cpr asset management

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FOCUS GOLD, MINES & NATURAL RESOURCES

Gold, Mines & Natural resources… the greenback picks up

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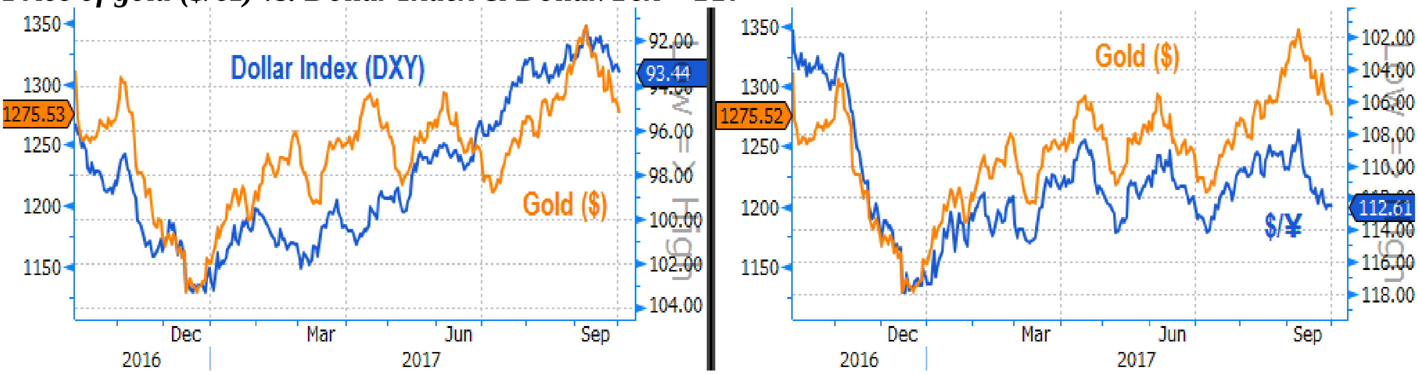
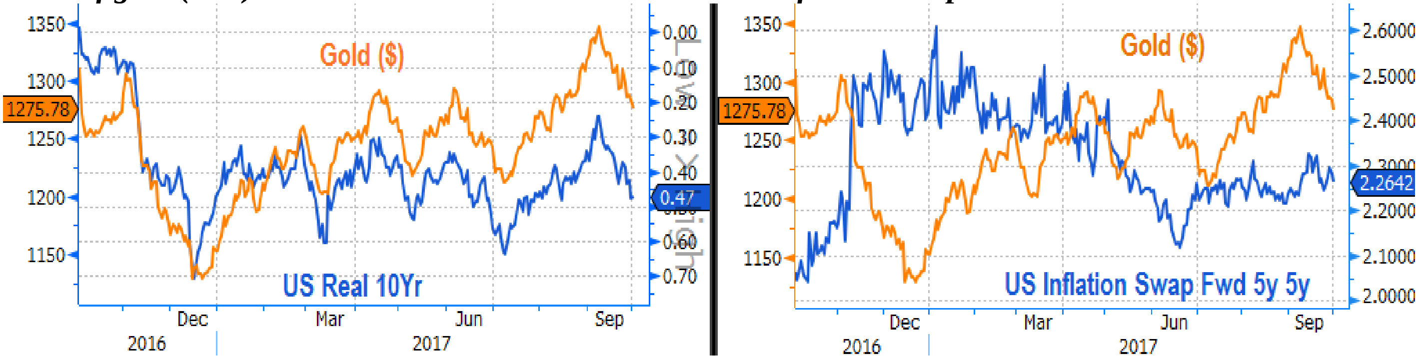
In brief – Having reached their highest point since August 2016 ($1,357.6/oz), gold prices slumped, falling below $1,300/oz and weighing on their 100-day average.
Janet Yellen's more hawkish speech at the last FOMC pushed up to 70% the likelihood the Fed will raise key rates in December. It also prompted a steep hike in the US dollar and real interest rates. The news clearly influenced gold prices too.
Less risk-averse in the face of geopolitical dangers, investors have also been neglecting safe-haven assets like the yen and gold.

Price of gold ($/oz) vs. Dollar Index & Dollar/Yen – 1Yr



Price of gold ($/oz) vs. US Real Interest Rates 10Yr & US Inflation Swap Fwd 5Y 5Y – 1Yr

