

---

---

# Material Matters: Tin Looking Bullish, Steel To Improve, Plus Production Report Surprises

**FN Arena News - July 14 2010**

By Chris Shaw

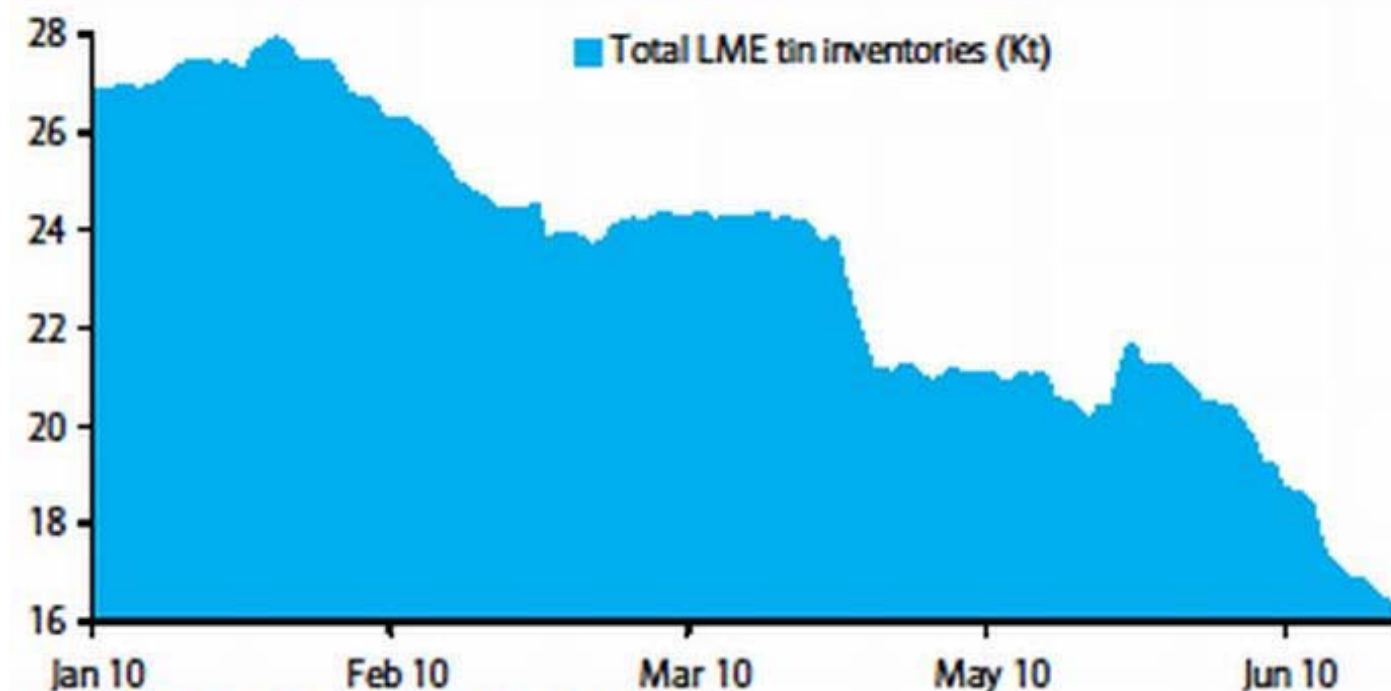
Tin's small market size and unattractive liquidity levels relative to the other base metals mean it generally receives less attention from investors, but as Barclays Capital notes the fundamental picture for the metal at present is very much a bullish one for both short and medium-terms.

Tin is the only one of the base metals to achieve a clear price gain year-to-date, Barclays viewing this as a reflection of the global market deficit for the metal which it estimates at about 8,000 tonnes. Supporting the tightness of the market is the trend in LME inventories, which continue to decline at a fast pace.

