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HAMBRO MANAGER GIVES UPBEAT VIEW OF COMMODITIES SECTOR WHILE IN AUST

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MELBOURNE, Nov 16 Asia Pulse - The manager of two of the world's largest commodities funds expects continued growth in the sector in 2010, with rising numbers of company mergers.

Evy Hambro, a London-based portfolio manager who manages the BlackRock World Mining Fund and the Gold & General Fund, on Monday gave journalists in Australia an upbeat assessment of the sector following last year's collapse in prices.

Mr Hambro said the rapid rise of China, which accounted for about 40 per cent of demand in almost every commodity, and above 50 per cent in some during the second quarter of 2009, was a key reason commodities prices would continue to rise.

"When you have an economy with such a role and such a market share of commodities demand growing at such a rapid rate it is no surprise to see that prices have recovered from the low points of last year," Mr Hambro said.

"The most recent data is probably a little flattened by the low levels of activity in the western world economies, but the trend is undeniable, and I think we are going to continue to see this trend exacerbated further over the next few years.

"Obviously other countries as well in a similar position to China, such as India, Brazil and so on are also having another magnifying affect in terms of the commodity picture," he said.

BlackRock portfolio manager Catherine Raw said the global financial crisis caused some companies to cut back on capital expenditure, which could reduce supply for years.

"This has had the effect of pushing out production, postponing new production, and so as demand increases over the next three to five years, we expect there to be a serious issue of where is the new production going to come from?" she said.

"In addition, credit financing is much harder than it has been in the past, so for smaller projects it is much more difficult for these small companies to bring on new production."

Ms Raw said that of all base metals, copper was probably the most seriously affected by the future lack of growth in supply.

"Existing production has been struggling to cope with growth in supply over the last eight years.

"We have seen average grades falling, we have seen costs rising," Ms Raw said.

Mr Evy sounded bullish on the prospects for gold.

"When you start to see the price rising in a range of different currencies, it is nearly always a sign of a very strong market to come," he said.

He however that said aluminium was one of his least-favoured metals.

He said capacity restarts, large inventory levels and low activity in the aerospace sector had combined for a weaker market than what prices indicated.

"There might be some kind of fun and games going on in the sector that aren't really a reflection of the true supply and demand situation.

"So that would be an area where we are underweight and lack optimism for the future," Mr Hambro said.

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