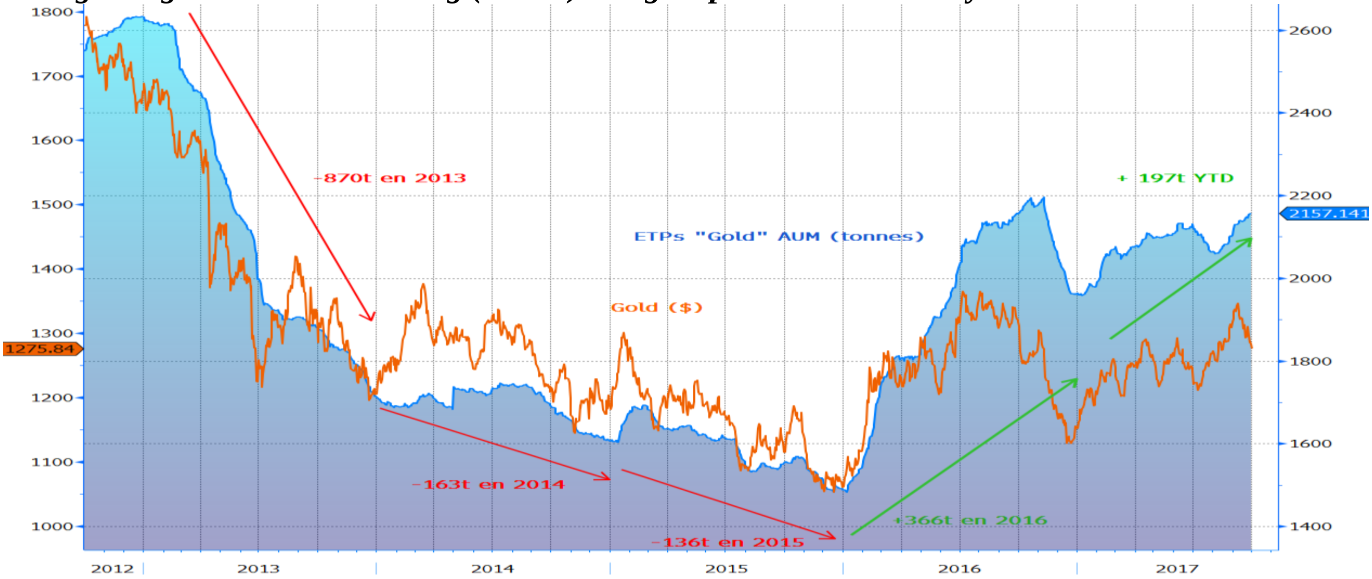


Source: Bloomberg

Yet the barbarous relic continues to pique markets' interest, given the rise in outstanding invested in gold-backed ETFs.

The equivalent of 57 tonnes was added in September, putting the accumulated equivalent since the start of the year up to 197 tonnes. A similar trend has been observed on the futures market, with long positions up 1.3Moz (~40 tonnes) in September.

Changes in gold ETPs outstanding (tonnes) and gold prices since January 2013

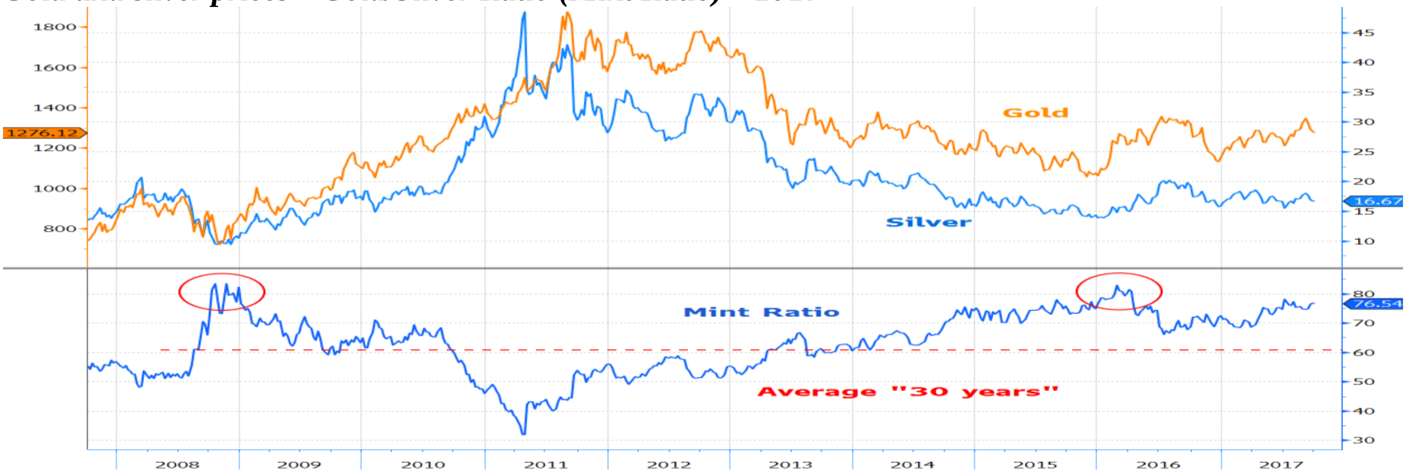


Source: Bloomberg

Other precious metals

Silver's performance in relation to gold grew even more sluggish, with a mint ratio (gold/silver ratio) at ~76.5x compared with a 30-year average of ~61x.

