

SEB Commodity Research

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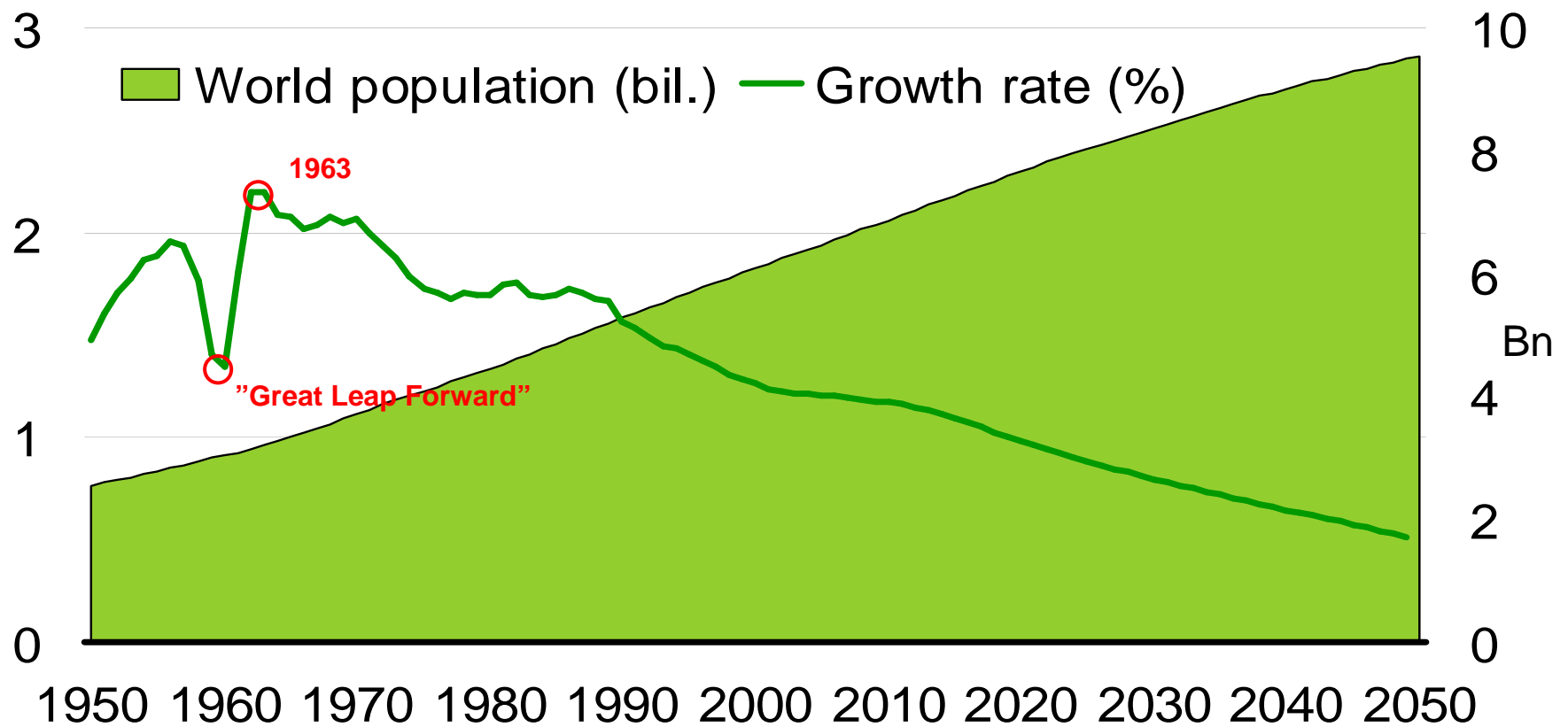
SEB and Commodities

- Commodities – an asset class
- Hedging of risk, securing margins
- Capital solutions, funding
- Access to instruments and markets
- Market insight

