minelife

WEEKLY RESOURCE REPORT by Gavin Wendt

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Overview

The tough time being faced by ASX junior resource companies is reflected in this graphic, which reflects the performance of the ASX Small Ordinaries Resources Index (AXSRD) during the course of 2023. The index is currently at its low point for the year, with an overall weakening trend being evident. Exacerbating the situation is the fact that many small companies have had to raise funds in weakening market conditions.

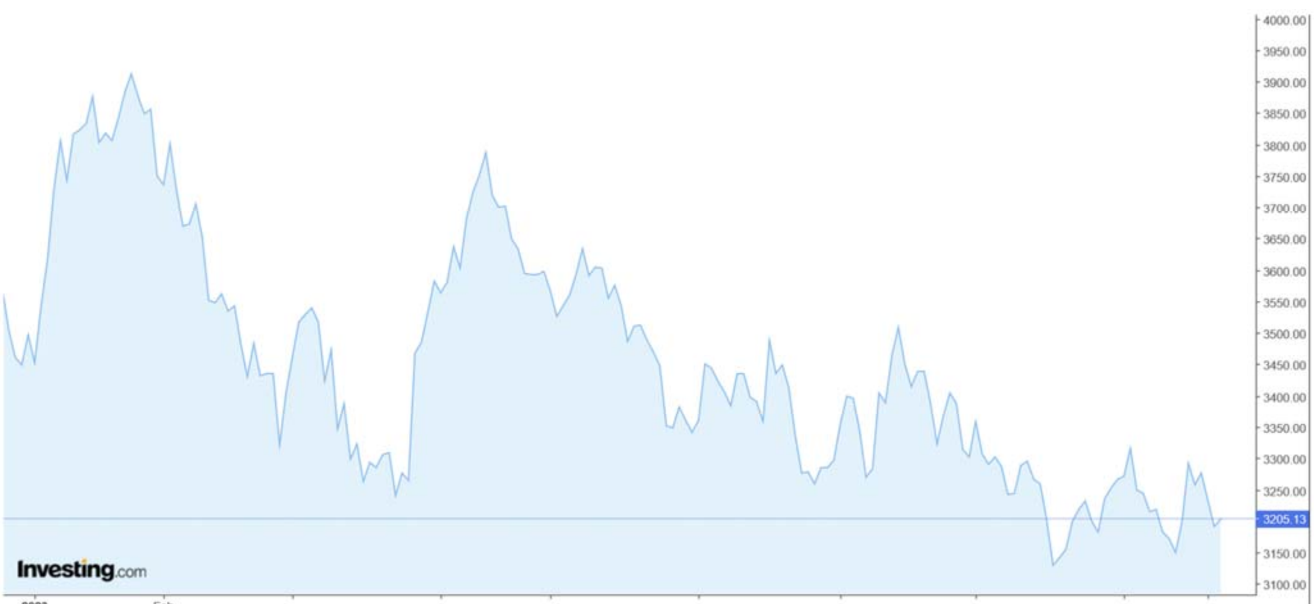

Figure 1: Graphic showing the performance of the ASX Small Resources Index in 2023.

Exacerbating the situation is the fact that many small companies have had to raise funds in weakening market conditions. Commodity markets are mirroring the uncertainty in global equity markets, with investors having become more cautious about the near-term outlook due to the impact of higher-for-longer interest rates, and the subsequent impact on inflation and end-user demand. Metals markets for example are characterised by tepid demand, weak near-term growth prospects (especially from China), and growing stockpiles in metals warehouses.

Ausbiz TV Commodity Interview

I had the opportunity to speak with Andrew Geoghean from Ausbiz with respect to some key commodities. Please click on the link below to access and watch the interview:

https://ausbiz.com.au/media/tough-week-ahead-for-the-commodities-market?videoId=32150

NAB Trade Commodity Podcast

I had the opportunity to speak with Gemma Dale from Nab Trade with respect to some key commodities. Please click on the link below to access the podcast:

https://www.nabtrade.com.au/insights/news/2023/09/lithium--iron-ore--and-the-next-big-opportunity-in-resources

Nickel – Poor Fundamentals, Symptomatic of the Base Metals Sector Generally

Base metal markets are characterised by tepid demand, weak near-term growth prospects (especially from China), and growing stockpiles in metals warehouses. And the nickel market is no exception.

Figure 2: Graphic of the performance of the nickel price in 2023.

The nickel market is characterized by weak demand-supply fundamentals, which means that the current surplus of metal is expected to grow next year – from 223,000 tons this year to 239,000 tons in 2024 - based on data from the International Nickel Study Group (INSG). Not surprisingly, all of this has translated into weak nickel prices, which are down 38% this year.