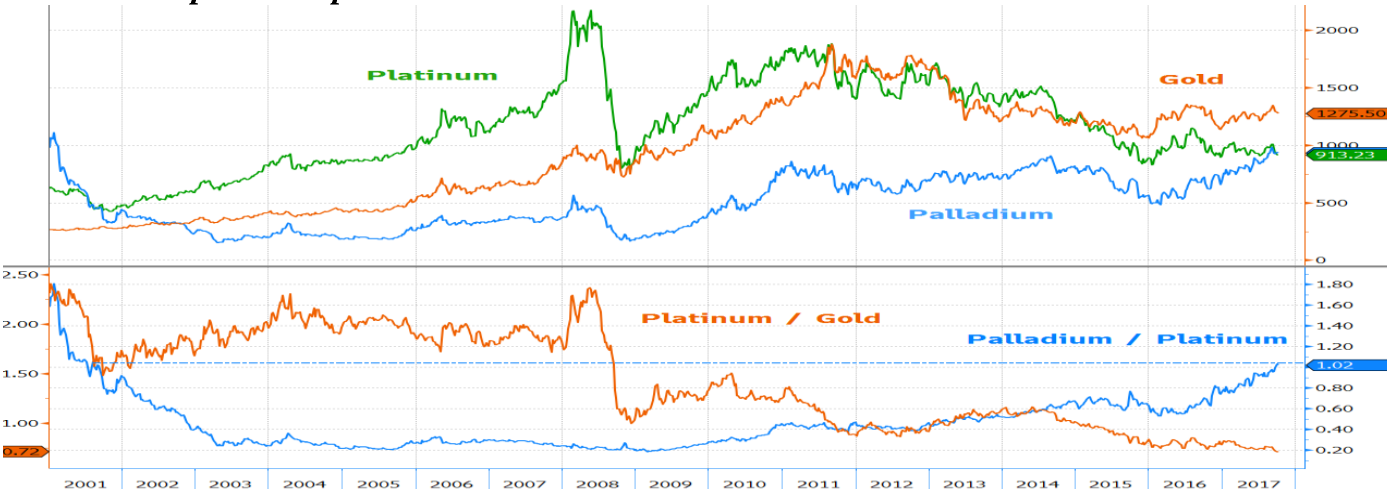
Gold and silver prices – Gold/Silver Ratio (Mint Ratio) – 10Yr



Source: Bloomberg

As regards the platinum-group metals, palladium prices rose above those of platinum for the first time since 2001, highlighting the deadlock in which the latter appears to be.

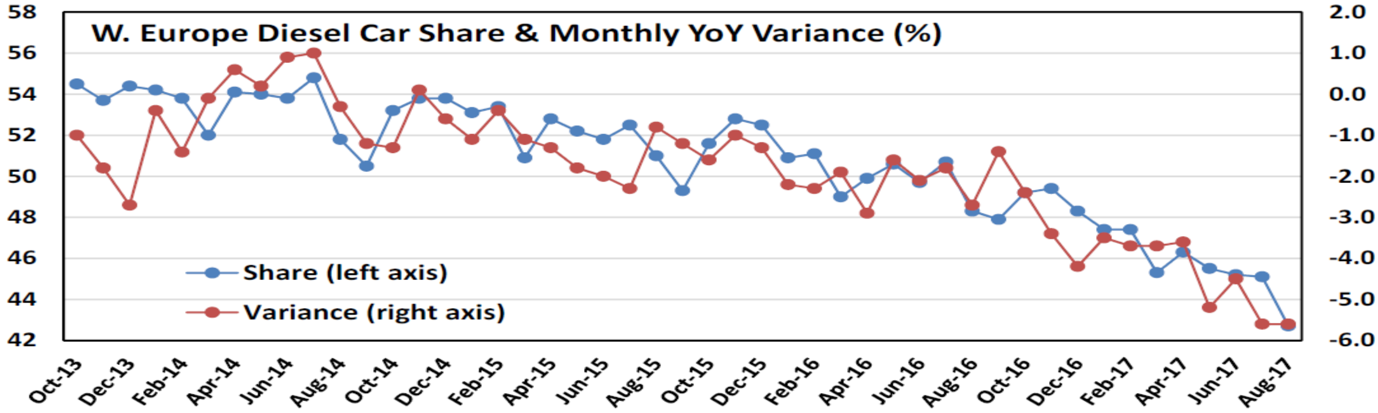
Platinum and palladium prices – Platinum/Gold Ratio & Palladium/Platinum Ratio – 10Yr



Source: Bloomberg

The diminishing market share of diesel-engine cars has been putting considerable pressure on platinum prices, especially given that production of catalytic converters for these engines represents over 40% of worldwide demand for platinum. The trend is unlikely to change in the foreseeable future.

Change in market share of new diesel-engine car registrations – monthly variance (YoY)