The big drama – 3x in 100 years

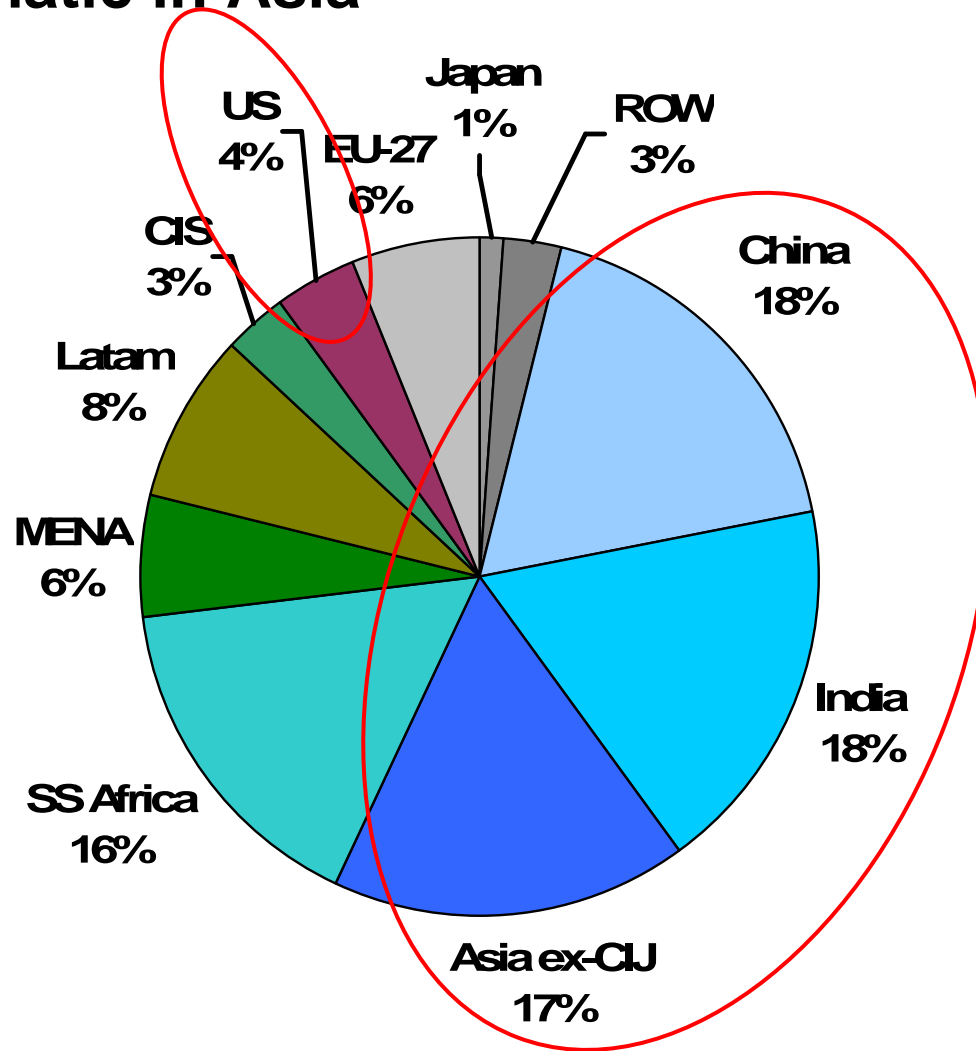
Global population

Population and population growth rate



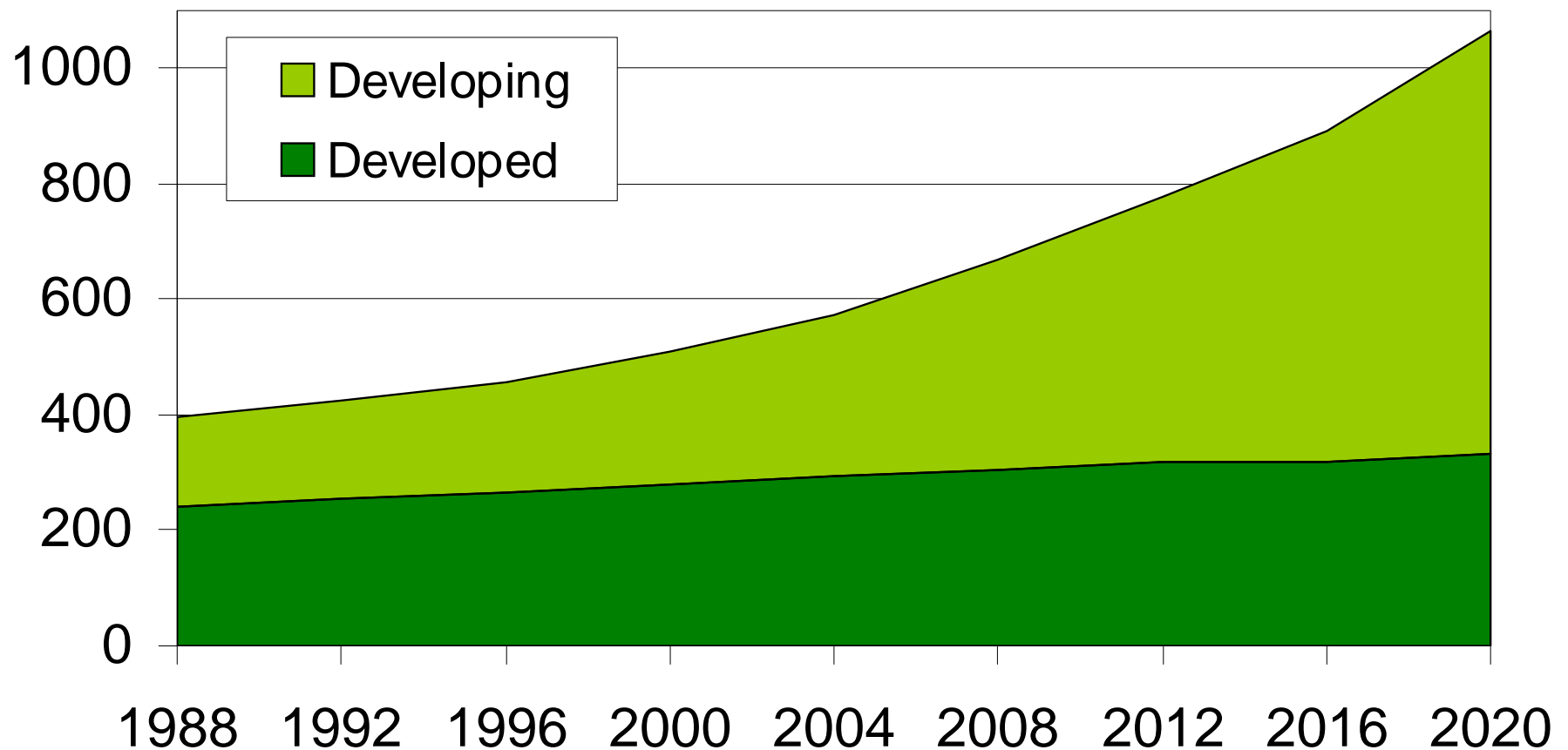
World Population 2030

Most dramatic in Asia

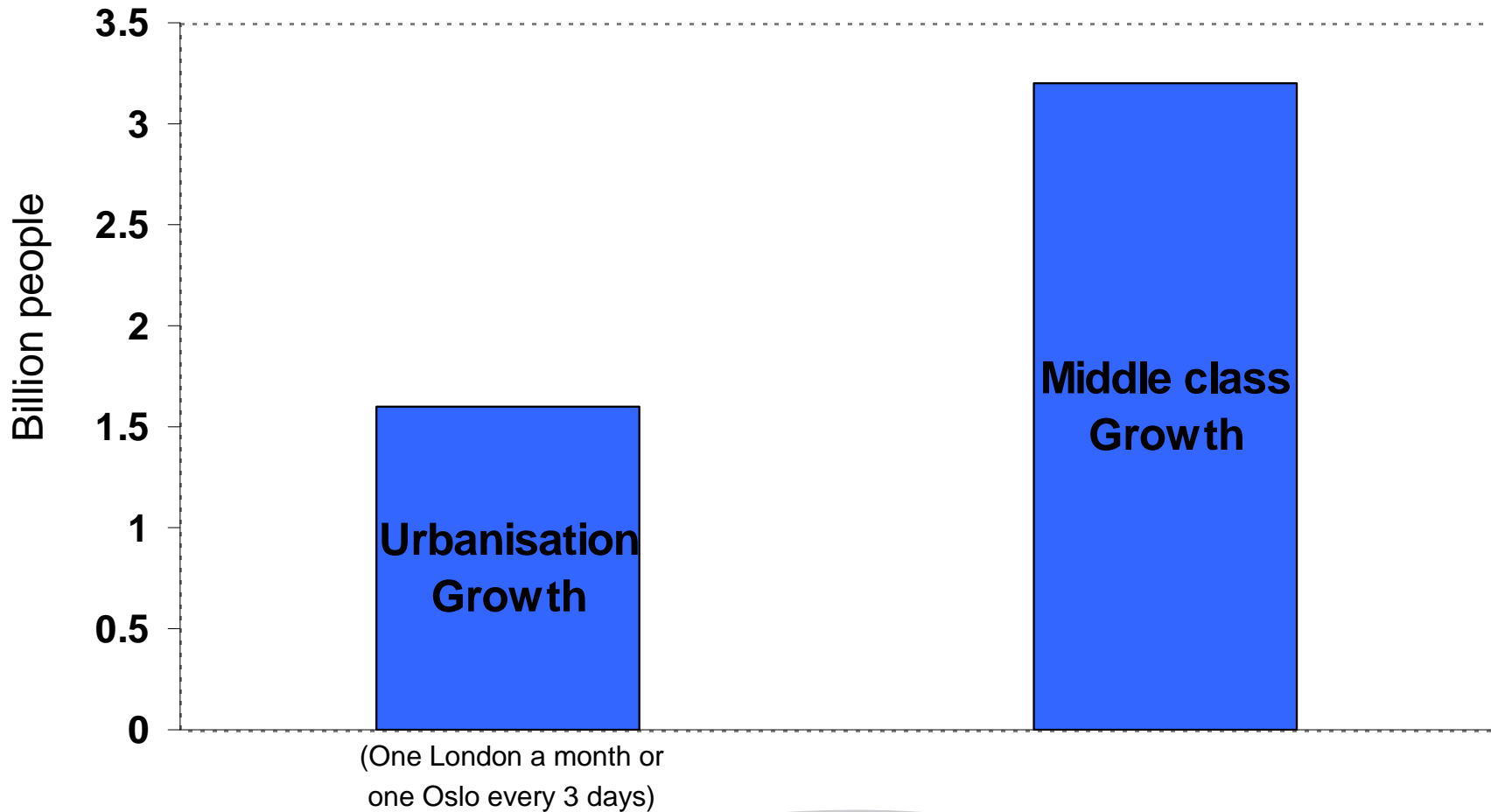


Emerging market middle class

Households with income > \$ 20 000/year (in millions)



Growth in Urbanisation and Middle class 2010 to 2030



Emerging Markets

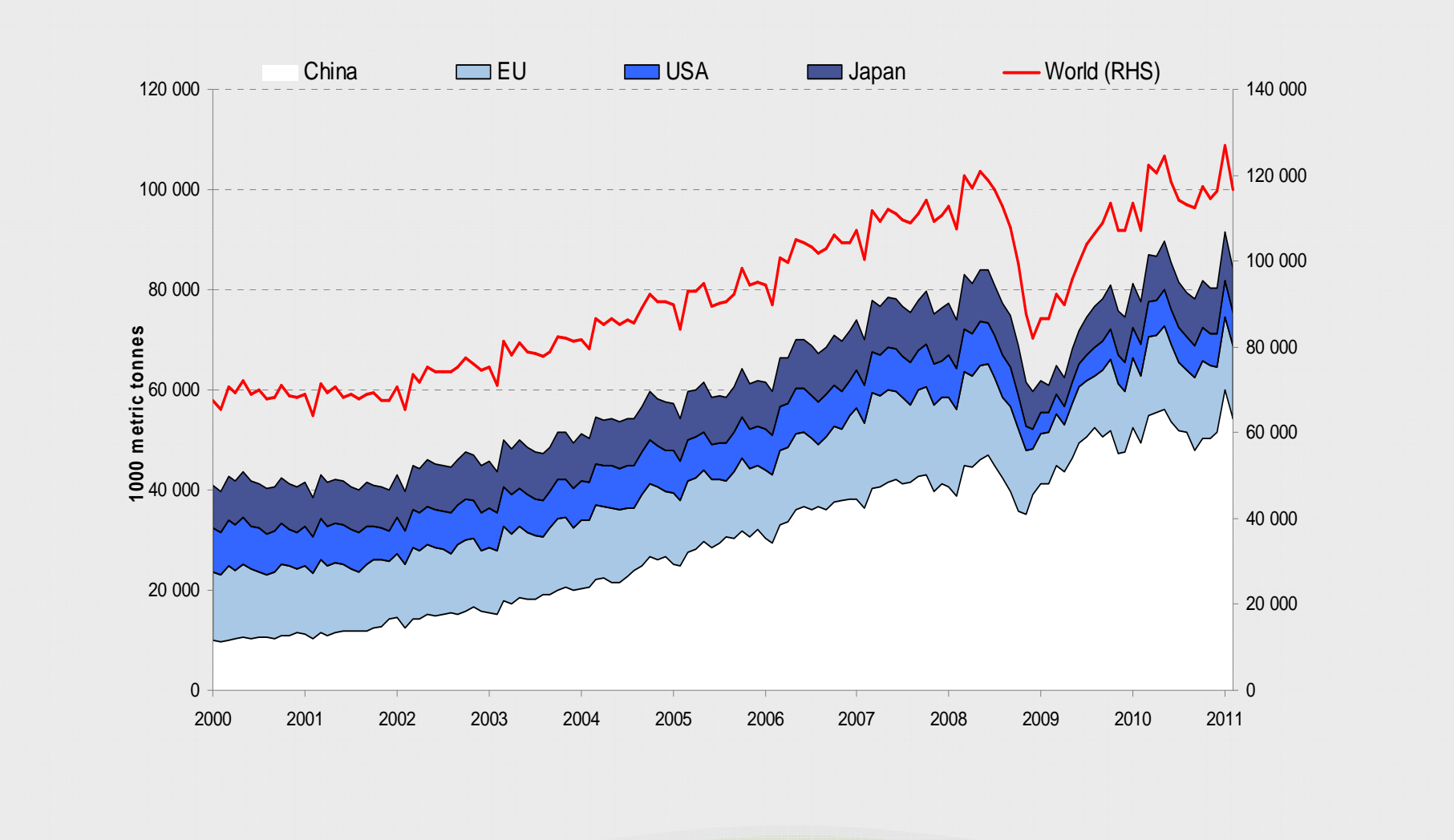
Industrialization, Infrastructure, Urbanization, Consumption



