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BlackRock bullish on iron ore, coal, copper

By Laura MacInnis, -February 15th 2011

- * Fund manager sees higher iron ore, coal, copper prices
- * Nickel, zinc supplies to be less pressured
- * Pushes mining firms to give dividends same priority as M&A

BlackRock, which invests \$35 billion in mining and precious metals equity, said on Tuesday it was bullish on iron ore and coal, saw upside risk for copper and expected a short-term squeeze on aluminium.

"The supply and demand fundamentals are so clear," Catherine Raw, a fund manager with BlackRock Investment Management UK, told a conference in Geneva, describing supply constraints and rebounding global economic demand.

"For all commodities with the exception of oil, emerging markets are the largest consumer," she said. "Our view as a commodities team is that this is a sustainable structural change in commodity demand and one which will require higher prices to incentivise new supply."

"You've got two or three years where you cannot see significant supply growth, and yet steel demand from China is forecast to grow very strongly," Raw said of seaborne iron ore. She also described an "incredibly tight market" in coking coal.

"You want to be exposed to these commodities," she said.

Copper hit record highs on Tuesday, while tin pulled back from an all-time peak of \$32,799 and nickel eased from a nearly three-year high as markets focussed on Chinese inflation data.

Beyond China, BlackRock sees India as increasingly important as a consumer of thermal coal and said production facilities around the world are struggling to keep up with demand across a range of commodities.

Copper, Aluminium, Nickel

"Your upside risk associated with the copper price is quite high," Raw said, describing lagging inventories and problems getting the metal mined.

"The problem is finding copper that is in low-risk environments that isn't high cost to get out of the ground," she said, suggesting copper will increasingly be sourced from Papua New Guinea, Indonesia and the Democratic Republic of Congo.

Continuing demand for copper in industrial production is expected to power ongoing price increases. "The real issue is can you substitute copper. And we just cannot see it," she said.

BlackRock said there could be very short-term pressure on aluminium stocks but that supplies will eventually come back into the market. It sees relatively plentiful supplies ahead for both zinc and nickel.

"Our view is really that nickel has a number of downside risks that aren't necessarily there for some (other) commodities out there," Raw said.

BlackRock's total portfolio in natural resources is \$45 billion, with \$35 billion in mining and precious metal equities, Raw told the **Jetfin conference**.

"The advantage of being so big is the deal flow access that we get," she said, describing the fund's exposure to top mining executives and influence on the way leading companies operate.

She said BlackRock was pushing mining companies to give dividend payments the same priority as mergers and acquisitions, to push for "disciplined growth".

"Number one always has to be organic growth," she said. As for acquisitions, "We are not saying 'Don't do it.' We are saying 'Be more disciplined in the way in which you do it.'"