RBS Morgans

Notes from the field

mines and money Hong Kong 2013

Wednesday, the first of MMHK's two "showcase" days, opened with a far more austere tone than perhaps most of the Australian delegates had hoped. New tensions in the eurozone are another blow to confidence in global growth (for the minerals producers/developers) but are giving renewed ammunition to the gold bulls.

- **FMG** - Typically confident in the outlook for robust Chinese steel demand over the med-long term, but warning about ongoing cyclical volatility. We're here to suss out the opinions of FMG's customers locally, more to follow

- **NCM** - Realistic about where today's challenges are forcing the industry. I.e. Focus on operational optimisation, large scale M&A are on hold, and generally "getting back to basics".

- **Our view** - These views mirror what the other majors are saying about capital efficiency and more focus on costs and shareholder returns. BHP described it to us as "like running your assets like you did back in the '90's". This is not a frothy market for small-mid caps and that environment is not going to return in a hurry.

- Funding is becoming the critical issue for the juniors. Some believe that "new projects are in a long taxi queue for approvals and funding and that queue is going to get longer" - Asset quality is of utmost importance in this market.

- The financiers in attendance do note that there is a huge amount of money available to invest in commodities supply, but that convincing this money to invest given the short term outlook is extremely difficult, particularly at the small end. Most don't expect this outlook to change in a hurry

- Meanwhile the gold bulls are getting a good hearing in the current climate. Renowned bull Eric Sprott noted "What's the medicine to fix world issues? - there is no medicine!" If any issues arise then key world governments just print more money - this is good for gold in the long term.

- **Our initial views overall** - Certainly the market/industry is not willing to believe that China has the silver bullet again ready to provide the demand pull and higher commodities pricing that supported mining equities since the GFC. That story will take longer to evolve this cycle as China tries to manage its sustainable growth. (Our next update will focus on China centric feedback).

- It appears though that the seeds of the next cycle are being sown by way of project deferrals and capital constraints. Copper in particular, probably followed by good quality met coal are already resource constrained markets where new capacity is being deferred. This will create price squeezes again in the future. The crucial question for investors is when.

- Interesting to note that the long term thinkers and the entrepreneurs are positioning their own money now for that next stage of the cycle. E.g. Early stage coal, copper, tin etc. We've seen the majors divest assets and get it terribly wrong during these cycles before. PWC thinks that it's a "great time to have a lot of patient money".

- Feedback to date and such subdued interest in mining equities generally are reminders that we're in such a fickle stage of the cycle for commodities confidence and that investors need to position accordingly. I.e. Be nimble.

James Wilson and Tom Sartor
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