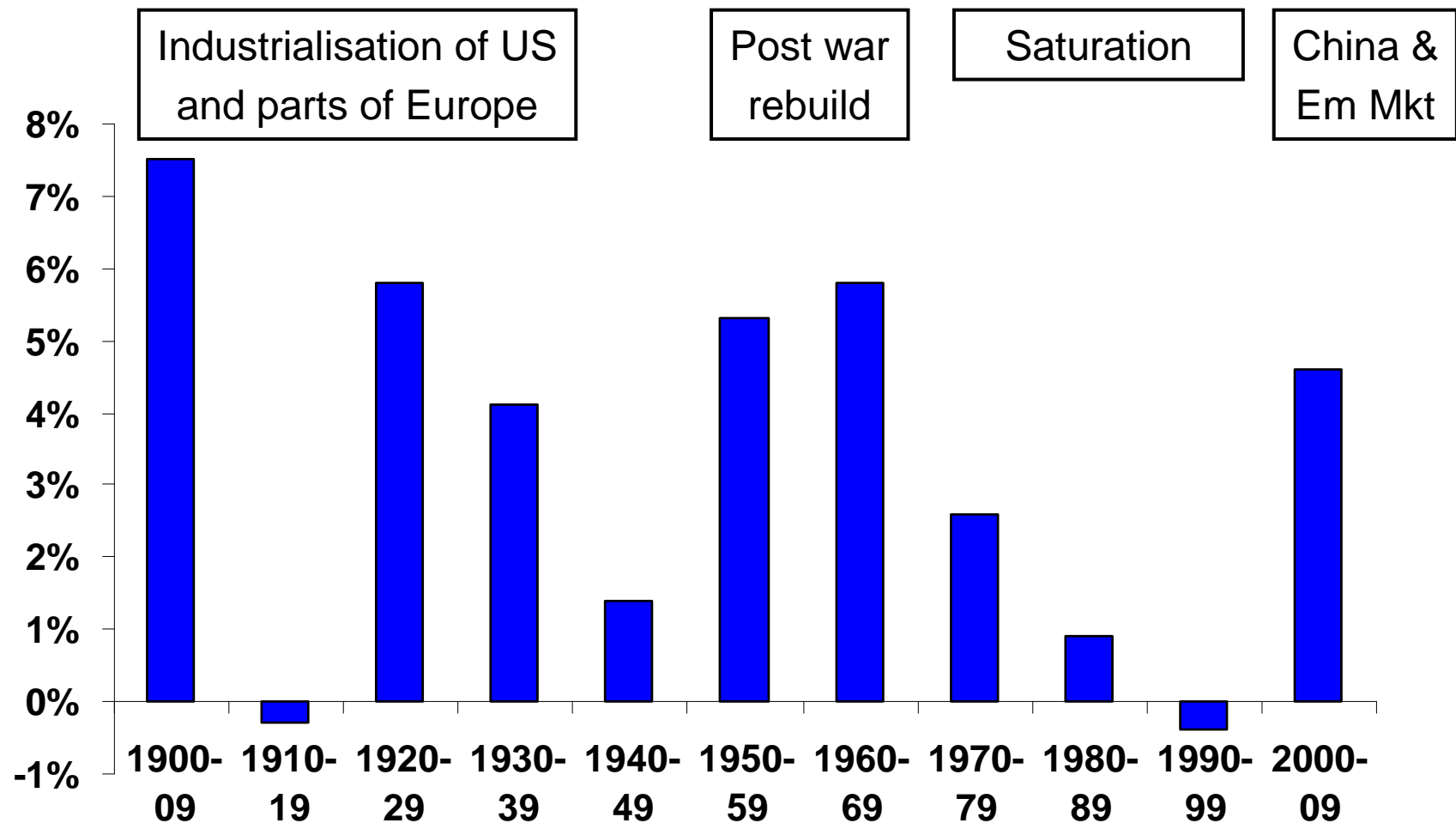
Crude Steel Production (Monthly)



..and all other metals grow propoortiaonaly



Global steel production growth

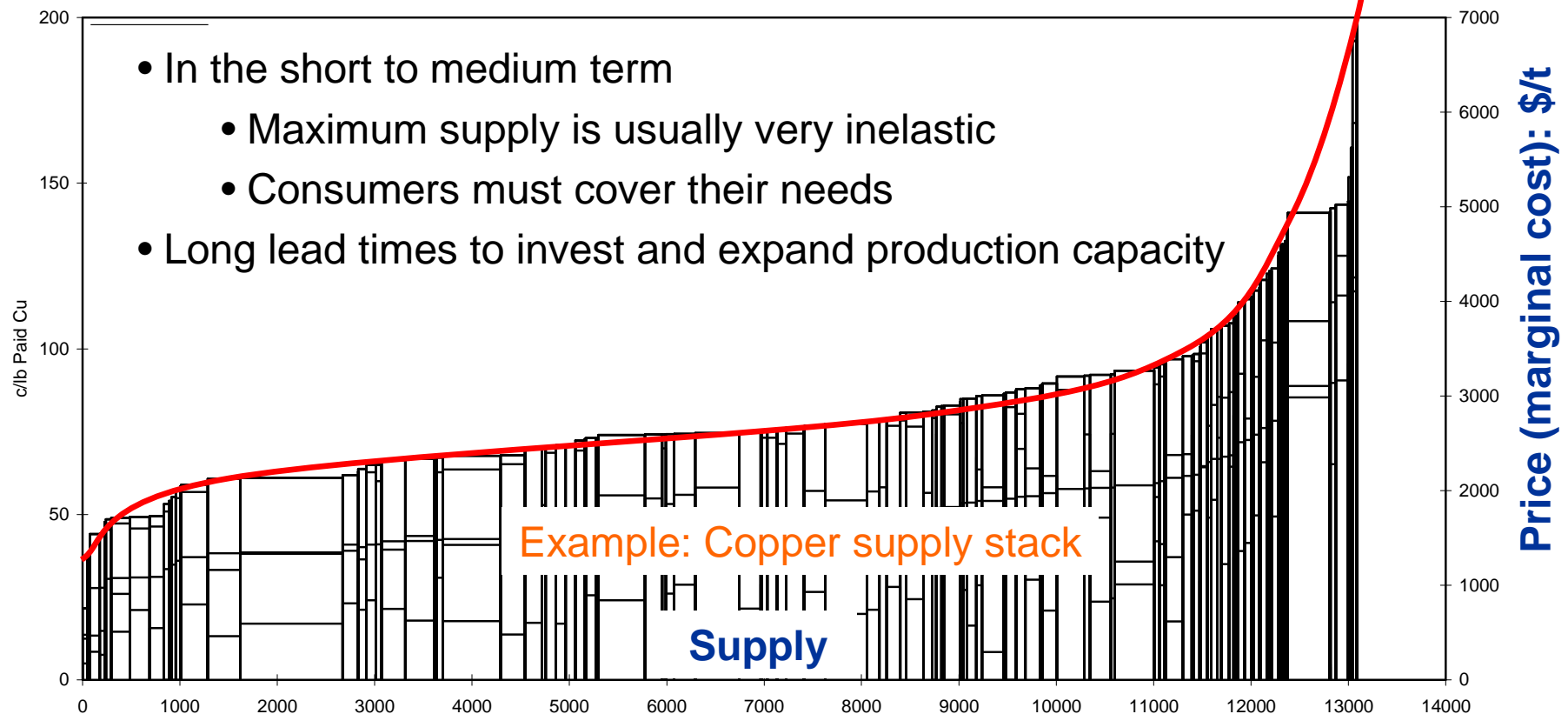




The exponential nature of commodity prices

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(Production from all installations sorted from lowest to highest marginal cost)

