Metals and Mining

Uncertainty lingers over demand recovery

This report does not constitute a rating action.

Annie Ao
Hong Kong
+852-9223-3619
annie.ao@spglobal.com

What do we expect over the next 12 months?

Demand for industrial metals to remain lackluster given the weak growth of base metals consumption in the U.S. and Europe, and still-subdued property construction in China.

Supply tightness, upbeat demand outlook for critical minerals due to the energy transition and Russia metal sanctions are supportive to some metals, such as copper and aluminum. Supply surplus will persist for some other industrial metals and downstream industries, such as China's steel and Indonesia's nickel.

Macroeconomic signals from different economies will determine the direction of metals markets.

What are the key risks around the baseline?

Economic pressure looms. We have made some modest upward adjustments to our base-case price assumptions for most base metals on tighter supply and higher cost. Overall global macroeconomic outlook remains mixed with muted demand in Europe and China. Risks of a harsher downside persist.

Geopolitical risks escalate. The uncertainty of how these risks unfold further limits price visibility. The Israel-Hamas and Red Sea conflicts have a limited impact on the metals market for now as they are not the main transportation routes. But coupled with Russia sanctions, these could cause supply disruptions.

Pressure on metal downstream players. China's steel companies' profitability remains under pressure, with low product prices; coking coal and iron ore prices remain resilient. China is expected to curb steel production in 2024 and clean out inefficient players in the industry.

What do they mean for the sector?

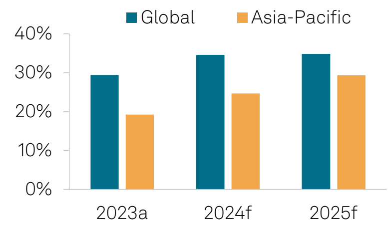
Credit quality of upstream companies has levelled off after a long run of improvement. Credit quality for upstream mining companies has stabilized. Most issuers can withstand further price pressures before testing our downside credit threshold.

Downstream players' profitability is volatile amid macroeconomic uncertainties. Soft end-use demand is limiting pass through of high material cost. Meanwhile, upstream materials' prices are volatile, though they remain at a high level despite the moderating macroeconomic trend.

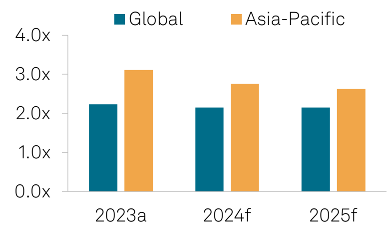
Less earnings visibility amid high volatility in prices for commodities and energy. This is the result of different catalysts, including economic uncertainty, currency swings, and geopolitical risks.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.