Tin market accord aids mine re-openings

Can agreement among analysts change future markets?

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Tin attracted a big crowd to an Australian conference put on by advisory boutique Beer & Co earlier this month. The presence of eight companies promoting projects and expansions confirmed the positive consensus about the metal, but also showed why forecasters are often wrong about markets.

Of the major base metal markets – aluminium, copper, lead, nickel, tin and zinc – the market for tin appears the best balanced over the next four years. In most of these markets, demand growth peaked in 2010.

As in most cycles, current supply growth remains affected by the lagged affect of the optimism prevailing before the cyclical peak in markets. Market balances have tilted from deficit to surplus due to the resulting cyclical mismatch between demand and supply, removing the risk premium in metal prices.

Tin has caught a second historical breath through the use of solder, which now accounts for half the tin consumed. New technologies require tiny amounts in each of the millions of electronic devices sold.

Despite the new uses, overall growth has been modest. So fast paced is the life cycle of a modern day material that mobility and miniaturisation are already limiting growth prospects. The amount of tin in a laptop computer is half the amount in a desk-top machine – tablets contain about 20% and a mobile phone 10%.

One reason for the broad consensus about the prospects for the tin market is that supplies have grown more slowly than for any of the other leading metals, including gold and silver.

The Melbourne tin conference is an example of how industry participants, such as miners, explorers and investors, often react to market forecasts and, in doing so, discredit the original forecasts. Forecasters have an impact on future investment intentions that is not taken into account when they make predictions.

Many analysts looking at the same information simultaneously will cause a consensus to form. In the case of metal markets, they make judgements about future market balances that are the typical input into a price forecasting framework.

If the consensus says there will be a shortage of tin, for example, efforts will go into finding opportunities to mine the metal. In multi-tenement portfolios, tin will be given greater prominence than might have been the case otherwise. Investors, too, will be more willing to deploy funds. As a result, supply will have been underestimated and prices will not reach anticipated heights. This is the market at work. Unfortunately, it ensures that forecasters are going to be wrong much of the time.

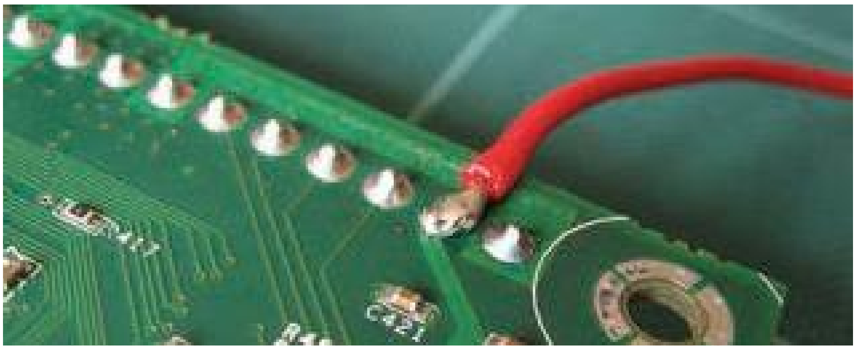

Photo: Hans Haase

Tiny amounts of tin are used in each of the millions of electronic devices sold

Conversely, a consensus about which will be the least attractive metal is likely to deter investment. Supply will have been overestimated and price forecasts will have been too pessimistic.

In 2005, for example, the International Copper Study Group first forecast a shift from deficit markets to a surplus by the end of 2006. Subsequently, the size of the anticipated market surplus was revised upward, raising expectations of price reductions.

In practice, copper mine production has fallen short of forecasts made 18 months earlier in every year after 2005 by an average of 1.2Mt. This is one of the reasons copper prices have not fallen appreciably despite forecasts of lower prices as far back as 2006. The expected production increases on which the forecasts were based never eventuated.

"Copper-mine production has fallen short of forecasts made 18 months earlier in every year after 2005 by an average of 1.2Mt"

The Beer & Co line-up of presenters inadvertently highlighted one reason to be wary about tin market investment: the capacity for historical production sources to reopen in response to the optimism.

One of the first responses among geologists to signals of an improvement in market conditions is to return to historical areas of production. This shortens development lead times. Sometimes, technical advances permit mines that had been closed to reopen profitably. A proliferation of such examples can avert short-term threats to supply and catch out analysts.

The Melbourne tin conference points to the market being alive and well. Having seen a plethora of market balance calculations establishing the case for more production, the industry has responded by first going back to where it has been mined before.

Proper judgements about the state of the tin market in 2015-2016, when much of the extra production is likely to start flowing, require these supply responses to be updated and included in calculations.

Meanwhile, the connection between forecasts and industry reactions suggests a canny investor should look where forecasts of metal balances appear least attractive. The metal with no conference scheduled, or where few have turned up, may be worth scrutinising. ▼

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