

NEW TRENDS REGARDING EVOLUTION OF GLOBAL METAL MARKET PRICES

Alina Daniela NECSULESCU¹, Cezar Corneliu NECSULESCU², Dragos MARCU³
University POLITEHNICA of Bucharest, ^{1,2}Department of Materials Science and Physical Metallurgy, ³Department of Engineering and Management of Casting of Metallic Materials
e-mail: alinanecsulescu@yahoo.com, cezar_necsulescu@yahoo.com, dragosmarcu10@yahoo.com

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Abstract: Metal price fluctuations have recently been of interest not only because of their cyclical volatility but also of their interaction with business cycles. The prices evolution study on London Stock Exchange's Market in the last ten years reflects the common tendency of growth and especially for some metals (nickel, lead, tin) it reached exceptional high level. The main factors which cause these movements in the stock market quotation are the high level of demand in connection with a limited offer, the economic contexts affected by high energy price, US Dollar's exchange value long-term weakness mostly against Euro and the stocks getting low in London Metal Exchange (LME). However the whole range of prices for nonferrous metals is continuous increasing to higher level, with positive influences for domestic producer and exporters.

The prices for nickel, lead, tin, zinc, aluminum and especially for precious metals (gold, silver, platinum, palladium etc.) had spectacular increasing in the last 10 years and it seems that the trend will continue in future.

The main conclusion is whether metal prices move together sufficiently to collectively reflect macroeconomic influences. The macroeconomic variables include industrial production, consumer prices, interest rates, stock prices, and exchange rates

1. INTRODUCTION

The dynamic fluctuation of nonferrous metals prices is continuous under attention not only because of their cyclical volatility but also of their interaction with business evolution cycles and critical changes in the world economy.

One conclusion is coming frequently: the tendency of rising prices for metals is dictated by macroeconomic influences. The main macroeconomic factors industrial are production, consumer prices, interest rates, stock prices, and exchange rates.

Analyzing the prices evolution of nonferrous metals on London Stock Exchange's Market in the last ten years reflects the common tendency of growth and especially for some metals (nickel, lead, tin) it reached exceptional high level.

The main factors which cause these movements in the stock market quotation are the high level of demand in connection with a limited offer, the economic contexts affected by high energy price, US Dollar's exchange value long-term weakness mostly against Euro and the stocks getting low in London Metal Exchange (LME)

In the same time, it's remarkable that all the prices have reached extremely high level with positive influences for domestic producer and exporters [2].

2. NON-FEROUS METALS' MARKET

- **Nickel:** its quotation reached again very high values, the market stock prices on London Stock Exchange's Market last year in April reached a new record of 52.350 – 52.375 dollars/tonne – the highest value from 1979, when the metal was introduced for the first time on London Stock Exchange's Market.

After this peak, in the last period the quotations fall down under 35.000 US\$/tonne,

based on big quantities offered on the market for high profit speculations.

The nickel's price evolution to a very high level starting with March 2007, may be explain by the remarkable great demand from China, where quite large quantities of nickel imported are necessary for domestic production of unoxidable steel. In the same time, the rise of nickel's price to a such high level is justify also by the low offer on the market in addition with often delays in delivery on the international market from company Norilsk (Russia), one of the most important nickel's exporter all over the world.

In the near future the nickel's price evolution is expected to preserve a high degree of volatility mainly dictated by continuous great demand from China and by the unequal proliferation of speculative transaction.



Fig.1. The nickel's price evolution on the world market in the last 10 years

- Another metal with a clear tendency of increasing price is **lead**. During the last part of the analyzed period the market price of lead reached a new record level in September 2007, around 3.900 – 3.950 dollars/tonne, the main factors are the strong demand on short-time from auto storage battery industry in the context of a very low offer on the market.



Fig.2. The lead's price evolution on the world market in the last 10 years[1]

- As for **cooper**, quotation on London Stock Exchange's Market has a positive trend, the price remaining to very high level. After an important declining in January 2007 the price raised again from 6.900 dollars/tonne in March to more than 8.000 dollars/tonne in April. In present the price reached almost the historical level of 9.000 dollars/tonne. This major increasing in price is due to massive imports from China. This country needs large quantities of cooper to face of the rapid development of commercial buildings, civil engineering and energetics.



Fig.3. The cooper's price evolution on the world market in the last 10 years[1]

The red metal is now with 12% more expensive than was in September 2007, in correspondence with the Federal Reserve System of the United States which decreased the level of short-term interest rates to encourage the growth of USA economy (of the most important and sensible economy from the world) after a mild recession. "The Era of benign disregard [...] is over or is almost finished. It seems to be more and more obvious that the needed economic growth must be limited by the necessity of keeping under control the prices of raw materials." – has declared John Kemp, analyst of London Sempra Metals.

