

# China holds the key to 2015

All five analysts at the top of the Apex overall base metal leader board for 2014 achieved a forecasting accuracy of over 95%. Claire Hack asks winning analyst Edward Meir of INTL FCStone to review the key trends

## Overall base metal leader board

Rank	Analyst	Accuracy
1	INTL FCStone - Edward Meir	97.70
2	Numis - Cailey Barker	96.89
3	BNP Paribas	96.30
4	Metal Bulletin Research	95.94
5	Natixis - Nic Brown	95.76

China, more than the USA or any other economy in the world, will continue to be the dominating presence in the base metals sphere in 2015. So says Edward Meir, senior commodity consultant at INTL FCStone and winner of the 2014 full-year Apex contest for his base metals price predictions.

“For 2015, the fate of metals prices is almost singularly dependent on what’s happening in China,” Meir told *Metal Bulletin Magazine*. “Almost nobody else matters... China buys 45-50% of base metals and the corresponding percentage is 9-15% in the US. It’s not even close.”

The US economy may be recovering, he added, but in isolation its influence will be minimal in terms of metals prices: China still holds the most clout.

There is no replacement for China, Meir said – the USA cannot measure up and neither can India, or anywhere else in Asia. “The bulls will have to wait for the country to ‘come back’ for the metals prices to push higher,” Meir said.

“Things [in China] will get worse before they get better. The real estate problem [there] is really the

crux of the matter,” he added. As the Chinese real estate market shrinks, demand for property will fall as people wait for the market to bottom out, Meir said, and in turn, demand for metals will fall. “It’s hard for the government to reverse or control that. [As with] the UK and certainly in the US, when prices fall, the bears pull back,” he said.

There has been a move from real estate into stock markets in China, he added, and this could create a new bubble. “It’s musical chairs, and when the music stops, it could be a bit dangerous,” Meir said.

At the same time, furthermore, large amounts of material are also expected to be exported from China, Meir notes. “On aluminium, I disagree with the consensus that there’s a deficit. There is if you look at it on paper, but there’s a secondary surplus

that’s developing, and that’s manifesting itself through these product exports that are leaving China,” he said.

“[A total of] 3.2 million tonnes of aluminium has been exported from China in the form of value-added products. The surplus is there, but on the product side, rather than on the primary side.”

Highlighting this, Meir added, is the number of emails he receives purporting to come from Chinese companies offering to sell metal of all kinds – some of which may not be genuine, but others of which presumably are. “Every week, I get these emails from small trading companies offering practically any metal you could want,” Meir said. “Assuming half of them are probably bogus, that means half are legitimate [and that means] there’s still quite a lot of supply.”

If export levels continue to rise and prices continue to fall, furthermore, the possibility of anti-dumping measures will emerge, which would potentially force production cutbacks.

“Supply has to respond to these low prices,” Meir said.

As China looks to clean up its reputation, both in terms of pollution and corruption, furthermore, fewer new projects will get off the ground as controls tighten. The country is also beginning to move away from a manufacturing-based economy, towards a service-based economy, which will further affect its rate of growth.

## Beyond China, beyond 2015

Globally, debt remains high and growth is low, Meir said: austerity programmes weigh heavily in Europe and Japan has the highest debt per capita in the world.

Despite its position as the only nation to see marked recovery since the global financial crisis, furthermore, the USA must still contend with the tapering of the Federal Reserve’s quantitative easing programme. “There will be more pressure for the first half of the year for [metals] prices to go down. I was hoping that with the sell off last year, we would see some supply leave the market but that didn’t really happen to a large

**Edward Meir: “There is no replacement for China – the USA cannot measure up and neither can India, or anywhere else in Asia”**



INTL FCSTONE

## Aluminium

Rank	Analyst	Accuracy
1	<b>INTL FCStone - Edward Meir</b>	<b>97.60</b>
2	Citi - David Wilson	97.50
3	Natixis - Nic Brown	97.38
4	BAML - Michael Widmer	97.37
5	BNP Paribas	96.97

## Lead

Rank	Analyst	Accuracy
1	<b>INTL FCStone - Edward Meir</b>	<b>98.24</b>
2	BNP Paribas	96.96
3	Commerzbank	96.58
4	Numis - Cailey Barker	96.34
5	Jefferies - Chris LaFemina	96.00

## Tin

Rank	Analyst	Accuracy
1	<b>Numis - Cailey Barker</b>	<b>98.33</b>
2	INTL FCStone - Edward Meir	98.05
3	CLSA - Ian Roper	96.68
4	BNP Paribas	96.23
5	Metal Bulletin Research	96.22

extent,” Meir said. “On aluminium, there has been some supply side response, but not that much.”