Huge swings in Metals prices

Higher risk profiles for commodity related companies

This will be the norm
in the years to come



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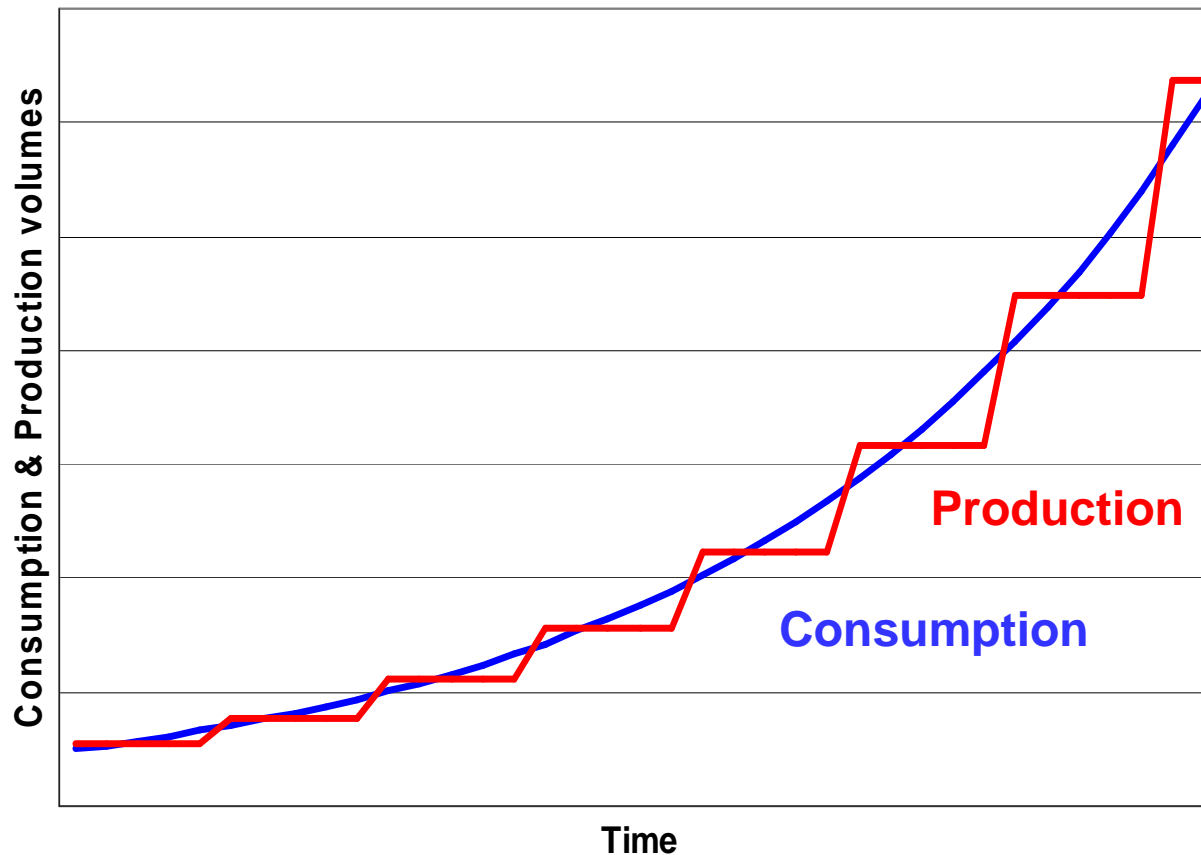
Source: Bloomberg CMIMPI Metals Index

Source: CMIMPI Adjusted with USD Index 2001

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Supply & Demand unsynchronized

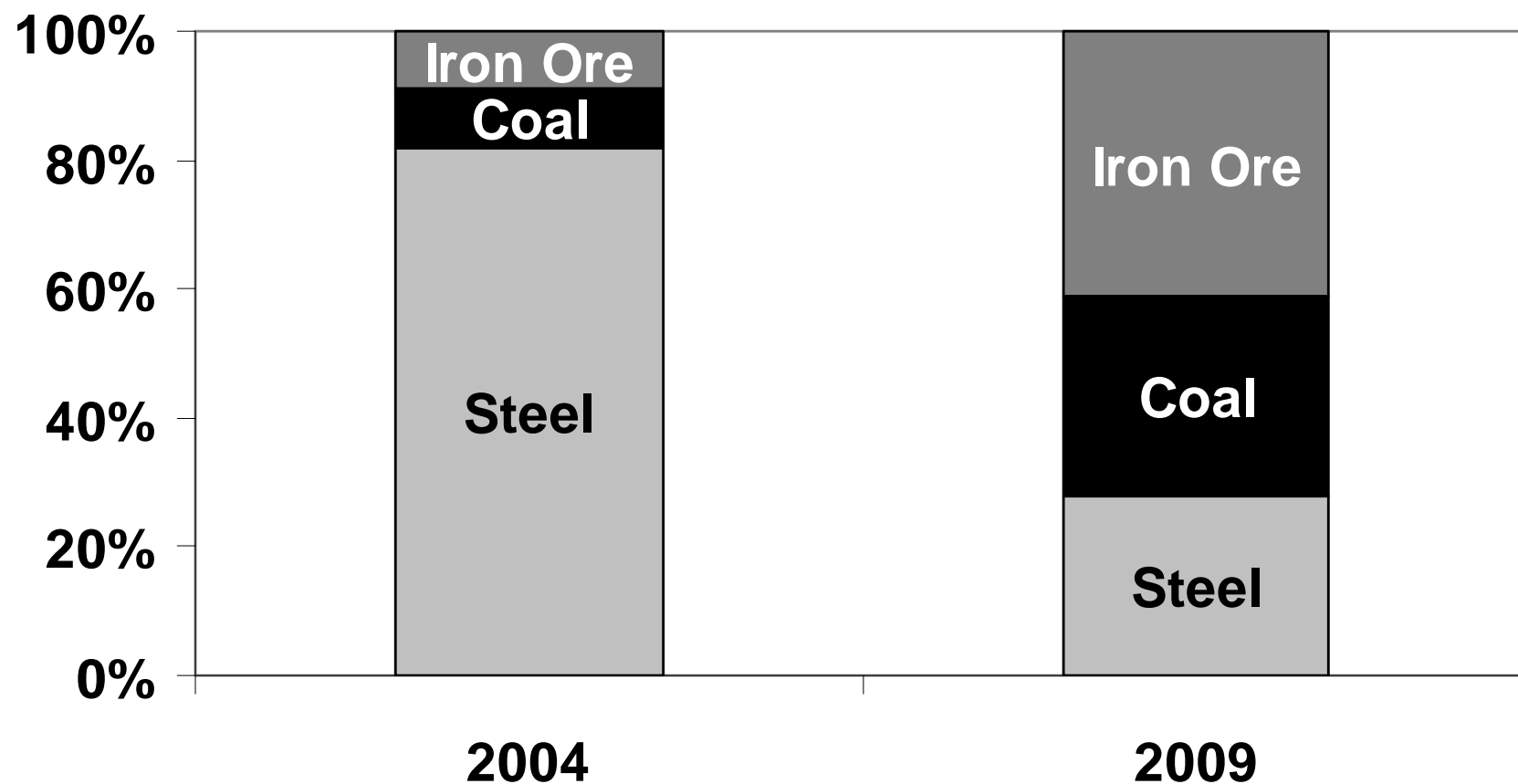
Strong demand growth – Stepwise supply growth



- Super cycle accelerating demand growth
- Commodities likely to experience more frequent high volatility periods