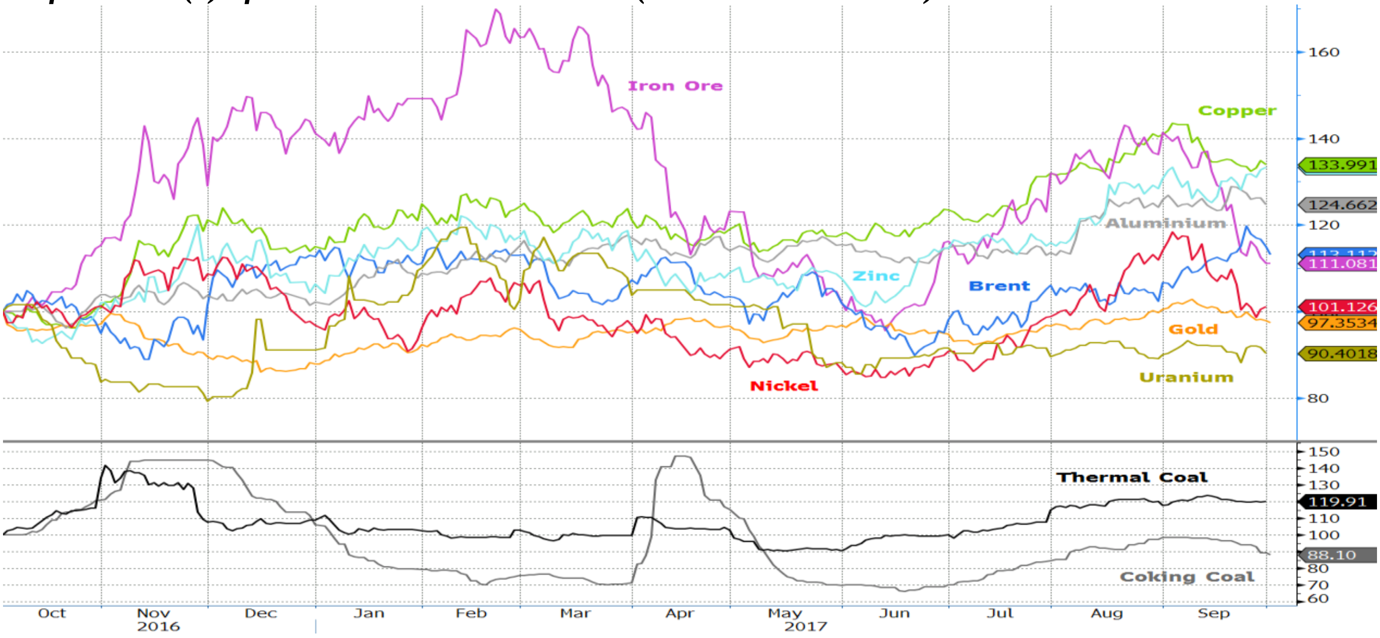


Source: LMC Automotive

<u>What about other commodities</u>?

Industrial commodities were largely held back by the US dollar's recovery. The only noteworthy growth was a 2% rise in zinc prices in September. Nickel prices were especially impacted, down almost 12%. Commodities relating to steel production presented a particular weak performance (iron ore: -22% and coking coal: -11%). Indeed, they suffered from China's decision to reduce its production for environmental reasons as winter approaches. Year-on-year, the top three commodities are still Copper, Zinc and Aluminium. The first of these could be the big winner of the auto industry's electric revolution. Potentially, this sector's demand for copper will rise from ~200kt in 2017 to 1.8Mt in 2027, an average growth rate of ~25% per year over the next ten years. A few figures from car-making underline this trend: ~20/25kg of copper is used to build a combustion-engine car; 40/45kg to build a hybrid-engine car; 70kg for a standard all-electric car and 94kg for a Tesla S. This is without even counting the copper required to build charging stations: at the least 20kg per unit and 50kg for a fast-charging station! As for aluminium, demand remains strong. Yet prices have been driven up by China's decision to reduce aluminium production for environmental reasons.

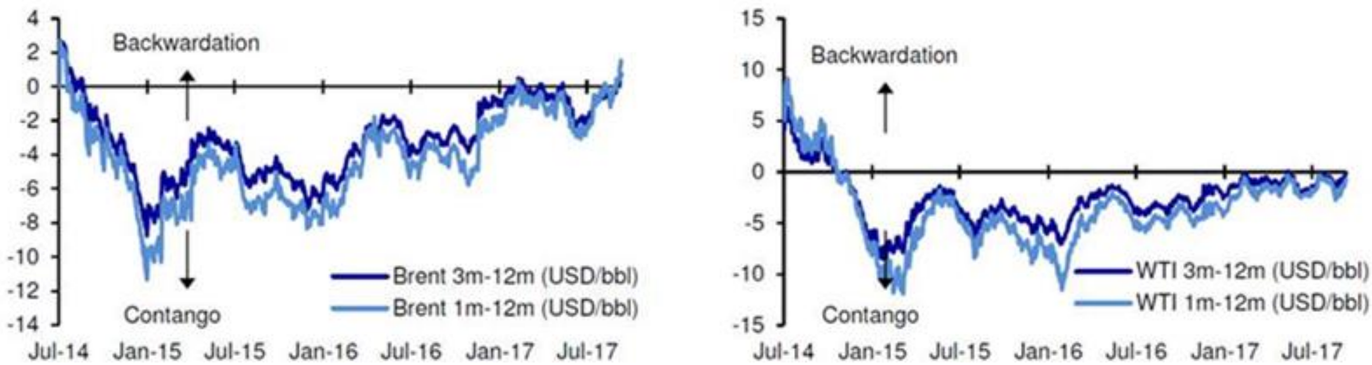
Performance ($) of the main commodities - 1Yr (base 100: 30/09/2016)



