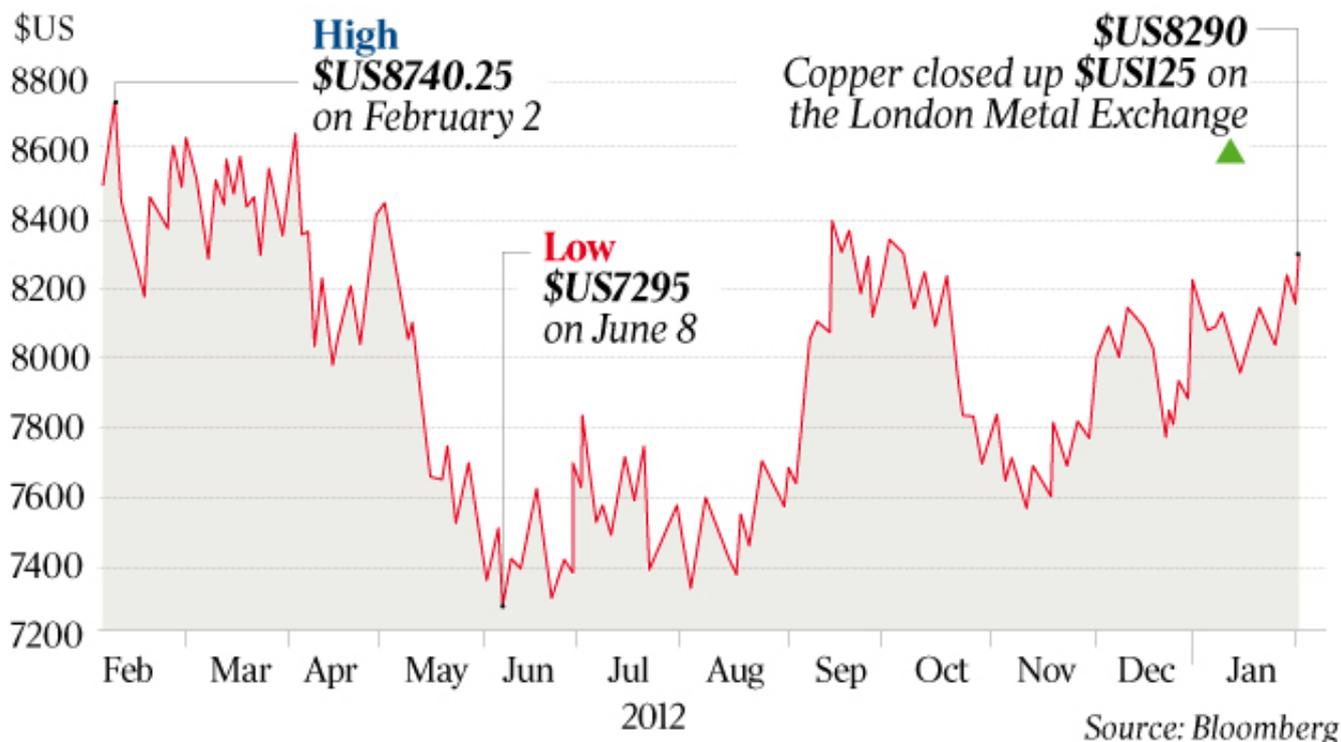


Herald Sun

JPMorgan says mid-cycle commodities price slump over

- by: Sarah-Jane Tasker
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LEADING commodity forecasters have predicted a new stage of the commodity "supercycle" this year, underwriting optimism in the sector after a bumpy 2012.

In what would be welcome news in an election year for a federal government banking on a mining tax that has yet to deliver any revenue, the prediction is for higher commodity prices this year.

Colin Fenton, JPMorgan's chief commodities strategist and head of commodities research, said he was "getting bullish" as it was clear that the mid-cycle slump was over.

"The data is coming in much stronger than we had anticipated for the first part of January," the New York-based strategist told The Australian during a visit to Sydney.

"We see business flows picking up around the planet and, very critically, the level of implied volatility is about as low as it can go.

"That is telling us that prices are going to go in one direction, which is the expectation embedded in capital markets, and it appears that direction is up, not down.

"When we look at the copper price, it is breaking out to the upside, the same with the Brent crude oil price.

"Even if we look at Australian foreign exchange markets, we see low volatility, and the days behind us will look worse than the days ahead of us."

Mr Fenton said he did not have the courage to go "overweight" in commodities, but he was "tip-toeing" in that

direction. However, he remains cautious about the US fiscal situation. Miners took a hit last year as investors stepped out of the sector because of concerns about China's demand weakening, lower commodity prices and the volatility of the wider global economy.

Mr Fenton said sentiment remained pessimistic, but he believed that the high price of commodities in the years ahead would surprise people in Australia and around the world.

"What I worry about is that this is happening right in front of our eyes, and there is a classic textbook wall of worry in global markets where we are now in the fifth anniversary of the global financial crisis, but the wheels are beginning to turn toward a better direction," he said. "It looks like there is going to be a period of several months where commodity prices have a rapid rally that surprises observers.

"The data that is coming out that is negative is backward-looking.

"Equities and commodities and other indicators are telling us that in the forward-looking world, the near-term future is more balmy than we thought it would be."

UBS analyst Myles Allsop is "overweight" mining for this year, with the expectation of more positive signs.

"Macro-economic anxiety that was the feature of global equity and commodity markets appears to be passing now," he said.

"UBS economists expect a modest cyclical revival in 2013, forecasting global economic growth of 3 per cent in 2013, versus 2.7 per cent in 2012. New Chinese and US governments and growth-supporting policy shifts promise upside for the miners, offsetting the ongoing growth risks in the eurozone."

CommSec chief economist Craig James takes a more cautious view. "We're certainly seeing positives for 2013, but all the world's problems haven't suddenly been resolved overnight," he said.

"US unemployment is still at 7.9 per cent and the US government is facing massive budget deficits that it will have to bring down," he said.

"Certainly there are reasons for optimism in 2013, but we're not shouting from the rooftops that we're in a new bull rally.

"It's dangerous to go from super bearish to super bullish in short order. You need to inject a dose of realism."

Mr Fenton said talk of the end of the mining boom last year was unfounded. The supercycle, which generally went for 25 years, had hit its midpoint, he explained.

"We are in the middle of the supercycle and also in the middle of the business cycle and people get tired. There is fatigue in Australia because it has been a tough 2012, but we really think that's ending. It's OK, things will pick up here," he said. "Two or three months ago, there was a strong emphasis that the supercycle was over, but that view is wrong.

The US will awaken and surprise to the upside and the global economy is supporting more demand than people today think is possible.

"For Australia, I would expect to see a good pick-up in demand for products in general over the next three years. We are seeing a recovery and one that will help Australia and other commodity producing countries."

ADDITIONAL REPORTING: ANDREW MAIN

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