

Finance

Miners face oversupply risk

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475 words

17 November 2009

[The Australian](#)

RESOURCES

Resource demand, especially from China, is rapidly growing

COMMODITIES demand is looking rosy, according to the managers of the world's biggest commodities fund, the BlackRock World Mining Fund.

In fact, if there is a risk facing the big miners of the world such as BHP Billiton and Rio Tinto, it is now oversupply, including from Chinese investment into the sector, rather than any return to the stilted buying of the global financial crisis.

BlackRock fund manager **Evy Hambro** said the global recovery was expected to continue, led by China, which accounted for 40 per cent of commodities demand in the second quarter.

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

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

The risks to prices no longer lie on the demand side. Instead, there was the possibility of investors giving too much capital to miners, who then invest in new production. Increased Chinese production could also pressure prices, Mr Hambro said.

Chinese investment in resources has a double edge for miners. While it pushes up asset values, China's long-term view of its production needs means it could bring on more production than a listed miner would, pulling down prices.

BlackRock is a top 20 shareholder in BHP and Rio and has \$US31.9 billion (\$34.1bn) invested in its natural resources funds.

Mr Hambro, who through BlackRock also manages listed Australian fund Global Mining Investment, said banks were again starting to offer loan facilities to miners for acquisitions.

``I think we might start to see a more significant pick-up in merger and acquisition activity, as assets in general are trading at attractive levels," he said.

Catherine Raw, another BlackRock fund manager, said one of the more surprising things about the past six months was that miners with strong balance sheets had not made more acquisitions during the downturn.

``If you were a believer in the super cycle and you had an opportunity in what was a hiccup in that long-term view you would have thought there would be more activity than perhaps we've seen," she said. Ms Raw did not name any companies, but the miner that has left most people scratching their heads over its lack of acquisitions is BHP which, while talking up the possibility through the downturn, has so far failed to make a move.