Source: Bloomberg

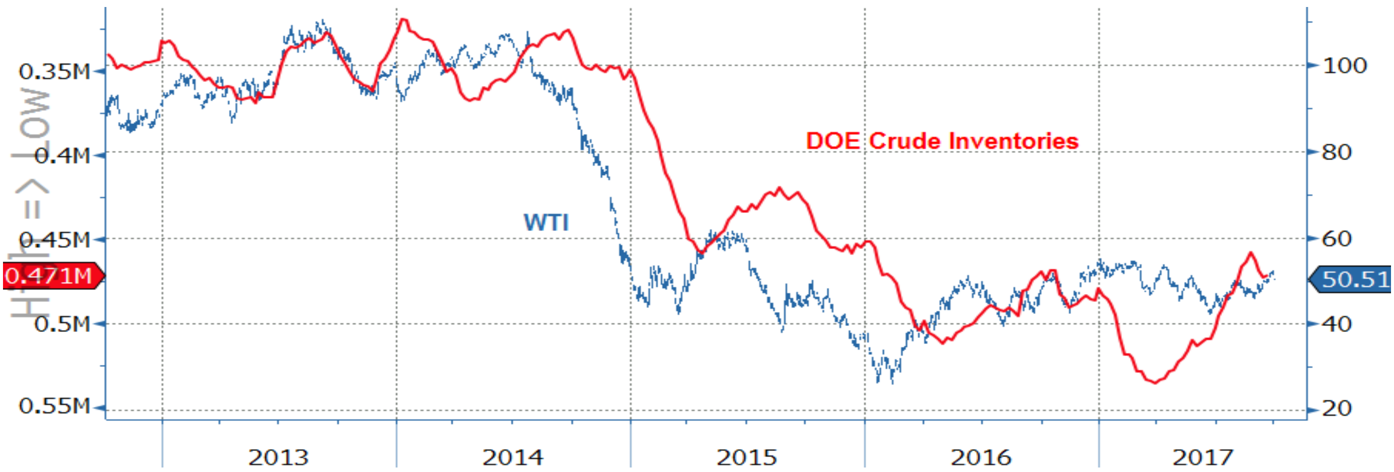
On the other hand, oil prices were on the rise, up almost 7% (Brent - $) in September, reaching their highest level since July 2015, at €59.15/b, before dipping slightly at the end of the month. Although US stocks are hardly contracting in real terms, change in the structure of futures curves, going gradually from contango to backwardation, has confirmed that the market is rebalancing, as pointed out by the IEA (International Energy Agency) in its latest report. OPEC could make this situation more salient: the organisation has decided to keep production down beyond March 2018, despite it increasing a little in September.

3-year change in structure of Brent and WTI futures curves (USD/bbl)



Source: Bloomberg – Deutsche Bank

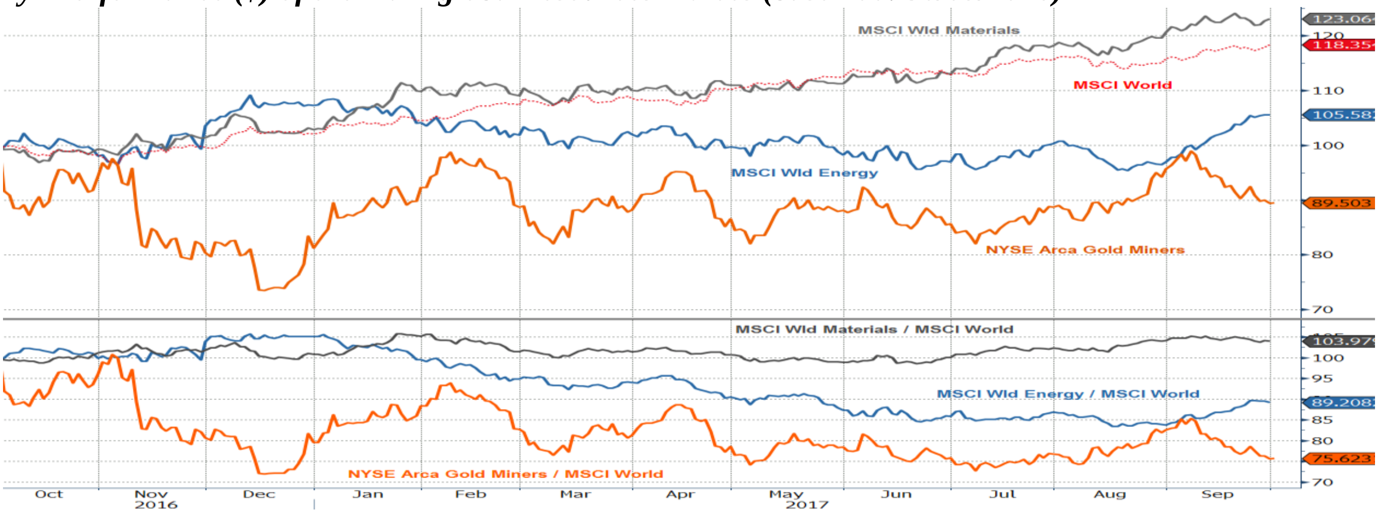
Change in WTI & DOE Crude Inventories (inverted scale) – 5 years



