saying: “China is getting involved in the sector big-time, especially in Africa, where it’s purchasing a lot of the companies, a lot of metals, and getting involved in the countries, both politically and infrastructure-wise.”

Major miners are now responsible for 50% of exploration in world, and junior exploration is at a 16-year-low, figures which prompted a discussion of the possibility of Chinese dominance over both junior and major mining operations.

“It’s happening,” said Gregson, “and the more that the Western world’s mining companies stay on the sidelines, I don’t see that trend changing, particularly in Africa.”

While Gregson doesn’t believe that the inaction of Western companies will have negative consequences for them at the moment, he stressed that in the future, they could miss out on profits associated with exploration projects.

With larger miners traditionally not conducting exploration works themselves, Western shareholders could lose potential profits from exploration if the junior miners conducting the exploration works are already owned by Chinese companies.