In April 2008, the price of cooper in Shanghai –China has exceeded 9.147 dollars/tonne (64.030 Yuan), including VAT of 17%, in comparison with the price from London – about 9.945 dollars/tonne including VAT. In this condition, China's imports may be reduced in favor of acquisitions from the local market, with big influences because China is largest consumer of cooper in the world – in opinion of Lehman Brothers London's analyst.

- A favorable conjuncture has registered also by the **tin**; the metal prices are in permanent evolution above the high level of 20.000 dollars/tonne. For the next 2 – 3 months, the estimation for tin's price is optimistic that it will be constant at this high level, like a result of low offer on the international market – especially from Indonesia, which adopted sever measures against illegal exports of tin.



Fig.4. The tin's price evolution on the world market in the last 10 years[1]

- In case of **zinc**, quotations on London Stock Exchange's Market have reached the maximum values of 4.500 dollars/tonne at the end of year 2006. Starting with 2007 the price has fallen with almost 50% and now is stabilized under 2.500 dollars/tonne, which is anyway over the values registered 1998-2005. The high increasing of prices was determined mainly by the metal's specific factors, the market was unbalance by large demand and low offer, as a fact than no important project concerning zinc was started in 2007. In meantime the year 2008 brought a recover of the balance between demand and, this change was induced by the large quantities of zinc available on market



Fig.5. The zinc's price evolution on the world market in the last 10 years [1]

- **Aluminum is the metal with the most stabile evolution in the market**, the level of prices was continuously situated to high values over 3.000 dollars/tonne in the first half of April. The beginning of year 2006 brought a historical maximum of 3.300 dollars/tonne. The predict for aluminum quotation's until the end of 2008 on London Stock Exchange's Market shows that it will slowly exceed this value because of aluminum demand increasing.



Fig.6. The aluminum's price evolution on the world market in the last 10 years[1]

- The precious metals are a very special case. The precious metals' price is increasing continuously. When the global markets are instable or the oil's price are moving up and down based on frequency of terrorist attacks, the majority of investors are looking after the metals with stable value on the market. The main factors which have a powerful influence in prices' evolution are the following: the budgetary deficit of USA, concerns about the high level of inflation, low confidence in US dollar, difficult situation from Middle Orient.

The next charts are shown the price's' evolution for the main precious metals (gold, silver, platinum and palladium) in [dollar/ troy oz] units, where 1 troy oz (uncia)= 31.1034768 grams



Fig.7. The precious metals' price evolution on the market in the last 5 years

3. PRECIUOS METALS' MARKET

One think it's clear – is not only the fascination for precious metals which is coming from the ancient times responsible for the increasing demand on the market but in fact the image of one of the most safety refugee in time of crises. The investors know that on long-term period the precious metals (gold, silver platinum) offer a higher protection against inflation and always something more.

Last month, the silver's price moves up on international market up to 10.31 dollars/troy oz, the higher level since October 1983 till now. This rapid advance was generated by the speculations regarding the new approval received from the American Securities and Exchange Commission (SEC) -Division of Trading and Markets, for a new financial instrument ETF (exchange-traded fund) for silver. This fund trades just like any other company on a stock exchange. The introduction of ETF for silver will attract for sure new funds on the market and more funds mean higher prices.

Three years ago the first EFT was launched for gold. These instruments offer to investors the opportunity to have a participation in gold and they are transacted on the most important stock exchange markets from London or Ney York.

Until now ETF in gold is cumulating 467 de tones of gold. The analysts are expecting that the new instrument for silver to concentrate in the first phase about 4.000 de tones of silver from the global market.

The quotations of gold and platinum had risen last month to a record level, because of large acquisitions made by investments funds –conform Reuters

The gold's quotation reached in Europe the higher level in the last 25 years and platinum has marked a new absolute record.

The recently major change of prices brings wealth for investors who know when and how much to invest but on the other hand a long-time investment in gold is not always so rentable.

In July 2001, one troy ounce of gold was valued on New York stock exchange 260 de dollars. (Gold is measured and sold in troy ounces. One troy ounce equals 31.1035 grams. One troy ounce is equal to 1.09711 avoirdupois ounce - those widely used to measure weights in the US and UK).

In January 2003, the quotation reached 370 dollars/troy oz and one year later, to reach 425 dollars/troy oz. In December 2005, the psychological level of 500 dollars/troy oz was achieved, but after another for month the price to exceed 600 dollars/troy oz.

In second week of April 2008 the gold's quotation was about 637 dollars/troy oz decreasing with 10%, from 730 dollars/troy oz, the maximum value reached in the last 26 years. The reason of this unexpected maximum of quotation is the continuous growing of speculative demand encouraged by the treats regarding inflation rate in USA and also by the negative prediction about the further weakness of dollar.