Source: Bloomberg

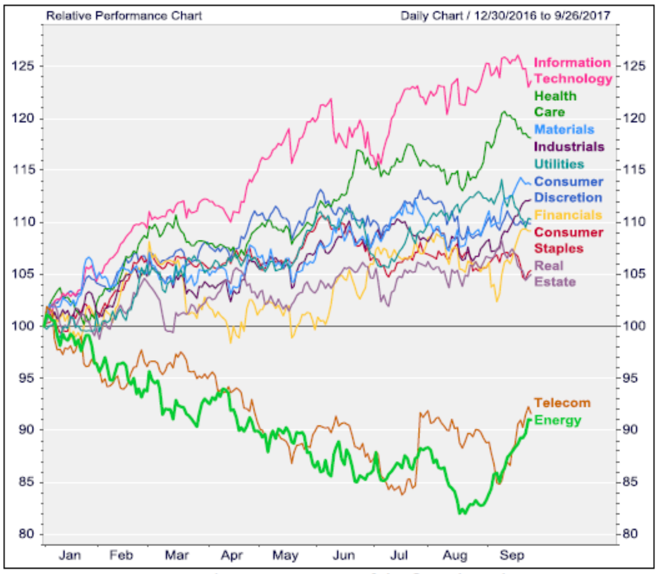
<u>Stock market overview</u> – A month of contrasts this September for Natural Resources, which generally lagged behind global equities. The weak performance displayed since the start of the year remains considerable. Only materials have done well, outpacing global equities since the year began.

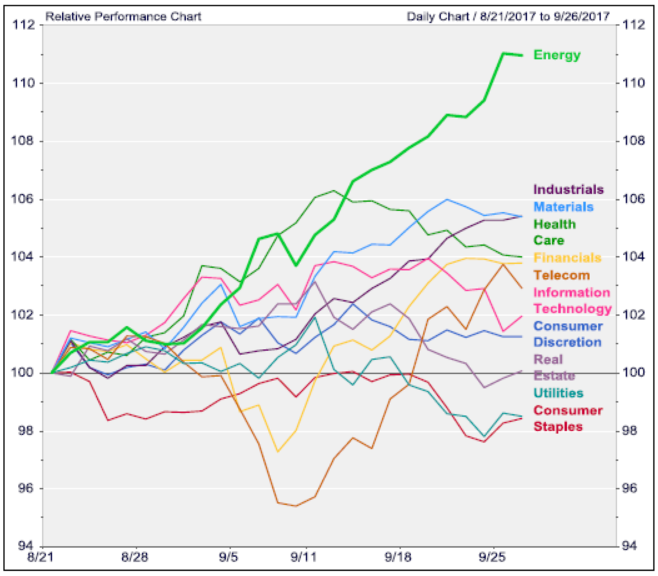
1yr Performance ($) of the main global resources indices (base 100: 30/09/2016)



Source: Bloomberg

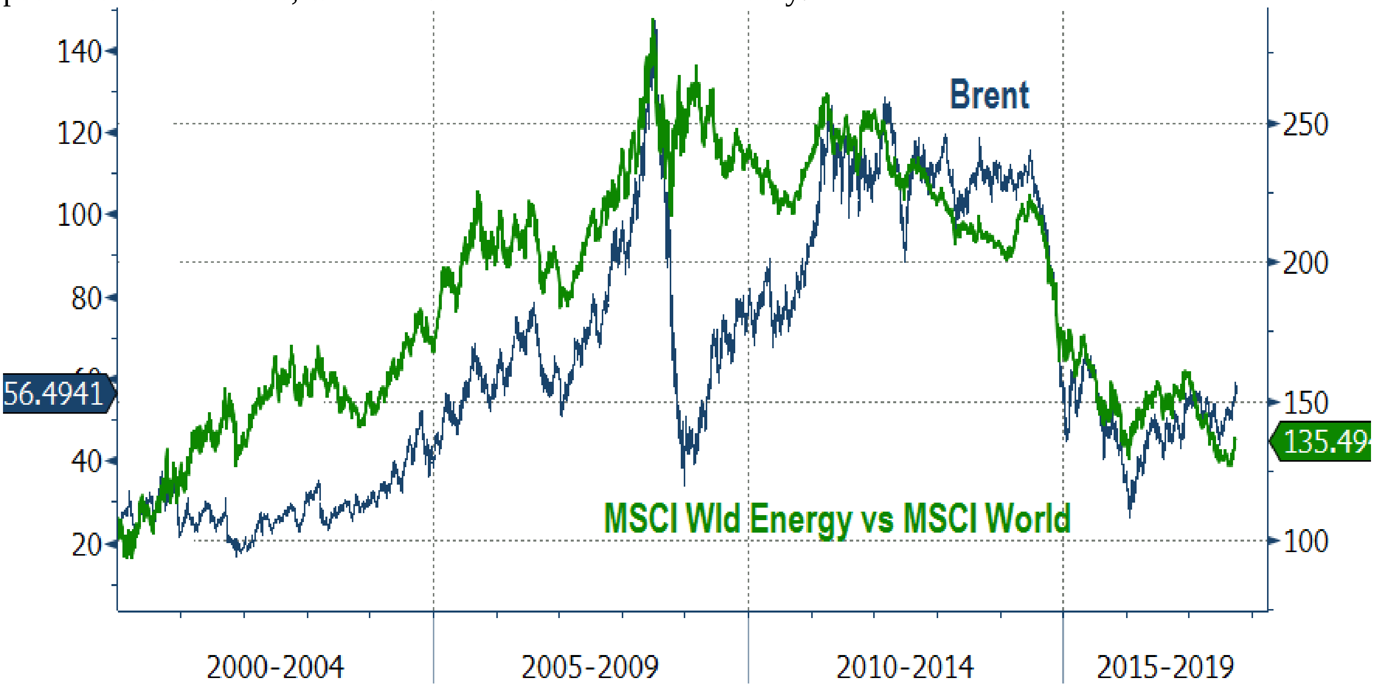
The energy sector performed well. Following its worst performance since the start of January, it posted an impressive upswing in September. Moreover, its full potential appears to have not yet been reached.