If prices drift down further in the first half of 2015, meanwhile, supply cutbacks may accelerate, which would mean 2016 could look somewhat brighter. In the interim, however, falling aluminium prices are likely to have an impact on premiums, especially if they approach 50% of the LME price.

Moreover, falling energy prices may lead to a slowdown in cutbacks as the cost of production falls, Meir said.

Copper, furthermore, could be heading for \$5,700 or even below, as prices this year have so far hit lows last seen in September 2009 and sentiment shows no signs of improving. “Copper is an interesting one. We’re seeing a lot of copper come up on the concentrates side. Treatment charges keep going up, which tells you there’s a surplus in the concentrates market,” Meir said.

“It’s not coming into the refined side that much, though... there’s a bit of a disconnect between the two markets,” he said. Eventually, however, the concentrates surplus will filter through to the refined

## Copper

Rank	Analyst	Accuracy
1	<b>UBS - Daniel Morgan</b>	<b>99.17</b>
2	Numis - Cailey Barker	98.77
3	BNP Paribas	98.00
4	Metal Bulletin Research	97.97
5	TD Securities	97.62

## Nickel

Rank	Analyst	Accuracy
1	<b>INTL FCStone - Edward Meir</b>	<b>96.04</b>
2	ABN Amro - Casper Burgering	94.01
3	BNP Paribas	93.25
4	Numis - Cailey Barker	92.87
5	Natixis - Nic Brown	92.70

## Zinc

Rank	Analyst	Accuracy
1	<b>INTL FCStone - Edward Meir</b>	<b>98.99</b>
2	Numis - Cailey Barker	98.09
3	Metal Bulletin Research	97.30
4	BAML - Michael Widmer	97.00
5	Natixis - Nic Brown	96.76

market, at which point stocks on the LME and the SHFE are likely to build further, he added.

### The year past

The last twelve months have been extremely volatile for base metals prices, driven by factors as diverse as the changing export regulations in Indonesia, the declining economic outlook globally, the Qingdao fraud scandal and, later in the year, the tumbling price of oil.

“The main theme last year was the synchronised global slowdown in the major economies, except the US and, somewhat, the UK,” Meir said. “Almost every economy has slowed down considerably. They’re not only slowing down, but in some cases, they’re back in recession.”

Brazil slipped into recession during the year, but managed to escape in the third quarter, while Japan remained in recession as the year ended, and Russia was faced with the prospect of it as its economy shrank for the first time in five years. The Eurozone economies fared little better, creating an uninspiring picture from a demand perspective, Meir said.

The supply side showed signs of tightness, which mitigated price

falls somewhat, especially in copper and zinc, he added.

The Qingdao scandal was of course among the more prominent headlines of the year, and although the scandal itself now appears to be over, its influence lingers on. “It’s had a chilling effect on the credit market. Banks are lending to blue chip names only,” Meir said. “They are going to be much more circumspect and careful about lending. A lot of smaller companies will get the short end of the stick.”

In terms of the Indonesian situation, market participants will continue to keep a close eye on tin, he said, as talk emerges of the possibility of cutting export quotas in half. “It’s possible prices would spike and then demand would fall off, which is what happened with nickel,” Meir said. “With nickel, it backfired. The Philippines has taken over supply. At some point, Indonesian refiners will come back... but the Philippines is already a formidable presence,” he added.

Overall in 2014, meanwhile, the performance of the base metals was “not completely bearish”, according to Meir. “Three of the metals were up – nickel, zinc and aluminium, although aluminium was barely on the radar. Copper, lead and tin were the big losers, but it wasn’t a disaster,” he said.

There was little to be cheerful about, however, and gains were quickly pared as questions remain over demand.

“Zinc [for example] is in shortage but there are questions about demand because it’s very much a construction play, and it’s a galvanizing and an auto play as well,” Meir said. “Auto sales in China [are expected to] be lower this year, which is not good for zinc.”

### The 2014 Apex contest

Meir achieved 97.7% accuracy for his base metals price predictions across 2015, and precious metals overall winner Cailey Barker (*see next article*), of Numis, came second with 96.89%.

The team at BNP Paribas were third, with 96.3%, while Metal Bulletin Research came fourth with 95.94% and Nic Brown, of Natixis, came fifth with 95.76%.