



CHAMBER OF
COMMERCE AND
INDUSTRY OF SERBIA



CEVES

CENTAR ZA VISOKE
EKONOMSKE STUDIJE

CENTER FOR ADVANCED
ECONOMIC STUDIES

METALS

SECTOR OVERVIEW NOVEMBER 2016



TOP NEWS

Metals will continue to move upward. Experts believe that this sector is currently in the growth stage of the cycle. It is no longer about austerity (which was a mantra during the previous 18 months), but about how to take advantage of increased inflows

While some firms are planning new investments, others have decided to return the debts that have been made in the previous year when metal prices reached their historical minima or to pay dividends, which were either reduced or completely suspended in the previous period. Glencore, which suspended dividends in September 2015, plans to pay shareholders a minimum of one billion \$ during the year 2017 and announces a new dividend policy that will tie payments to the possibility of generating cash.

The largest company which exploits gold in South Africa pays more than its own market value for the purchase of the only producer of platinum and palladium in the United States

A South African company Sibanye allocates \$2.2 billion to purchase Stillwater, which holds the best deposits of metals from the platinum group and is the world's largest producer of these metals outside of South Africa and Russia. Sibanye's aim is to survive in the race with the world's largest suppliers of metal for car engines and fuel cells (palladium is used in gasoline engines to reduce emissions).

Reduction of the usual high Asian demand for platinum had a negative impact on South Africa - the world's largest producer of this metal

Reduced demand from Asia has made a platinum a metal with the worst performance among the precious metals in 2016, and therefore had a negative impact on South Africa and its currency, given that the mining sector accounts for a third of the whole export of this country. The output of the mining sector of this country in the first 10 months of 2016 decreased by 2.9%, primarily due to the reduction of platinum production by 12%.

A cabinet for the Chinese language was opened in High School in Smederevo

Multimedia classroom is equipped in the cooperation of the school, the company "Hesteel Serbia", the Institute "Confucius" from Belgrade and the local government of Smederevo. The reason for the introduction of this course is not only the arrival of the Chinese partner in Železara Smederevo, but also strengthening the future cooperation between the town and Chinese partners.

The pre-prepared reorganization plan (PPRP) of RTB Bor is confirmed

This represents the start of the largest financial restructuring in Serbia worth EUR 1.2 billion. Nearly a billion euros old debt of RTB Bor that was created between 1960 and 2010 has now been written off, while a secured debt has been converted into the state capital. This opens up the possibility of larger investments in mining itself, which could increase the production of concentrate from all mines of RTB Bor. This mine possesses total reserves of about two billion tons of concentrate, which is sufficient for 100 years of operation. Currently, however, RTB Bor imports the concentrate that it processes.



GLOBAL MARKET

November is marked by a significant increase in prices of basic metals and a mild decrease in prices of precious metals

The main cause of these trends is the strengthening of the dollar after the victory of Donald Trump. The strengthening of the US currency increased the price of base metals for non-US investors (given that the price of these metals is expressed in dollars) and encouraged investors to quickly buy these metals in anticipation of their future price increases. On the other hand, in contrast to the expectation of the world experts that victory of Donald Trump will bring uncertainty and encourage investors to invest in safe goods such as precious metals, the economic agenda, which the new president of the United States presented had the impact on strengthening security in the US currency and the withdrawal of funds from gold and similar precious metals. Nevertheless, the situation was soon stabilized, and this was only a short-term effect.

A significant increase in the prices of basic metals in November from 10.2%, made this month the best month for basic metals in the last four years (from September 2012)

The top performer of November was iron ore, whose price equaled 73 \$/t at the end of the month, making it grow by 24% compared to the end of October. Significant growth was recorded in the prices of copper and zinc as well, which were growing by 14% and 11%, respectively.

Iron ore, November champion, reached its two-year highest price at one point during this month - the price of 80 \$/t. However, such a strong growth was mainly achieved thanks to the activities of investors who were trying to protect themselves from price pressures in other markets, not due to factors directly linked to the iron ore. Specifically, there are three main causes of the strong growth in prices of iron ore in November. First of all, it was the aforementioned rise of the US dollar and investors' attempt to protect themselves against possible inflation after the Trump came to power - the so-called. "Trampflation". The second most important factor that influenced the increased investment in basic metals, especially in iron ore, was the weakening of the Chinese renminbi and the subsequent flight of investors from this currency. The third, but not less important factor, came on the supply side - the closure of the mine Samarco in Brazil has reduced the output by 29 million tons, and several other manufacturers failed to meet their targeted production volumes due to weather conditions. In addition to these factors, the increase in the price of iron ore for quite some time is influenced by credit policy of the Chinese Government which stimulates the construction activity and hence the demand for steel. Finally, the recovery of the global economy positively affects the growth of prices of all base metals. Expected growth rate of global output in 2016 is 2.5%.

Most investors believe that November rise in the price of iron ore is overemphasized and that the supply and demand balance will soon return to a lower price level

Although it is expected that China will continue to reduce production of iron ore, it is assumed that the reduction in 2017 will be marginal, while the production in the rest of the world will be higher than in 2016, so the balancing of the price of iron ore is expected after the November rise.

Precious metals prices declined in November. The gold, which was expected to be the main "winner" in case of victory of Donald Trump, suffered the most. The yellow metal has lost ground as investors turned to investing in bonds, given the rise in interest rates on the dollar. After the US presidential elections, dollar strengthened in anticipation of rapid growth and return of inflation, so the gold dropped by 7.7%, which is a significant contrast to an increase of 20% in the last 11 months before the election. However, considering that immediately after the elections the price of gold soared, this metal was cheaper by only 2% at the end of November compared to the end of October.

DOMESTIC MARKET

Basic metals

Production of basic metals recorded growth of 5.3% in the first ten months of 2016 compared to the comparable period in 2015, while foreign trade recorded a surplus of EUR 84.6 million, which is 3.4 times higher than the last year's surplus. However, such a high growth rate of surplus value happened due to the rise of prices of basic metals, not traded quantities. Specifically, in the reporting period, both the value of imports (-9%) and export (-2%) decreased, which indicates the decline in foreign trade activities in this area, if we take into account that due to higher prices the value of exports and the value of imports were inflated this year. Also, this is supported by the fact that, despite the higher prices, the share of imports of base metals in the total value of imports of Serbia reduced from 6% to 5.2%, while the share of exports fell from 8.3% to 7.5% in the first ten months of 2016 compared to the same period in 2015.

Metal products, except machinery

Production of metal products in the first ten months of the current year is 9.7% higher than production in the comparable period of the last year, while foreign trade recorded a surplus of EUR 203.2 million, which is 9.6% higher than the surplus in the comparable period of the last year. Both import and export in the given period increased by about 8%, but due to the increase in metal prices in 2016, and the fact that the share of exports and imports in total imports and exports is unchanged, it cannot be unambiguously concluded whether there was an increase or decrease in trade activity of metal products.



www.pks.rs