Source: Factset, Raymond James Equity Portfolio & Technical Strategy

Indeed, the upturn in oil prices, testing substantial resistance points at $55/58/b (Brent), has not been entirely passed on to oil stocks, which have fallen behind considerably.



Source: Bloomberg

As is often the case, the summer season was favourable to gold mines. Yet the post-summer period was not so bright. Gold-mining companies, which posted a 6.5% downturn, drove gold down sharply. Prices of the latter were down 2.5% over the month. Since the start of the year, however, levels of performance taken together remain very close and fluctuate around +10% ($).

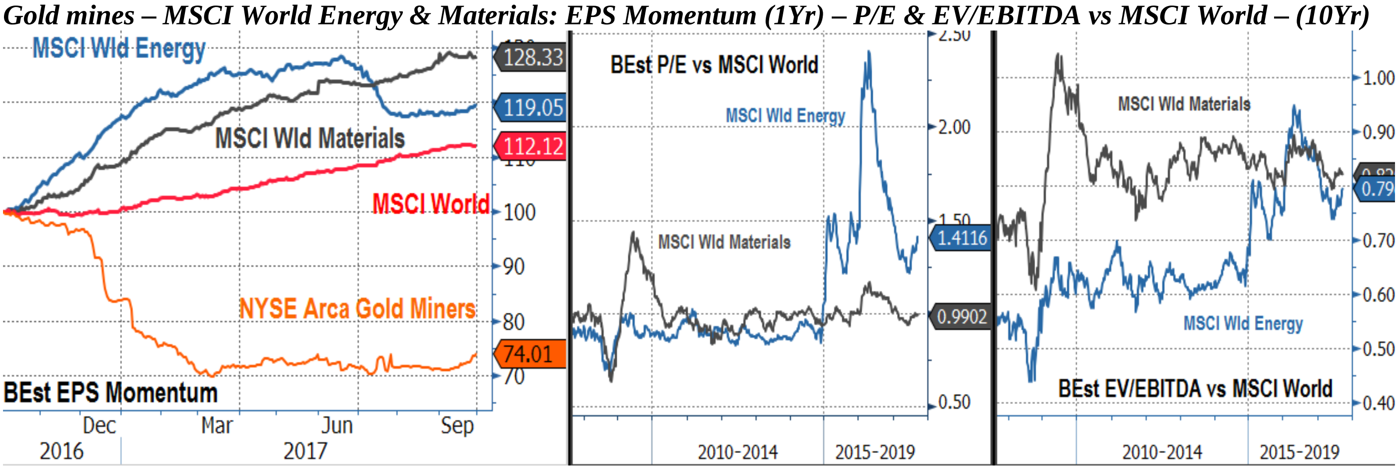
Performance ($) of gold, gold mines and global equities over 3 years – base 100: 31 August 2014

Source: Bloomberg

<u>Normalised valuation of Natural Resources</u> – There was an overall upswing in natural resources in August. Gold-mining firms enjoyed this trend the most, albeit after an especially unfavourable first half of the year. The recovery in oil prices made the energy sector's impetus even more profitable.

In terms of valuation, and based on results expected for the next 12 months, the energy sector remains rather expensive. It has a premium of around 40% in relation to global equities, compared with relative parity historically. This does not, however, take into account any rise in oil prices. Nonetheless, valuation of materials is in line with the historical average.