Profit splitt in Value Chain

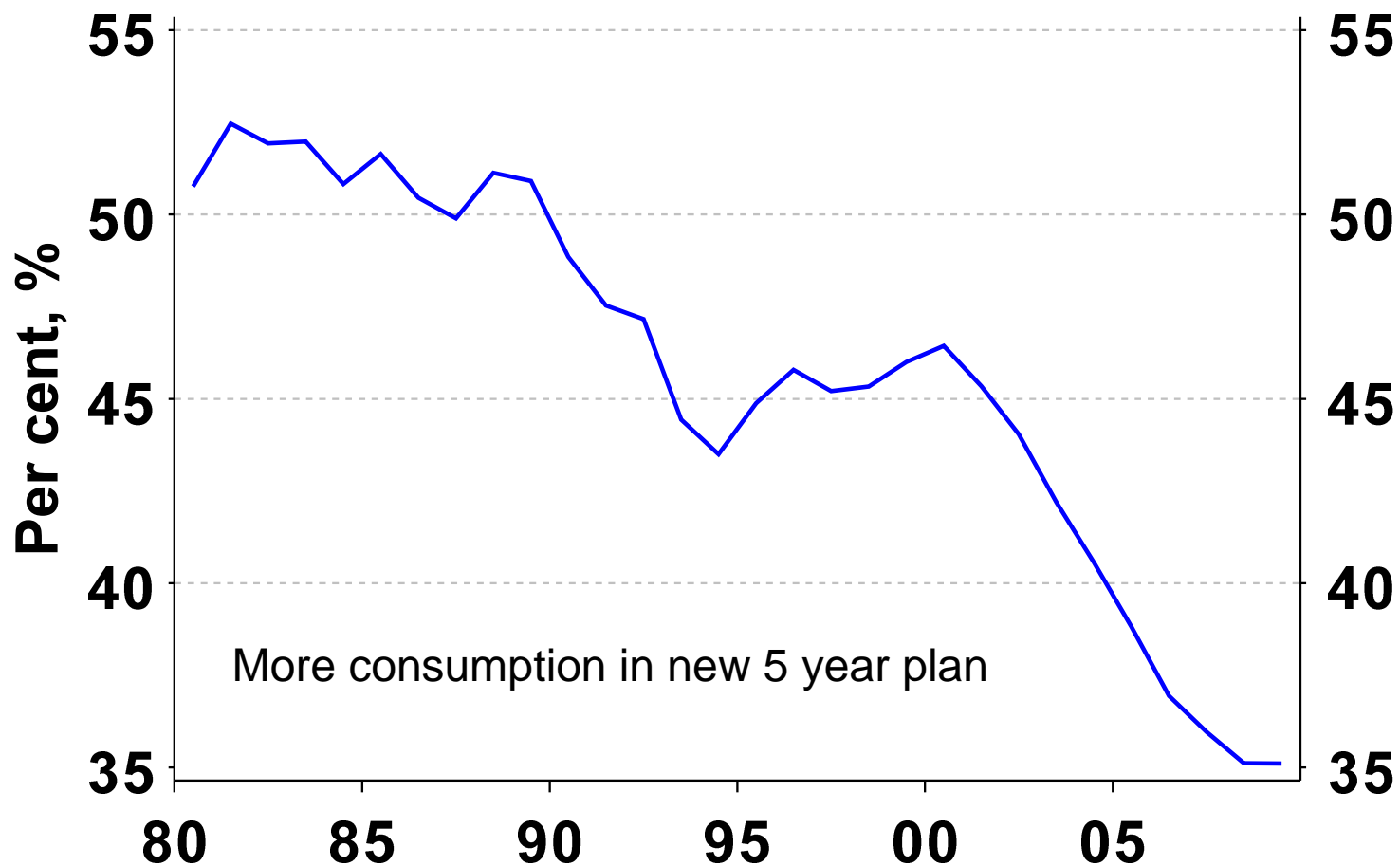
Rappid changes, unpredictable future



Source: Eurometal

China is not Crash proof

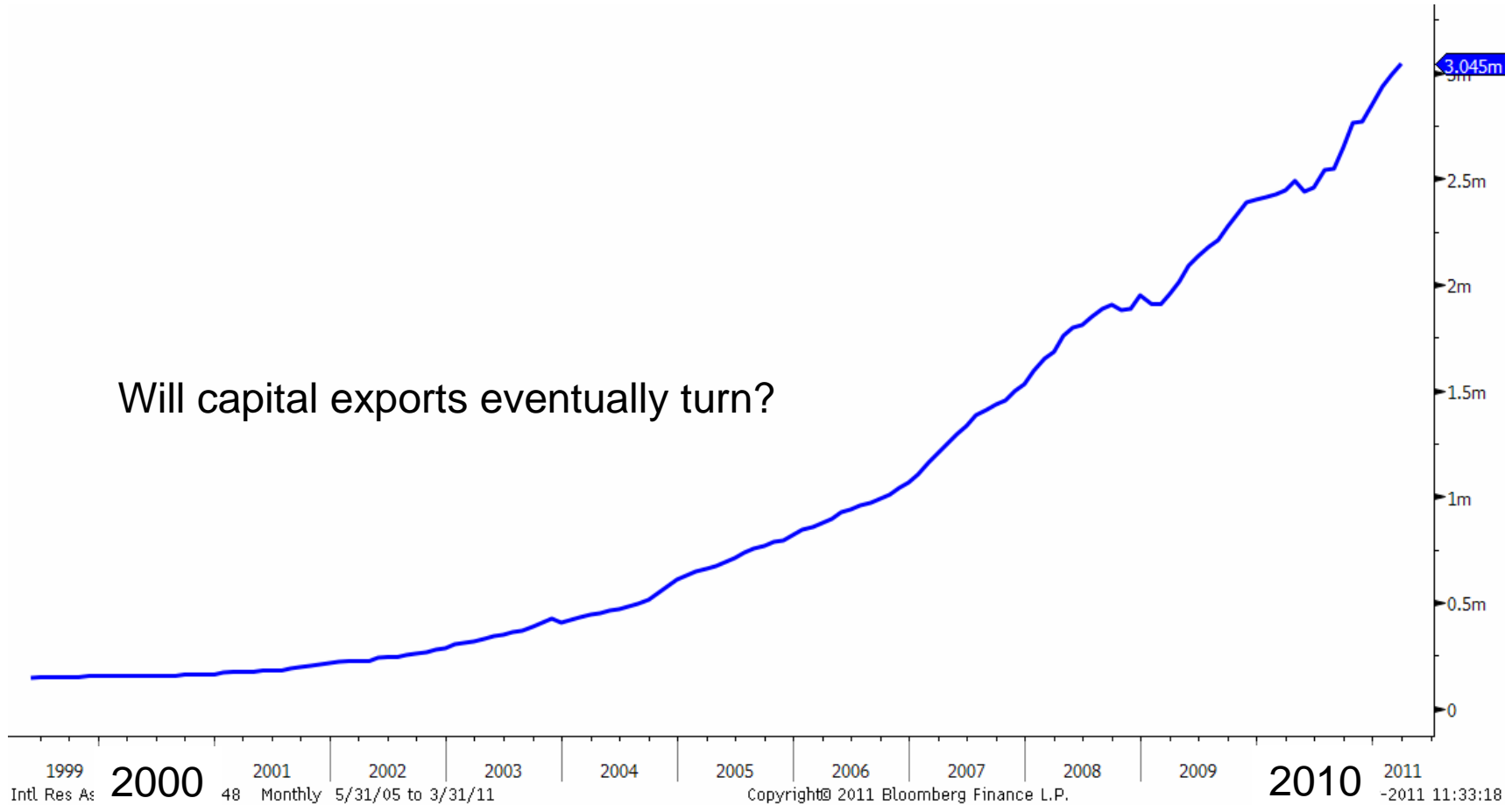
Household consumption, share of GDP



Chinese fx reserves = USD 3 Trillion



Will capital exports eventually turn?



A Chinese property bubble?

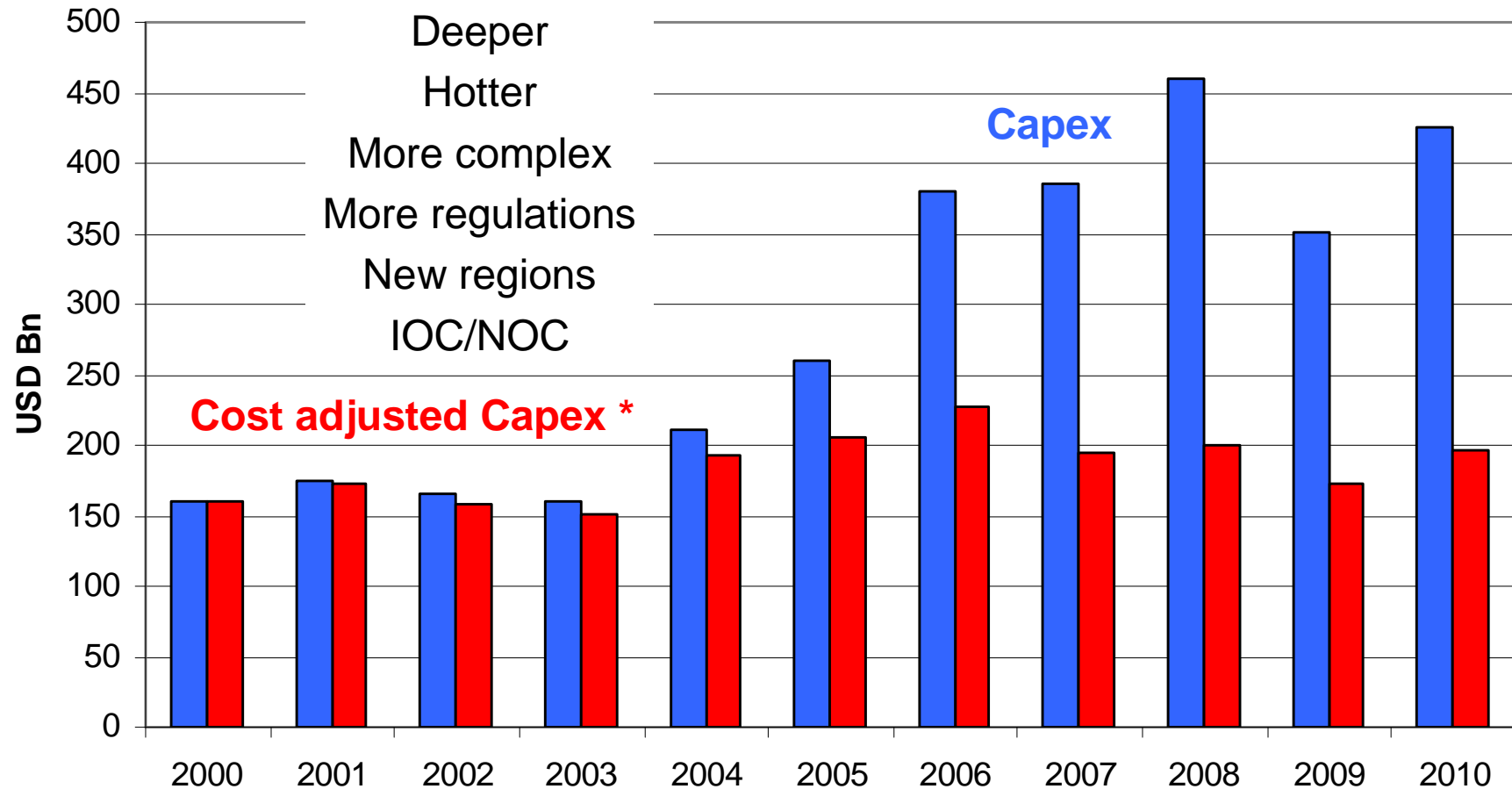
Worrying, for more than just industrial metals

