

Liquidity squeeze to test resource prices

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Sam Jordan Jones

BASE metals will have some slight headwinds to battle in the year ahead with copper and tin the likely winners while nickel will be caught dragging its feet, according to BNP Paribas senior metal strategist Stephen Briggs.

In the keynote address at the RIU Sydney Resources Round-up this week, Briggs forecast tin as the standout performer of the base metals.

"I still believe that that has the strongest fundamentals of all, not because of the demand side but because of a lack of new supply coming into the market," he said.

According to Briggs, base metals will be facing several "slight headwinds" in the next 12 months.

He said rises in global interest rates and the completion of the second round of quantitative easing in the US would put a squeeze on liquidity which has been propping up base metal prices.



"One of the big features of the past three years is the massive liquidity there is in financial markets and there is no question that has been a boost to commodity prices," he said.

"We expect liquidity to remain ample in the coming months but it is on a downward trend.

"The ending of quantitative easing (QE2) in the US is only a month or so away, so although it's still relatively supportive it's going to become less supportive for commodity prices than it has been up until now.

"I think increasingly, the base metal prices in particular will have to flourish on their own fundamentals more than on wider economic conditions."

As well as tin, copper is another one of the base metals Briggs expects will withstand the liquidity squeeze.

"I still believe the copper market is in underlying deficit which is masked as inventory in China becomes more available to the market and I still think there is a good chance we will see higher prices, new record higher prices in the second half of the year."

Despite the global financial crisis there were very few cutbacks in the copper industry.

"What that means is now that times are better there is much less potential for growth as mines restart," he said.

As the copper industry struggles to maintain current production levels and with very few big projects coming on line, Briggs believes supply will not be able to meet the growing demand.

Less favourable, in his opinion, is nickel.

Compared to copper, Briggs said nickel's position was quite the opposite, which suffered massive cutbacks post-GFC, and there was still a lot of the metal in stockpiles.

"The differences in terms of new capacity coming on line are equally stark between the metals," he said.

"There is much voluntarily idle aluminum and nickel capacity that can still come on stream and there are a lot of new nickel mines stacking up."