---

## The near halving in LME tin stocks in 2010 indicates an emerging deep market deficit

---



Source: EIA, IEA, OPEC Secretariat, Barclays Capital

Tin inventories have fallen 41% year-to-date to now stand at around 16,000 tonnes, a trend Barclays suggests is likely to continue given positive factors on both the supply and demand sides of the market.

On the supply side, Barclays notes production in Indonesia, the world's largest producer, continues to fall. Exports fell in May by 26% in year-on-year terms and year-to-date are now down around 16% on the same basis. The fact one of the country's largest independent smelters was closed in June suggests no turnaround in Indonesian production is likely either this year or next.

On the demand side, Barclays notes China remains a key factor given it is now well established as a net importer of the metal. Japan and Europe have also posted solid import demand as manufacturing sectors continue to lift production to meet improving end-demand.

In such an environment Barclays suggests current price levels of the metal of US\$17,000-\$18,000 per tonne will be seen as undervalued as market fundamentals continue to tighten over the next 18 months. Barclays is forecasting an average tin price of US\$20,500 per tonne in the final quarter of 2011.

Turning to steel, RBS Australia suggests production cuts can be expected in China in an attempt to restore balance and pricing power to that market ahead of an anticipated demand recovery in the final quarter of this year.

Construction demand should improve in coming months given seasonal factors, while industry de-stocking should also ease in RBS's view. There is also scope for the Chinese Government to introduce some measures in the third quarter to help stimulate the economy, with these likely to focus on boosting fixed asset investment.

This combination should see steel prices move higher, which would create conditions for a rebound in margin for the steel producers. In turn, this suggests a potential rebound in steel stocks, so creating an opportunity for investors in the

view of RBS.

With respect to the Australian steel plays, Deutsche Bank notes while steel prices have declined recently, this has been partly offset by falls in both iron ore and scrap prices. Despite the weakness, current spot prices for steel remain above the broker's forecasts, which implies minor upside risk to earnings forecasts for both BlueScope Steel (BSL) and OneSteel ((OST)).

Deutsche suggests BlueScope continues to offer greater scope for a modest earnings surprise in FY10, while results from OneSteel should be largely in line with both guidance from management and consensus forecasts in the market.

Both stocks offer value in Deutsche's view and so the broker continues to rate both BlueScope and OneSteel as Buy, with respective price targets of \$4.15 and \$5.56. The FNArena database shows average price targets of \$3.37 and \$4.20 and Sentiment Indicator readings of 0.8 for BlueScope and 0.5 for OneSteel.

On the scrap side of the steel market, the weakness in both iron ore and scrap prices suggests ongoing margin pressure for Sims Group ((SGM)) given the strong correlation between iron ore and scrap prices. Deutsche continues to rate Sims a Hold with a price target of \$18.00, while the FNArena database shows a Sentiment Indicator reading for the stock of 0.4 and an average price target of \$22.56.

UBS has turned its attention to the June quarterly reporting season for mining companies, the broker attempting to identify those stocks offering potential for either upside or downside earnings surprise.

In general terms, UBS notes the price movements in commodity markets in the June quarter have been enough to cause a negative price adjustment among the companies in its base metals coverage. As evidence of this, the broker notes copper prices fell 17% in the June quarter, nickel prices by 22%, zinc prices by 27% and lead prices by 20%.

In the bulks, shipment data from the Port Hedland Port Authority were 2% higher for the quarter than UBS had forecast, which suggests BHP Billiton ((BHP)) and/or Fortescue ((FMG)) had a good quarter. Macarthur Coal ((MCC)) also beat guidance with shipments of 5.26 million tonnes for FY10, which compared to previous indications shipments would be in the 4.8-5.0 million tonne range.

Relative to its forecasts, UBS suggests there is some upside risk in Avoca ((AVO)), Iluka ((ILU)), Oz Minerals ((OZL)) and Paladin ((PDN)), largely from strong production numbers. Scope for disappointment rests with Coal and Allied ((CNA)), Dominion Mining ((DOM)) and Minara ((MRE)), in UBS's view, given potential for production or costs to come in below expectations.