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The state of metals markets in 2020

COMMENTARY | Gold and silver to rise further

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MINING EXECUTIVES WILL CONTINUE TO IGNORE MANAGING THEIR COMPANIES FOR PROFITS AND INSTEAD FOCUS ON BUILDING INCREASINGLY UNPROFITABLE EMPIRES BUILT ON DEBT.

The metals markets promise to be full of fascinating developments and unexpected twists in 2020. Mining equities will not be excluded from the drama.

This partly reflects the reality that global economic, political, and financial trends, which are the exogenous bases for much of what happens in metals and mining, also are likely to surprise and fascinate observers and participants, from the ongoing melodrama in Washington to the Brexit dark comedy, the plottings of Vladimir Putin and other autocrats around the world, and the political consequences of the Chinese government's handling of the coronavirus epidemic. Recession is likely to be avoided again in 2020, disappointing those negativists (including gold bugs) who have looked for a recession in 2018, 2019, and indeed in every year since 2010, without having their dark wishes for economic chaos fulfilled.

For metals and mining, some of what we should expect includes the following.

Gold and silver prices will continue to rise, spurred by investor concerns about the broader economic trends.

Copper prices are likely to trend sideways, confounding bulls and bears alike by responding to copper market realities as opposed to their fantasies and wishes.

Platinum Group Metals are moving toward a reversal of fortunes which may become increasingly apparent as 2020 progresses.

"Battery metals" and "energy metals" will be buffeted by the realities of current supply and demand. Irrational exuberance based on unrealistic expectations of a rapid market share grab by electric vehicles will keep prices up even in the face of much more modest transitions to new energy vehicles (NEVs), primarily at this point electric vehicles.

The mining equities market will continue to suffer from major institutional investor disinterest and retail investor disenchantment.

Mining executives will continue to ignore managing their companies for profits and instead focus on building increasingly unprofitable empires built on debt.

Molybdenum and other specialty metals that have been ignored in the circus hoopla surrounding "battery metals" may garner some attention as investors realize these metals actually are critical for construction, transportation, energy infrastructure, and other essential aspects of human life.

Gold and Silver: Gold and silver prices rose sharply in the second half of 2019 despite low physical demand from investors during 2018 and 2019. Physical demand from investors traditionally has been the driver for higher gold and silver prices. Prices instead have risen on short-term buying by momentum investors and traders in futures, options, ETFs, and forwards. If prices are rising sharply in the absence of long-term investors buying large volumes of physical metal, prices should be expected to rise that much more sharply when these investors increase their demand in future years. CPM expects record gold prices and much higher silver prices four to seven years from now, as we do not see economic and political trends stimulating such a rush for a few years yet.

PGMs: CPM's just-completed annual update of its Platinum Group Metals 10-Year Projections report suggests a reversal of fortunes between platinum on the one hand and palladium and rhodium on the other. Platinum has been mired at relatively low prices since 2015 while palladium and rhodium have risen to record levels. Fabrication and investment demand are behind this diversion. They will be behind what could be a reversal here. Palladium prices may plateau around record levels over the next few years, and are at risk should investors who hold large metal inventories decide to sell … someday. Platinum prices may remain weak initially, but ultimately are projected to rise sharply, probably making new nominal record highs over the coming decade. Rhodium is likely to remain high for quite different fundamental reasons. Any weakness due to a move to EVs is many years away.

Molybdenum: Prices have risen sharply at the start of 2020. Molybdenum is a largely overlooked metal lost amid the market hype about precious metals and the hoopla about "energy metals," but it is critical to drill pipes and transmission pipes for oil and gas and mining, as well as a lot of other energy technologies. With only one North American listed primary molybdenum producer, it is somewhat shielded from the hype. (There was a round in the middle of the 2000s during the "Commodities Super Cycle" carnival; it ended badly for investors as well as for exploration and development companies.) Despite its quiet public persona, moly is indispensable to current industries, as well as potential new technologies that may be commercialized in the future.

Around 272,000 metric tonnes of molybdenum are mined at around 40 mines globally each year, valued around US$6.8 billion at 2019's average price for molybdenum contained in molybdenum oxide. The molybdenum market is five times the volume of the uranium market and more than double the value at market prices. Yet investors continue to overlook the molybdenum market. Investors continue to throw good money at rare earths, lithium, cobalt and other metals that are far less important but are gruesomely overhyped, ignoring indispensable metals like molybdenum. That may not change in 2020, but there could be a renewed interest in such metals on the part of fundamentally driven institutional and individual investors who resist succumbing to the siren songs of mining stock hype.

New Energy Vehicles: Another trend that may emerge in 2020 is that the reality may sink in that any transition to EVs or other new automotive propulsion systems is a decades-long process facing major constraints in terms of a lack of electricity, insufficiently stable electrical grids, and massive capital requirements to build the equipment and component factories in the face of rapidly changing technologies that make it unclear what components actually will be needed.

There may be a human impulse to hope for radically different trends and conditions in a new year from what came before, but the reality more often is that each year is a continuation of current trends. This appears likely to be the case for gold, silver, copper and mining equities, although PGMs, "battery metals," molybdenum, and market expectations of the pace of transition from gasoline and diesel to NEVs may see fundamental, directional changes. TNM

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