

Industry performance will remain under pressure in 2016

Written by Logan Drilling Group

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After a “material compression” of industry earnings this year, Moody’s Investors Service forecasts that the earnings contraction will continue next year.

“China’s slowdown and continued weakness in global economies will maintain downward pressure,” the credit ratings and research company said in its latest report on the outlook for global base metals, U.S. steel and North American coal.

For base metals, Moody’s forecasts a further 10% to 15% decline in 2016 from 2015 levels of earnings before taxes, interest, depreciation and amortization (EBITDA), and says costs, liquidity and debt-maturity profiles “remain key considerations.”

“Slow Chinese growth (Nov. PMI 48.6 versus Oct. 48.3, Sept. 47.2) and GDP-level concerns, together with weak or contracting global trends, particularly Europe and Brazil, will hurt demand [and] prices in 2016,” the report states, noting that falling oil and a strong U.S. dollar are “not enough to offset plunging prices.”

In addition, Moody’s points out that mine development “will be more expensive, take longer, [and] face more environmental and political issues.”

In terms of copper, which the agency describes as being in a “modest surplus” this year, current prices are nearing the marginal cost of production.

Its base case commodity price assumptions put copper at US\$2.15 per lb. in 2016 and US\$2.35 per lb. in 2017; nickel at US\$3.80 per lb. (2016) and US\$4.00 per lb. (2017); iron ore (62% Fe China) at US\$40 per tonne (2016) and US\$45 per tonne (2017); and zinc at US\$0.75 per lb.

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(2016) and US\$0.80 per lb. (2017).

In the steel industry, Moody's describes the outlook as negative in the United States and Asia, and stable in Europe. In China, steel production "meaningfully exceeds domestic demand" as economic growth slows and concerns emerge over "weaker housing and construction amidst high inventories, and the availability of financing."

Moody's sees Chinese demand for steel decelerating by 3.5% this year and 2% next year. The ratings agency also forecasts Chinese GDP growth of 6.3% next year.

In the U.S., where manufacturing activity is slowing and growth remains uneven, Moody's is forecasting GDP growth in 2016 of around 2.5%. As for Europe, where economic indicators are showing improvement at a slow pace, Moody's argues, GDP growth is expected to reach about 1.5%.

The coal market looks equally bleak. Thermal coal demand is facing a "slow, long-term secular decline," Moody's says, while prices for metallurgical coal, challenged by slowing steel production rates and global steel overcapacity, are "unlikely to recover within the next 12 months."

Domestic coal consumption in the U.S. will increasingly come under pressure from environmental regulations, while new investment is channeled into natural gas and renewables.

The Energy Information Administration projects coal consumption will decline by 10% this year "due to low natural gas prices and regulatory-driven plant retirements, with no meaningful recovery in 2016," Moody's reports.

Describing the industry outlook for the North American coal industry as negative, Moody's says it expects cumulative industry EBITDA will decline by as much as 10% over the next 12 months.

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Its base case commodity price assumptions for high-quality met coal are US\$80 per tonne in 2016 and US\$85 per tonne in 2017. Newcastle thermal coal is expected to fetch US\$55 per tonne in both 2016 and 2017.

Source: NorthernMiner.com [December 16, 2015](#).