One of the key factors is Indonesia, which is continuing to grow its output of what is known as nickel pig iron, as well as its new high-pressure acid leaching (HPAL) plants, which produce mixed hydroxide precipitate (MHP), which is a nickel intermediate product that is used as a primary feedstock in the production of nickel sulfate, which is crucial to the lithium-ion battery supply chain.

Global demand for nickel is expected to increase to 3.47 million tons during 2024 from 3.20 million in 2023, due to recovery of the stainless steel sector and increased use of nickel in electric vehicle batteries, according to the INSG. However, it expects global output to increase to 3.71-million tons in 2024 from 3.42-million in 2023 as Indonesia's nickel pig iron (NPI) production continue to rise. NPI production in China is likely to decrease in 2024 but nickel cathode and nickel sulphate production is anticipated to increase, it added.

Gold – Challenged By Higher-for-Longer Interest Rates, US Dollar Strength

Gold in A$ terms fell by 0.41% over the past week, compared to a 0.84% fall in US$ terms, which means Australian domestic producers have been insulated by the weaker A$. The A$ gold price as highlighted by the graphic, has performed strongly over the past decade.

Figure 3: Graphic of the performance of the gold price in A$.

Gold prices have suffered following the release of better-than-expected initial jobless claims data in the US. The strength of the dollar during the last few months could continue to weigh on its performance, while the Federal Reserve could leave its interest rates elevated for a longer period of time. Strong bond yields, which could remain at current levels for a long period, have also rendered gold less attractive to investors.

Nevertheless, what we are seeing overall in the gold market is price volatility within an overall uptrend, which is something that's been common throughout this rate raising cycle – and gold bulls won't be shaken by this. Importantly, the key themes remain in place – central bank buying, strong Chinese demand, escalating debt, and the costs of servicing that debt.

The key factor that has driven gold over the past couple of decades has been the correlation with the growth of debt worldwide, which has skyrocketed, especially in the post-covid and post-GFC environments. In the US, servicing debt repayments now represents 2.5% of GDP and is growing, so by 2028 it will exceed defence spending. This growth in debt has led to a decline in the value of virtually all currencies, including the US dollar. Central banks recognise this, and it's no surprise that they have turned from being significant net sellers of gold 25 years ago, to strong net buyers of gold now. In fact, they have been buying at record levels in recent years.

Figure 4: Graphic of the performance of the spot US$ gold price.

The strength in Chinese demand is reflected in the premium for gold in the Chinese market, which has recently reached record levels of more than $100 per ounce above international prices. "With the yuan falling, the property market slumping and capital controls keeping money from leaving the country, investors are buying gold," Bloomberg economists David Qu and Chang Shu wrote in a report. It also marks a sharp reversal from earlier in the year, when China's slowdown curbed interest in the metal as consumers responded to uncertain economic conditions by conserving cash.

The so-called Shanghai premium started rising in June, a response in part to import curbs imposed by the People's Bank of China, which may have been trying to shore up the value of the yuan by shrinking the need for dollars to buy gold. But now, the currency's plunge is having the opposite effect, as investors chase dollar-denominated assets to preserve value.

Withdrawals from the Shanghai Gold Exchange during August jumped 40% from the previous month, while imports climbed 15%. Meanwhile, inflows into Chinese exchange-traded funds (ETFs) rose to their highest since July 2022. Gold is also finding support from China's central bank, which has boosted purchases for 10 straight months as it diversifies its reserves.

Figure 5: Graphic of the price premium in the Chinese gold market.

Crude Oil – $90 a Near-Term Barrier

The $90 per barrel mark has proven to be a crucial threshold for oil, in terms of market psychology. There were indications that the oil market was in overbought territory, which is how have things have played out over the past week or so. The fundamentals for oil still remain strong, however there is a game of tug-of-war taking place at present between tightness in the physical market, against rising yields and a strong US dollar. With OPEC+ capping supply and inventory levels in the US remaining low, the supply side looks okay – it's really the demand side that markets are currently focusing on, and where there is some emerging weakness in the US. Meanwhile, US crude oil production is close to record levels once again.

Figure 6: Graphic of the price of WTI crude oil in 2023.

