

# Metals and Mining - Commodity Canvas

**It's not the end of the world, it's a mining cycle**

**Demand growth continues...  
... but the anticipation of oversupply in most  
major metals weighs on price forecasts.**

**BMO Research continues to prefer copper and  
iron ore exposure given better relative  
fundamentals near term.**

- BMO Research continues to forecast improving commodity prices as 2013 progresses, largely due to emerging markets' demand improving on the back of U.S. strength and a slightly weakening U.S. dollar from existing levels.
  - However, the extent of this potential demand growth remains uncertain for many investors, and a nervous market means metal prices are reacting more than usual to news flow. In addition, the anticipation of oversupply for the major metals is likely to suppress commodity prices over the medium term.
  - BMO Research forecasts only slight gains for metal prices in H2/13 and continues to forecast peak metal prices in 2014. Prices are then generally expected to decline as supply exceeds demand and relative inventories approach peak levels.
  - Beyond the next five years, however, the picture is less clear, and the mining cycle continues.
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- BMO Research remains positive on copper and iron ore despite forecasted price declines. Both commodities are expected to demonstrate better relative fundamentals near term and stronger average earnings margins for producers in a challenging environment.
  - Copper benefits from broadly diversified demand drivers in both developed and developing economies. The anticipation of an oversupplied market near term is consensus view, but labour action and rapidly declining grades continue to disrupt production.
  - Iron ore demand is facing slowing steel production growth; however, prices continue to be supported by very high cost operations in China and little export volume from India. Near-term oversupply is also a consensus view, but BMO Research believes most project developers will not come to market over the next decade.
  - The precious metals and met coal markets are viewed by BMO Research as neutral though there is potential upside for each of these metals. BMO Research remains cautious on nickel, uranium, zinc, thermal coal and aluminum on weaker near-term fundamentals.

# Metals and Mining – Economy and Outlook

## Macro Outlook

Emerging economies to follow strong U.S. growth.

- In the very near term, U.S. economic growth is expected to outperform Europe, Japan and the BRICS. Recent headline data was slightly disappointing but a structural upturn in the housing and energy sectors suggesting a broad-based improvement in the underlying economy remains intact. BMO Research expects emerging economies to follow this growth through 2013 as they tighten policy ahead of the Fed.
- Further, 2014 is expected to demonstrate the strongest global growth in the last five years, with 3.9% GDP growth and improving industrial production figures for the OECD.
- It is against this backdrop that BMO forecasts improving metals demand. On the other hand, BMO Research also forecasts strong supply growth, diminishing the impact of strengthening demand on commodity prices.

2014 is expected to demonstrate the strongest global growth in the last five years.

Fig 6: BMO Research Economic Outlook

|                              | 2011A | 2012E | 2013E | 2014E | 2015E |
|------------------------------|-------|-------|-------|-------|-------|
| <b>GDP Growth</b>            |       |       |       |       |       |
| World                        | 3.8%  | 3.1%  | 3.3%  | 3.9%  | 3.9%  |
| China                        | 9.2%  | 7.8%  | 8.1%  | 8.5%  | 8.2%  |
| U.S.                         | 1.8%  | 2.2%  | 2.3%  | 3.2%  | 3.2%  |
| Europe                       | 1.5%  | -0.5% | -0.5% | 0.9%  | 1.2%  |
| <b>Industrial Production</b> |       |       |       |       |       |
| OECD                         | 2.7%  | 1.1%  | 1.2%  | 2.6%  | 2.4%  |
| China                        | 12.8% | 9.5%  | 9.8%  | 9.5%  | 9.3%  |
| U.S.                         | 3.4%  | 3.6%  | 3.3%  | 4.0%  | 2.3%  |

Source: BMO Capital Markets, IMF, OECD, CRU

# Capital Markets Overview – Deep experience in mining

- **4<sup>th</sup> Consecutive Year - BMO Capital Markets Named Best Canadian Investment Bank, World's Best Metals & Mining Investment Bank (Announced as part of Global Finance's World's Best Investment Banks 2013 Awards)**
- **Well developed Commercial Banking and Investment Banking teams in both US and Canada**
- **Top rated equity research team with 9 dedicated analysts tracking 130 companies**
- **We have been a trusted advisor to metals and mining companies for nearly a century and this tradition of excellence carries over in everything we do**
- **With 30 offices spanning five continents, BMO Capital Markets is a one-stop provider of financial solutions to an industry where vision, speed and the ability to transcend borders are the benchmarks for success**

| Access to Capital              | Strategy & Growth              | Research                  | Distribution                 | Treasury & Risk Management |
|--------------------------------|--------------------------------|---------------------------|------------------------------|----------------------------|
| Initial Public Offerings       | Mergers                        | Commodity Research        | Institutional                | Commodity Products         |
| Debt Financing                 | Acquisitions                   | Diversified Miners        | Direct Brokerage             | Money Markets              |
| Equity Financing               | Valuations & Fairness Opinions | Base & Precious Metals    | Full-service Brokerage       | Trade Finance              |
| Private Equity Financing       | Divestitures                   | Coal                      | Private Banking              | Cash Management            |
| Corporate Lending              | Buyouts                        | Iron Ore                  | Retail                       | Foreign Exchange           |
| Structured & Project Financing | Restructurings                 | Exploration & Development | Equity Sales & Trading       |                            |
| Securitization                 | Recapitalizations              | Potash & Phosphates       | Fixed Income Sales & Trading |                            |