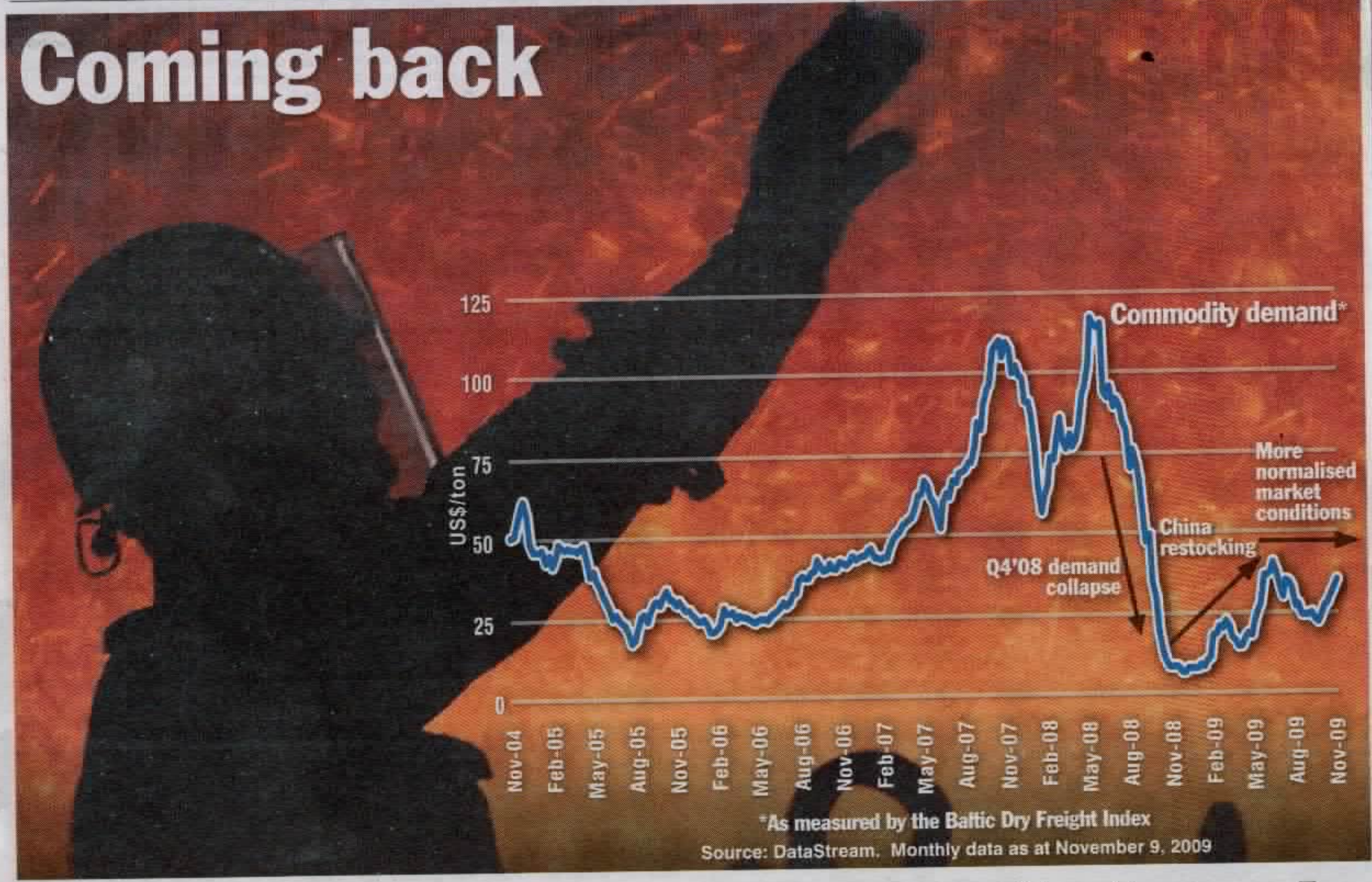

China sending 'powerful' signals

Felicity Williams
Resources

THE world's biggest resources fund manager has painted a strong outlook for global commodities demand as China continues to experience "powerful growth" and the US and Europe show signs of recovery.

Evy Hambro, who manages about $US11.6 billion ($A12.4 billion) in resources investments for Britain's Blackrock Investment Management, also said yesterday that the key institutional investor in BHP Billiton and Rio Tinto will support the mining giants' $US114 billion iron ore joint venture when shareholders vote on the proposal next year.

His comments came as the latest positive data out of China and gains in global commodities markets helped lift the share prices of locally listed mining companies.

But they were not echoed by local commodity watchers, who warn there is still a chance that resources prices will soften again in coming months if the global economy's tentative recovery starts to falter.

Mr Hambro, who is visiting Australia from Britain, said he did not see too many risks attached to a short-term pause in commodities demand.

"If you're looking for a W-shaped correction from the lows that we came to last year, I don't think we'll see the scale of that," he said.

"If it does happen, I think it will be very short-lived.

"If anything, I think there will be a lot of buying on the dips, and we're certainly seeing that sort of attitude from many of our clients invested in funds around the world."

Mr Hambro added that Chinese demand continued to experience "powerful growth" across all commodities, while the rest of the global economy also appeared to have "turned the corner".

His upbeat assessment helped whet investors' appetite for local mining stocks, which were higher across the board during trading on the ASX yesterday.

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The gains were also kicked along by news that foreign direct investment in China climbed for the third month in a row and an article in the *China Securities Journal* forecasting that the world's third-largest economy will grow by 8.5 per cent next year.

And expectations that prices for iron ore supplied under contract will rise by at least one-fifth next year provided further buying support for local producers of the steel ingredient, with BHP up nearly 3 per cent, Rio gaining nearly 5 per cent and Fortescue Metals Group adding more than 5 per cent.

Mr Hambro pledged his support for the BHP-Rio iron ore joint venture in Western Australia's Pilbara, which is expected to create about $US10 billion in cost savings a year if it goes ahead.

"The two companies have outlined huge potential synergies between the asset bases," he said. "Obviously, it would be a hugely wasted opportunity if the money that is expected to be saved couldn't be saved."

BHP and Rio will submit their application for the joint venture to the European Competition Commission by December 5.

Some observers are concerned the regulator will block the deal due to steel industry fears the joint venture will be able to push up prices by cutting back supplies.

Doubts have also emerged about whether the agreement will win shareholder approval at next year's vote, with some of Rio's British investors arguing the transaction is skewed in favour of BHP.

Despite Mr Hambro's bullish outlook, other experts are still cautious on whether global commodities markets can sustain their momentum after a sharp recovery this year from their biggest price rout in more than 50 years.

Adrian Prendergast, a resources analyst with EL&C Baillieu, said he expected prices for key commodities — including most base metals — to stage a W-shaped recovery.

"The short-term outlook for commodities will depend on how much re-stocking will occur across more advanced economies," he said.

"If that doesn't happen or if it unrolls more slowly than we're hoping, then there won't be a great deal of support in commodity prices."

David Moore, chief commodities strategist with Commsec, agreed that base metals prices would pull back in coming months.

"I think that they have run up relatively quickly since earlier this year on anticipation of an international economic recovery," he said.

"There could be a temporary pullback in base metals prices but I do think as the international economy gains more concrete footings that we'll see them bounce back again."