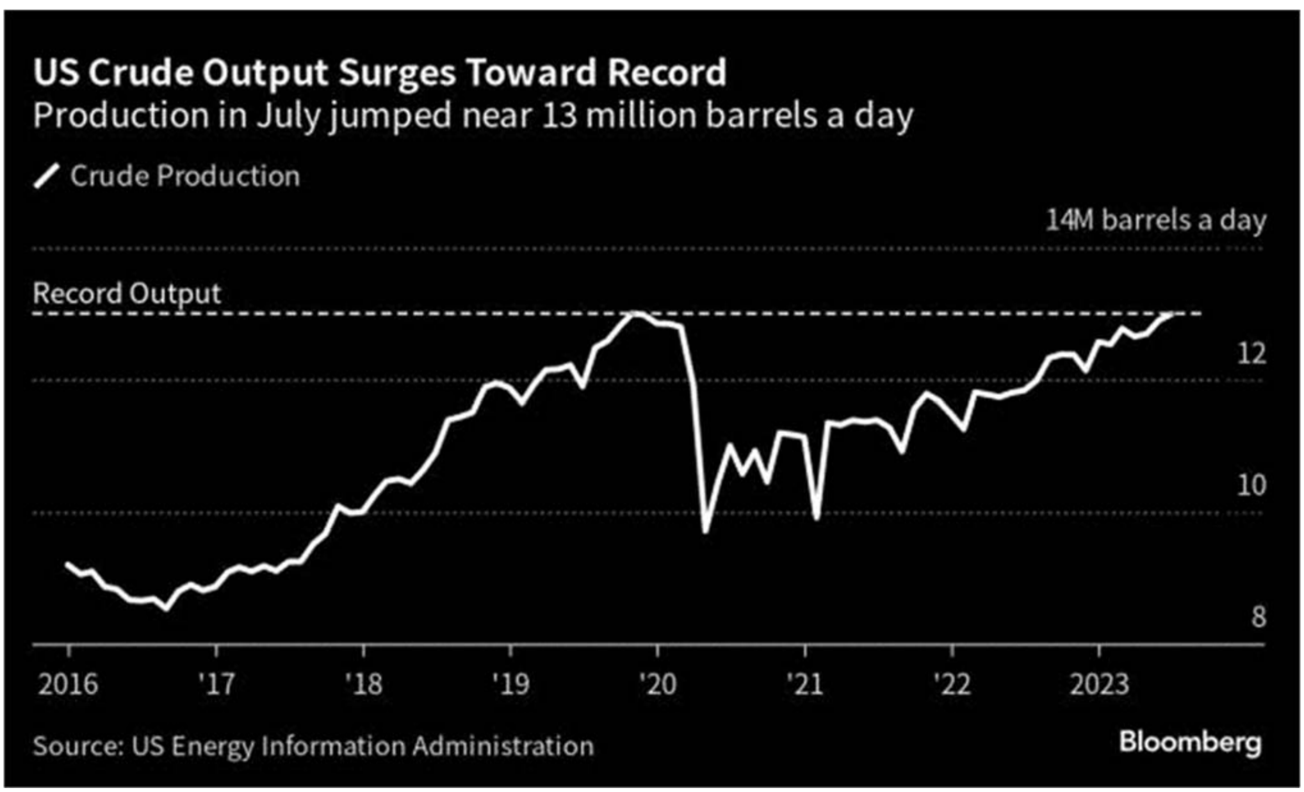

Figure 7: Graphic of US crude oil production.

US crude production reached the second-highest level on record during July, as output from Texas' Permian Basin soared to an all-time high. The nation's output rose to 12.991 million barrels a day, the highest since a peak of 13 million barrels in November 2019, according to data from the Energy Information Administration. Most of the gain came from Texas, where drillers produced a record 5.63 million barrels a day.

Interestingly, the output growth comes even as explorers have dialled back activity. The number of rigs searching for oil in the US have contracted by 20% since late November. The increased production from the US had helped fill a void in global markets left by output cuts from Saudi Arabia and Russia in recent months, with the country routinely exporting more than 4 million barrels a day.

Uranium – Strong Market Fundamentals

The nuclear fuel is proving to be the one real bright spot in the commodity space at present, with uranium prices are up 38% YTD and hitting their highest level since the Fukushima nuclear disaster in 2011. Prices are being driven by rising demand and a slew of supply challenges, with futures trading around $73 a pound. Uranium and uranium mining stocks posted their best month in two years during September. Positive sentiment toward nuclear power is growing, and the WNA estimates that uranium demand will double by 2040. Western nations are strategically maneuvering to reduce their dependence on Russia for both uranium supplies and related services.

Figure 8: Graphic of the spot U3O8 price.

Uranium fundamentals are the least exposed to China's economic cycle and secular and cyclical challenges. At the same time the demand outlook is brightening, as governments re-embrace nuclear power to facilitate the shift away from fossil fuels. There have been unprecedented number of announcements for nuclear power plant restarts, life extensions and new builds, which in turn means that utilities are accelerating their purchases under long-term agreements, which are on track to exceed last year's 10-year high. Increasing contracting from utilities, as opposed to financial entities, has been the primary driver for the rise in the uranium price year to date.