S|E|B



Capex Upstream Oil and Gas

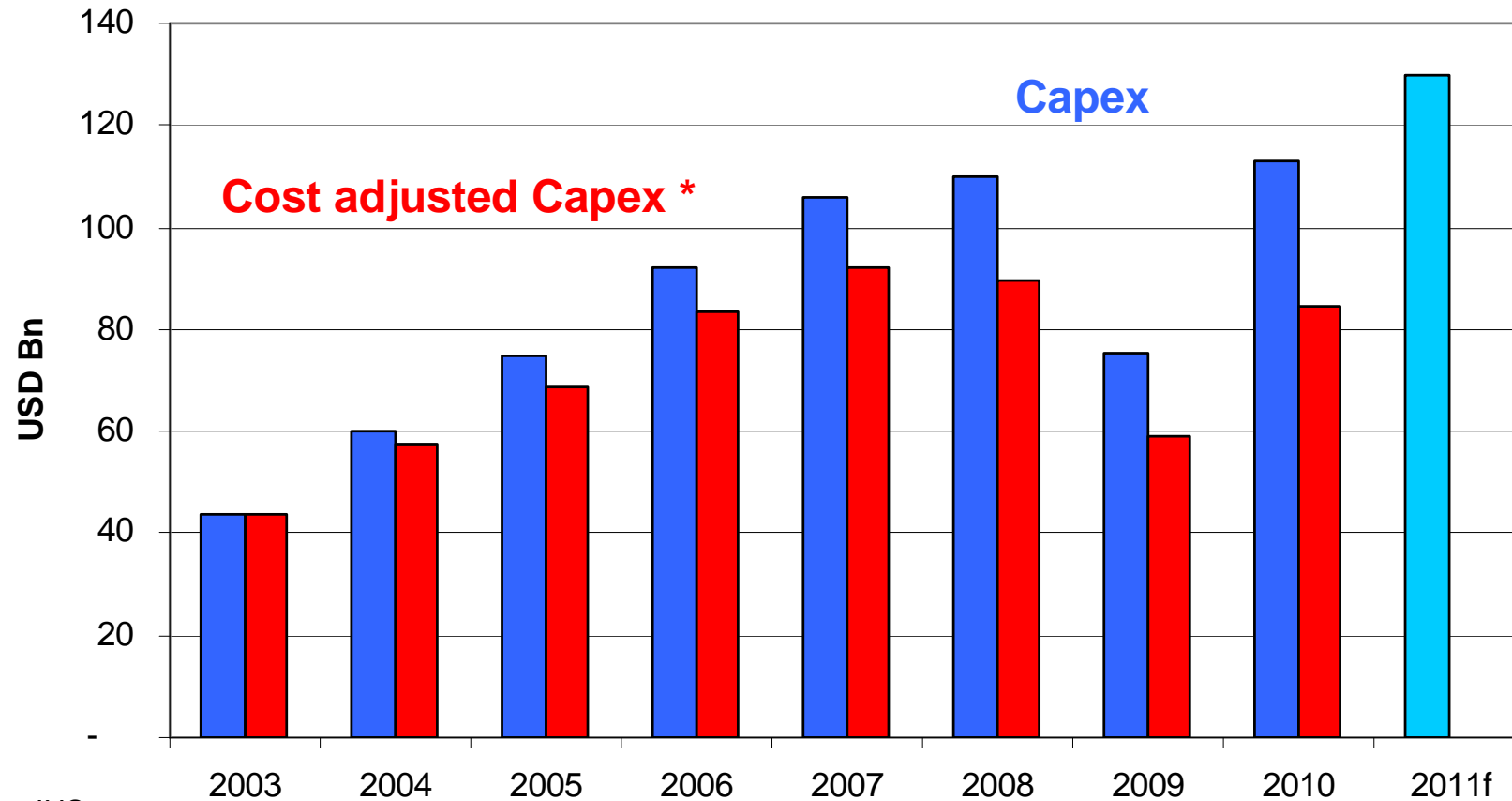
More money, but less bang per USD



Source: IHS, IEA, Morgan Stanley

*Adjusted with HIS upstream cost index, Yr 2000 = 100

Global Mining Capex



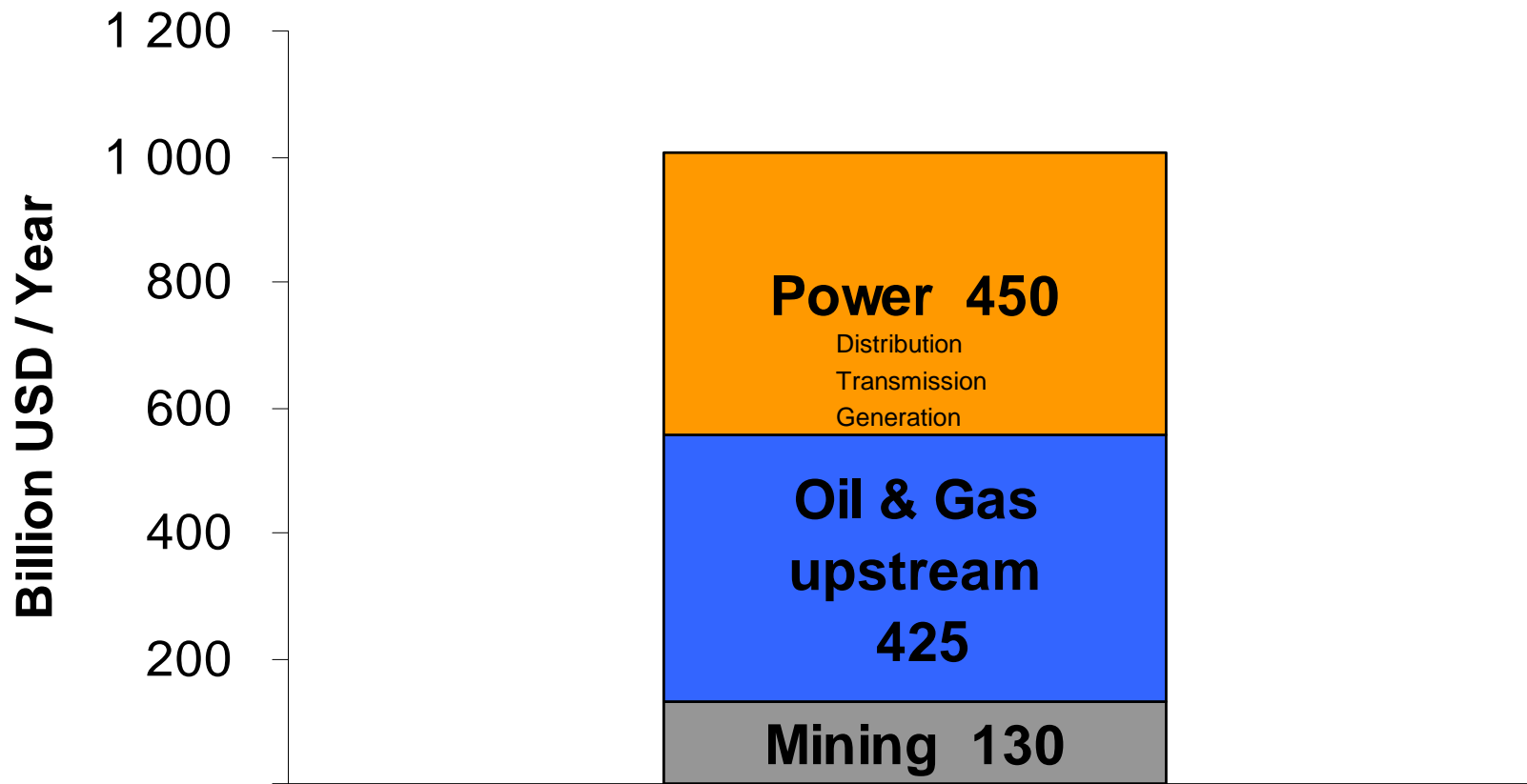
Source: IHS,

Source: McKinsey, Xstrata

* Adjusted Canadian Mine Cost Index MCS, Yr 2003 = 100

Commodity Capex per Year

Mining is the little one



Low borrowing rates coming to an end

10Y US Treasury yields heading down since 1980



Harder fight for capital

Higher risk profiles for commodity companies

- Declining ore grades
- More complex technology
- Deeper, hotter, new geographies
- Rising costs
- Environmental regulations
- End of long term pricing agreements
- Huge price swings
- Changing margin splits in value chain
- Higher risk, more uncertain returns
- Credit rating?
- Banks reaching sector lending limits
- **Necessary to access new sources of capital**