With another words, everybody who has bought gold five years ago is expecting now revenue with 245% more. In comparison, using instead of gold investment just a deposit in a bank the benefit will not exceed 15-20%. Even if somebody invested in debenture or bank securities the interest could not get more than 30 % and in the best case the share participation to the main well-known financial institutions can grant no more than 60-70% growth during five years.[3]

There is a similar situation on the silver's market.

The cooper's price is almost 7.000 dollars/tonne which means an increase of 57% since 2006. If we'll make the comparison with the price from November 2001 it result an increase of five times more.

We don't have to forget that such huge gains are based on relative low price level after many decades of non interest from investors for metal's market –says Peter Smith, chairman of an American financial company in a specific online publication.

Other specialist are pointing to the rapid development Asian's market and especially to the economic growth of China, which is requiring more and more raw materials but also to the tendency of women from India and Middle Orient to invest preferentially in gold.

The most reliable explanation for this explosion of metal's prices is the instability of US dollar in the context of a huge deficit of USA, witch seams to be so large that it should not be recovered in the future.

Of course we cannot neglect the war in Iraq or the Iranian cries. The history of last 100 years show us that the global market but especially the precious metals' prices are growing faster in the periods of instability or international crises (first and second war, wars from Korea and Vietnam, Golf's cries).

In fact the actual boom on the metal market is similar with the gold's price evolution in the years '70 when the gold reached the level of 850 dollars/troy oz says Eckart Woertz, Economics Program Manager of GRC.

The level of 700 dollars/troy oz for gold is not anymore a surprise for specialists but soon the historical level of 1.000 dollars/troy oz will be achieved – says Emanuel Ballarie, market specialist for precious metals

This week the price of gold reached a record, trading at \$1,000 an ounce for the first time, pushed higher by a weak US dollar and fears about the US economy. Concerns about a possible US recession are seeing investors buy up commodities such as gold as an alternative to company shares and the US dollar. Since the beginning of the year the value of gold has increased by about 20%, after it rose 32% in 2007. Gold eventually settled for the day at \$993.80, up \$13.30 an ounce.

Analysts say gold will stay high as long as dollar and growth fears remain.

"Every bit of bad US economic data boosts gold in two ways," said Fortis Bank.

Analysts are predicting that US dollar could fall further as more details emerge of the losses suffered by banks and hedge funds due to investments centred on the troubled US housing market.

Already many companies have unveiled billions of dollars of losses which have caused credit markets to freeze and have created an environment where there is less money available for consumers and businesses to borrow.

At the same time, there are increasing signs that the US is on the brink of recession.

Despite aggressive interest rate cuts and White House measures to stimulate consumer spending, it is expected that US rates - currently at 3% - will have to come down further.

Analysts said this will weaken the dollar further and accelerate inflation.

"The Federal Reserve is going to cut and inflate our way out of this credit mess and the implications are going to be higher and sustained inflation," said Ichael Darda, of MKM Partners.

In these condition the future prognoses are speaking about 4.000 dollars/troy oz in 2042, when the American social insurance system will be insolvent

But not everybody believes in this scenario with explosive growths. Some analysts are remembering the period when the price of gold was around 20 dollars/troy oz. Since then the price grow up by 32 times but in the same time the US dollar decreased by 95 times. This shows on long-term that the investment in US dollar was more profitable that in gold. [4]

Other specialists invoke the cyclical behavior of the metal's market

“People must not be misinformed, always after a fulminate grow is coming a power decrease and a couple of years of relative stagnation.” –says Jonathan Talbot, independent market’s analyst from USA.

In the last period of time the exchange rate between dollar and euro is directly influencing the precious metal’s market.

When the dollar is high the price of gold and silver is down. The appreciation of dollar is making the gold more expensive for the foreign buyers and implicit the demand is lower.

In opposition with international markets in Romania the precious metals’ market is constrained from all points of view – demand, offer, kind of transactions. This is why a possible high rate of profitability is now only theory. In Romania the precious metals can be subject of transaction only under the form of jewelry.

Regarding the transaction places their number is quite low. The Treasury of State is buying gold from the population with 90% from the BNR official price (52.24 RON).

The quantities are quite small because the institution is buying only if it has a firm demand for transformation.

From last year also BCR is buying gold from population and companies

4. CONCLUSIONS

After almost 5 years of continuous growth for gold and silver are further options for investors. The specialists are asking for prudence. The precious metals and especially gold are well-known for quotation’s volatility. Almost each time after a remarkable increase is coming a long period of decreasing. The metals’ market is volatile due to the instable balance between demand and offer on short-time period.

The price’s evolution on the global market is a multifaceted process, very difficult to predict and usual separate from the evolution of companies’ shares.

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