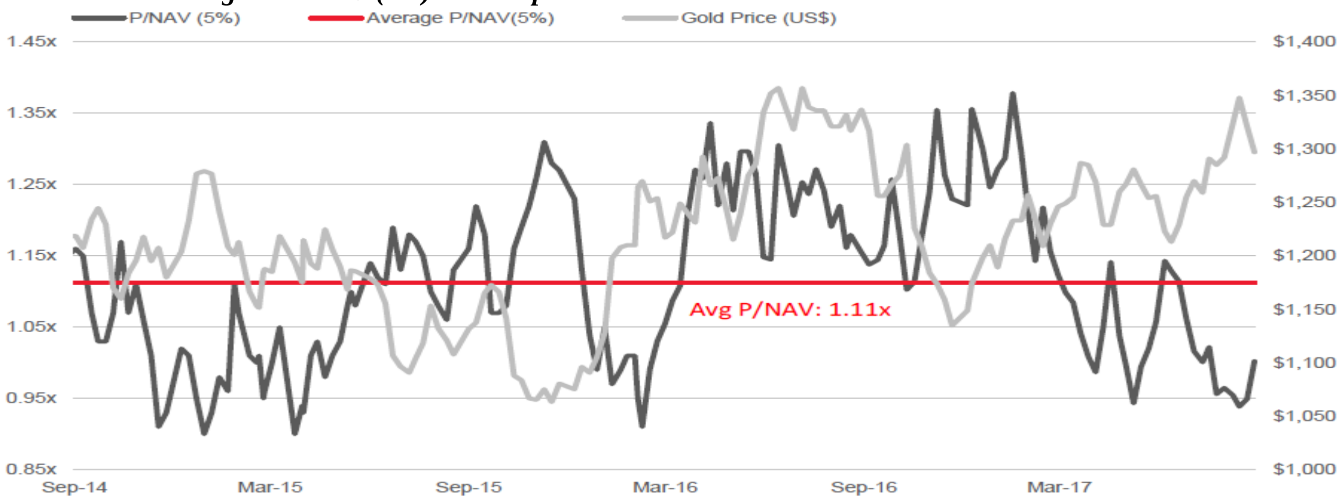
Gold mines – MSCI World Energy & Materials: EPS Momentum (1Yr) – P/E & EV/EBITDA vs MSCI World – (10Yr)



Source: Bloomberg

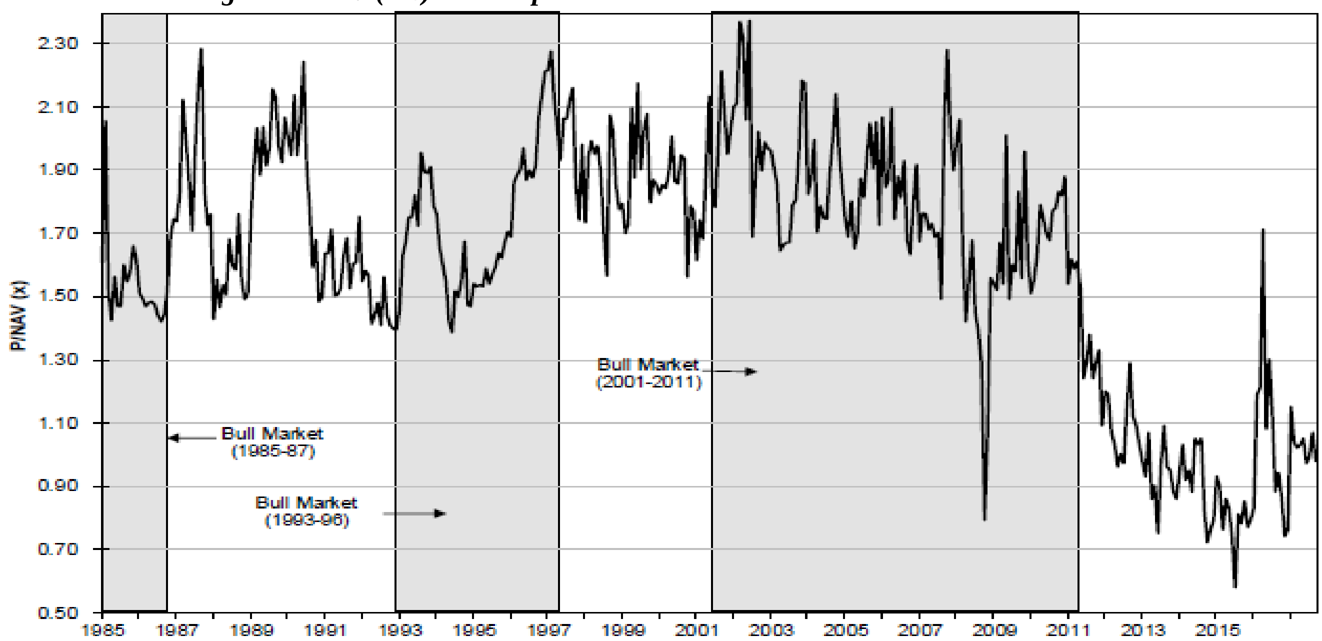
The net-asset-value approach (P/NAV), which provides a good assessment of the valuation of mining assets, shows that gold mines are undervalued in relation to the average of the past three years (1.11x). At 1x P/NAV, the market has not taken into account any of the industry's improved prospects.

Gold mines – Change in P/NAV (5%) since September 2014



Source: Scotiabank GBM estimates - Company reports

Gold mines – Change in P/NAV (5%) since September 1985



Source: Scotiabank GBM estimates - Company reports

Written on 1 September 2017

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