Unstable sources of supply

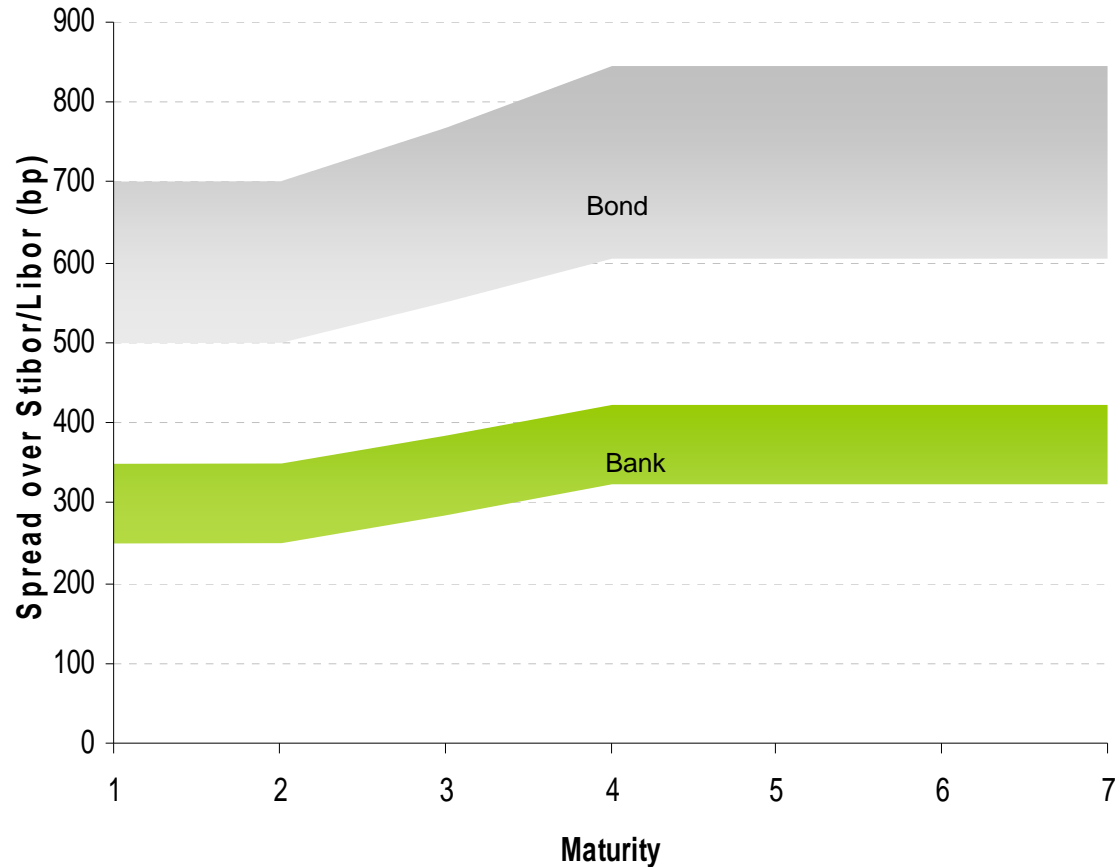
Region/ Nation	Political Stability	Regulatory Efficiency	Corruption Control
AFRICA			
Botswana	1	2	1
DR Congo	4	4	4
Ghana	3	2	2
Guinea	4	4	4
Madagascar	3	3	2
Namibia	1	2	2
South Africa	2	2	2
Zambia	2	3	3
Zimbabwe	4	4	4
ASIA			
Indonesia	4	3	3
Kazakhstan	2	3	4
Mongolia	2	3	3
Papua New Guinea	3	3	4
Philippines	4	2	3
Russia	2	3	4
Uzbekistan	4	4	4
LATIN AMERICA			
Argentina	3	3	3
Bolivia	4	4	3
Brazil	3	2	2
Chile	1	1	1
Mexico	4	2	3
Peru	4	2	3
Venezuela	4	4	4

1 is best and 4 is worst

High Yield bonds – on of many sources

- Financing brown/greenfield development

Higher spreads than bank loans...

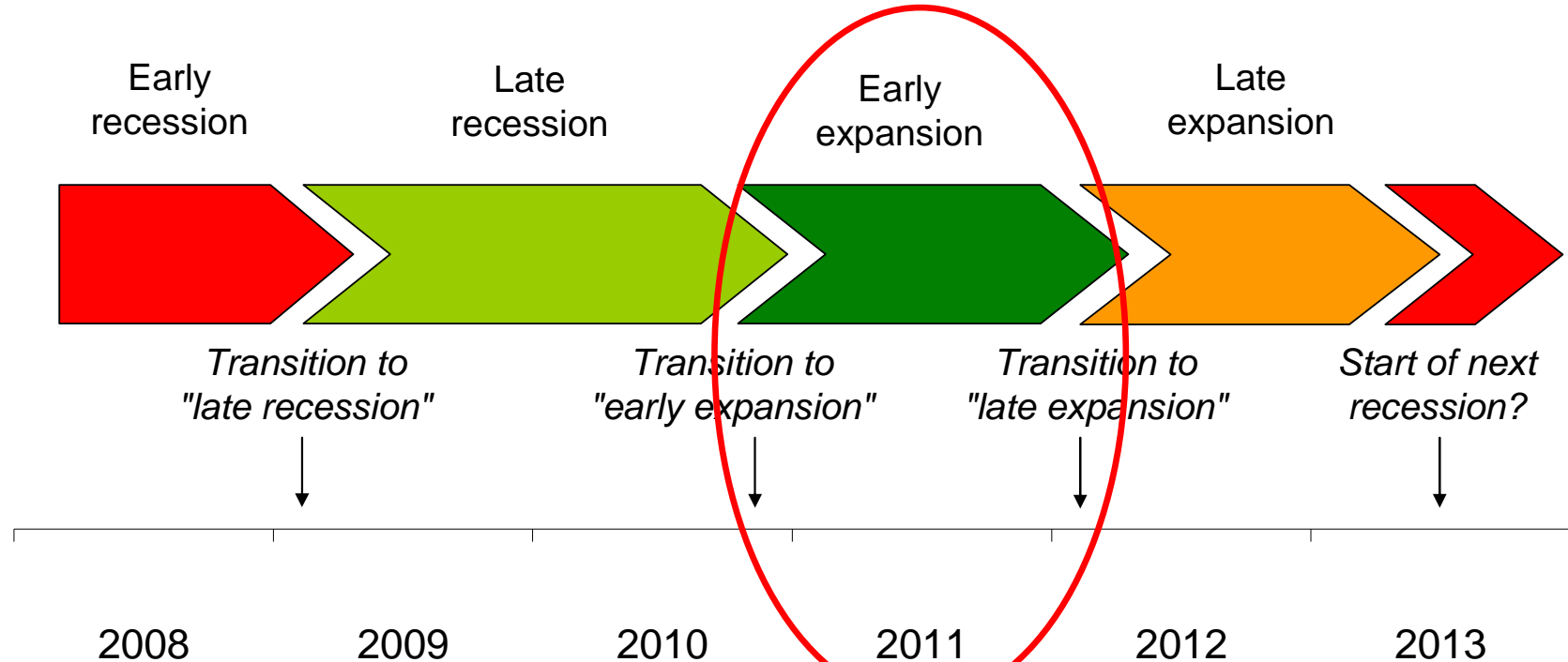


- Later repayment of cashflows yield higher returns
- More flexible documentation
 - Less strict covenants
 - Higher loan-to-value
- More flexible drawdown
- A kind of substitute for equity

