

Industry Top Trends Update

Metals and Mining

Surging metals prices power windfall profits

What's changed?

Backlogs surge to historic highs. The inventory rebuild from an unexpected rebound in demand for most metals is being hampered by the inherent tightness of some metals or producer discipline. Steel mills are reporting record order backlogs as buyers scramble for material.

Environmental, social, and governance (ESG) factors influence investment decisions and credit. Steel producers globally are aiming to reduce their carbon intensity, which ranks among the highest of any industry.

Financial discipline could pay off. The focus on improving returns for the past three to five years has bolstered the financial firepower of most metals and mining companies, supporting credit quality and expanding capacity for shareholder returns, acquisitions, and large investments.

How is recovery taking shape?

Prices spike as restocking sparks shortages. Iron ore, copper, and steel have led many commodities to record prices in 2021, and even gold remains high. Still, prices could drop quickly if restocking volumes moderate later this year.

Record low interest rates and a weaker U.S. dollar benefit prices. The inverse relationship between U.S. monetary factors and metals prices has underpinned some of the recent price surge.

Financial policies are intact. In contrast to previous cycles, we see sustained financial and investment prudence for most companies. Investment-grade issuers are well-positioned, and some speculative-grade issuers have upside potential.

What are the key risks around the baseline?

Big cash flow enables big decisions. The cyclical strength of prices is partly supported by reduced investment in recent years. Credit quality could take a hit if large debt-financed mergers and acquisitions or capital projects coincide with an inevitable downturn.

Higher production contributes to product surpluses. A return to robust inventories could deflate prices quickly.

ESG factors dominate. Marginal investment and current operating risks loom perpetually in this sector. Individual credits can see a larger relative effect, given the industry's inherent exposure to ESG risks.

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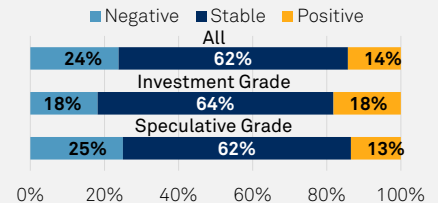
- Metal Price Assumptions: Prices Stay Hot, But No Signs Of A Melting Point, June 29, 2021
- Cleveland-Cliffs Inc. Upgraded To 'B' From 'B-' On Lower Debt Expectation; Outlook Positive; Debt Ratings Raised, June 22, 2021
- Freeport-McMoRan Inc. Upgraded To 'BB+' From 'BB' On Strong Cash Flows, Lower Expected Leverage; Outlook Stable, April 2, 2021

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Ratings Statistics (YTD)

	IG	SG	All
Ratings	11	53	64
Downgrades	0	1	1
Upgrades	0	6	6

Ratings data as of end-June, 2021

COVID-19 Heat Map

Metals and Mining		
Estimated Recovery To 2019	1H 2021	
Credit Metrics		
Potential Negative Long-Term Industry Disruption	--	
2020 v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
10% to 15%	15% to 25%	5% to 10%
2021 Estimates v. 2019		
Revenue Decline	EBITDA Decline	
>2019	>2019	