

## Industrial Commodities: Amid Market Corrections, a Few Niches are still Riding the Super-upcycle

### EXECUTIVE SUMMARY

Industrial metals such as aluminum, zinc, lead, nickel, and copper registered phenomenal price increases, ranging from double-digit-percentage to 100%, between March 2021 and March 2022 before giving back some of the gains in 2Q 2022 (please see Exhibit A on the next page). It was primarily due to growth concerns amid spiralling inflation and persistent tightening of monetary policies among central banks across the world at least in the short run, alongside the worries of the prolonged military conflicts between Russia and Ukraine.

Russia was the world's third-largest producer of petroleum and other liquids and the second-largest producer of dry natural gas in 2020 as well as a major supplier of wheat, among other commodities. Moreover, Ukraine together with Russia exports more than 25% of the world's wheat. Supply disruptions of these commodities have contributed in part to the escalating price increases not just in Europe, where annual inflation rate set a record high of 8.6% in June 2022 versus 1.9% in the same period a year ago, but also many parts of the globe.

Price correction in 2Q 2022 was sharp and happened in a short span of time, down between 20% and 30% merely in a few weeks. The decline constituted the most severe one since the 2008 Global Financial Crisis. Nonetheless, in our view, the correction should be short-lived in accordance with supply and demand dynamics on a longer-term basis. Reserves of the industrial metals are essentially finite in nature. Conversely, demand growth is without boundary fueled by the ever-growing global population, which is projected by the United Nations to hit 8.5 billion in 2030 and 9.7 billion in 2050 from the current level of about 7.7 billion, and other factors.

Even though near-term outlook for the broader commodity market is muted, there are still bright spots, namely the versatile material zircon and the indispensable crude oil and natural gas. Zircon prices continued to trend higher even in 2Q 2022 and in the first three weeks of July. Although crude oil and natural gas prices did retreat, it happened later (in June 2022 rather than April 2022) and in a lesser degree.

To conclude, we believe that the resilience in prices showed by zircon, crude oil and natural gas will persist buoyed by their strong fundamentals.

- For zircon, its price strength is likely to continue supported by limited supply due to lack of new discoveries with numerous reserves and some existing deposits have not yet commenced production. For example, the Donald Mineral Sands project owned by Astron Corporation Limited (ASX: ATR) is still in the evaluation and development stage<sup>1</sup>. With respect to the demand side of the equation, novel applications are expected the new drivers. For instance, the derivative of zircon in the form of thin but tough ceramics can be used as casing materials for smartphones, enhancing durability and enabling stronger signals and much faster data download in addition to wireless charging<sup>2</sup>.
- For crude oil and natural gas, underinvestment is the supportive factor for strong pricing. According to the U.S. Energy Information Administration ("EIA"), global crude oil producers spent 28% less on exploration and development in 2021 compared to the five-year average before the initial outbreak of the novel coronavirus in 2020.

<sup>1</sup> Astron's update dated 2 May 2022 for the quarter ended 31 March 2022

<sup>2</sup> <https://www.theassay.com/articles/analysis/zircon-in-hot-demand-as-a-key-tech-material/>

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