But bonds facilitate better cashflow than banks

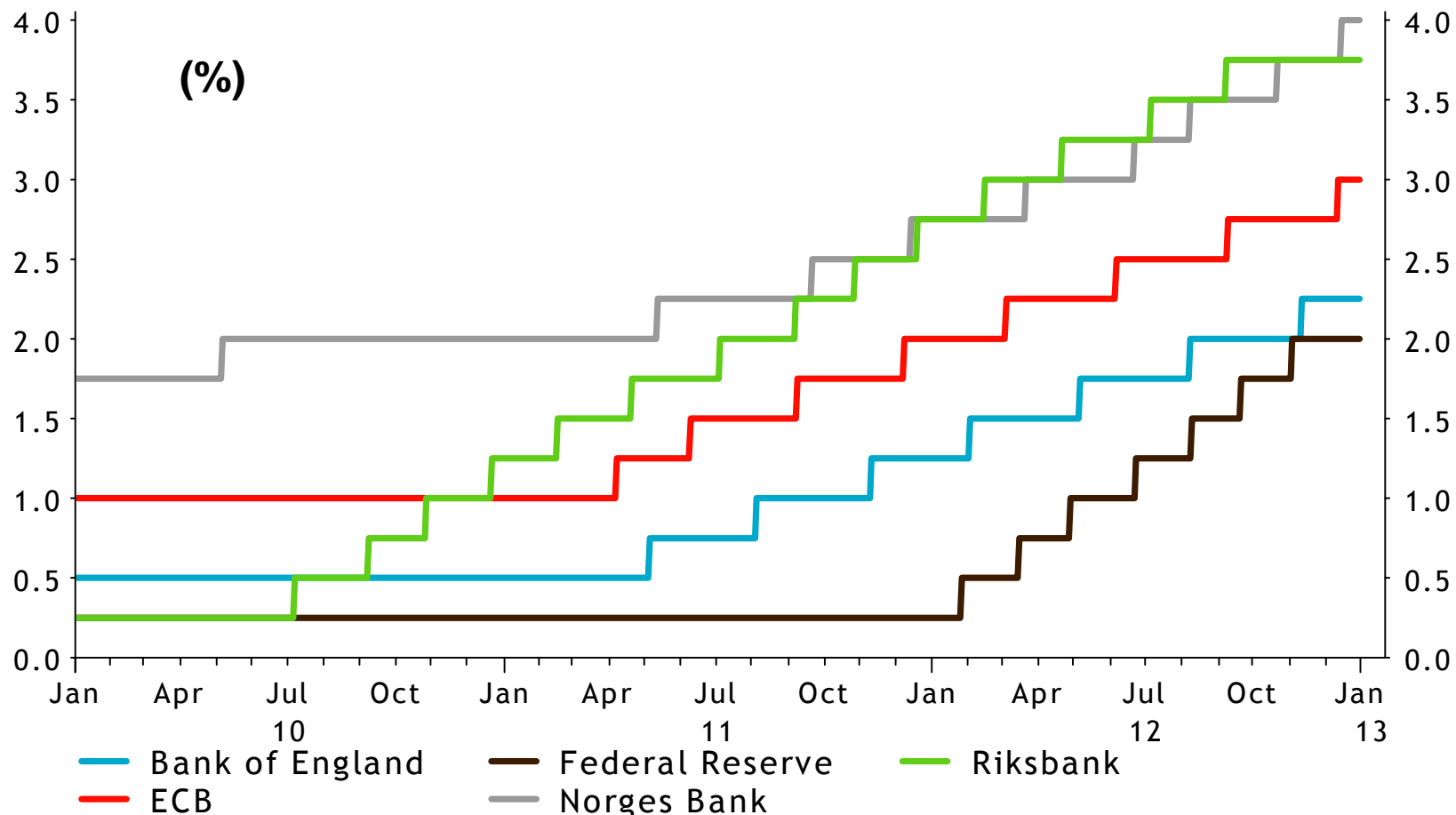
Strategic roadmap

<i>Sub-trend return for stocks, bonds</i>	<i>Above-trend return for both bonds and stocks</i>	<i>Cyclical bull market for stocks, rising yields</i>	<i>Above-trend returns for commodities, stocks</i>
<i>Rate peak, inv curve</i>	<i>Rate cuts, steeper curve</i>	<i>Rate trough, curve peak</i>	<i>Rate hikes, flatter curve</i>
<i>Very high volatility</i>	<i>Above-trend volatility</i>	<i>Very low volatility</i>	<i>Sub-trend volatility</i>
<i>Defensive, large cap</i>	<i>Early cyclical, small cap</i>	<i>Late cyclical, all cap</i>	<i>Yield sensitive, large cap</i>



Interest rate hikes are coming

ECB's dilemma: one size does not fit all



Source: SEB Economic Research

Outlook



0-3M 4-6M 7-12M

OVERALL



- High prices, long specs and uncertainty
- Correction lower appears unavoidable

CRUDE OIL



- Risk skewed to the upside of \$120/b in Q2
- So far only limited demand destruction

INDUSTRIAL METALS



- Chinese soft vs. hard landing central
- Short term risk skewed to the downside

PRECIOUS METALS



- Broad range of supportive factors for gold
- Silver has rallied in retail hype

AGRICULTURE



- Low inventories short term supportive
- Demand destruction limiting upside

Disclaimer & Confidentiality notice

Τησ ινφορματιον ιν τησ δοχυμεντ ηασ βεεν χομπιλεδ βψ ΣΕΒ Μερχηαντ Βανκιγγ, α διωσιον ωιτηιν Σκανδιναωισκα Ενσκιλδα Βανικεν ΑΒ (τυβλ) (ΣΕΒ).

Οπιονιοσ χονταινεδ ιν τησ ρεπορτ ρεπρεσεντ τηε βανκ σ πρεσεντ οπιονιοσ ονλψ ανδ αρε συβφεχτ το χηανγε ωιτηουτ νοτιχε. Αλλ ινφορματιον χονταινεδ ιν τησ ρεπορτ ηασ βεεν χομπιλεδ ιν γοοδ φαιτη φρομ σουρχεσ βελιεωεδ το βε ρελιαβλε. Ηωωεωερ, νο ρεπρεσεντατιον ορ ωαρραντην, εξπρεσσεδ ορ ιμπιλιεδ, ισ μαδε ωιτη ρεσπεχτ το τηε χομπλετενεσσ ορ αχχυραχη οφ ιτσ χοντεντσ ανδ τηε ινφορματιον ισ νοτ το βε ρελιεδ υπον ασ αυτηοριτατιωε. Ανψηνε χονσιδεριγγ τακιγγ αχτιονσ βασειδ υπον τηε χοντεντ οφ τηεσ δοχυμεντ ισ υργεδ το βασειε ηισ ορ ηερ ινωσηστμεντ δεχισιονσ υπον συχη ινωσησιγατιονσ ασ ηε ορ σπε δεεμο νεχεσσαρη. Τηεσ δοχυμεντ ισ βειγγ προωιδεδ ασ ινφορματιον ονλψ, ανδ νο σπεχιφιχ αχτιονσ αρε βειγγ σολιχιτεδ ασ α ρεσουλτ οφ ιτ; το τηε εξτεντ περμιττεδ βψ λαω, νο λιαβιλιτην ωηατσοεωερ ισ αχχεπτεδ φορ ανη διρεχτ ορ χονσεθυεντιαλ λοσσ αρισιγγ φρομ υσε οφ τηεσ δοχυμεντ ορ ιτσ χοντεντσ.

ΣΕΒ ισ α πυβλιχ χομπανψ ινχορπορατεδ ιν Στοκχολμ, Σωεδεν, ωιτη λιμιτεδ λιαβιλιτην. Ιτ ισ α παρτιχιπαντ ατ μαφορ Νορδιχ ανδ οτηερ Ευροπεαν Ρεγυλατεδ Μαρκετσ ανδ Μυλτιλατεραλ Τραδιγγ Φαχλιτιεσ (ασ ωελλ ασ σομε νον-Ευροπεαν εθυιωαλεντ μαρκετσ) φορ τραδιγγ ιν φινανχιαλ ινστρουμεντσ, συχη ασ μαρκετσ οπερατεδ βψ ΝΑΣΔΑΘ ΟΜΕ, ΝΨΣΕ Ευρονεξτ, Λονδον Στοκχ Βεξχηανγε, Δευτοχη Βηρσε, Σωιουσ Εξχηανγεσ, Τυρθουισε ανδ Χηι-Ε. ΣΕΒ ισ αυτηοριζεδ ανδ ρεγυλατεδ βψ Φινανσινσπεκτιονεν ιν Σωεδεν; ιτ ισ αυτηοριζεδ ανδ συβφεχτ το λιμιτεδ ρεγυλατιον βψ τηε Φινανχιαλ Σερωιχεσ Αυτηοριτην φορ τηε χονδυχτ οφ δεσιγγατεδ ινωσηστμεντ βυσινεσσ ιν τηε ΥΚ, ανδ ισ συβφεχτ το τηε προωισιονσ οφ ρελεωαντ ρεγυλατορσ ιν αλλ οτηερ φυρισδιχτιονσ ωηερε ΣΕΒ χονδυχτσ οπερατιονσ.

ΣΕΒ Μερχηαντ Βανκιγγ. Αλλ ριγητσ ρεσερβεδ.