

“Commodity Prices Have Soared, but Miners Aren’t Investing”, Wall Street Journal, May 25, 2021

<https://www.wsj.com/articles/commodity-prices-have-soared-but-miners-arent-investing-11621940401>

Summary: Technology metals including cobalt, copper and lithium, are likely to have large supply gaps relative to demand, analysts say, amid rising demand from makers of batteries, electric cars and wind turbines. Though a bit off of their recent highs, many of these commodities have hit record high prices in 2021. Copper, for example, has doubled over the past year to \$10,762 per metric ton, a record high. Miners, however are reluctant to invest in raising supply as current investors prefer dividends and share buybacks. Lack of ROI for previous investments has also left mining companies reluctant to repeat the over-investment cycle. Capital spending is on pace to fall 6% for diversified miners and a full 10% for copper miners. Demand for copper is expected to jump 40% by 2030, with “green copper” demand jumping by an estimated 900%. Barrick Gold Corp. CEO Mark Bristow stated recently that investors pushing for dividends means the industry isn’t replacing what is being mined. The Paris Accord’s requirements and Biden administration have also pushed for far more “green mining”, which while resulting in reduced carbon emissions also leads to cost increases. This has resulted in higher prices.

LS Comment: The biggest surprise going forward may be that higher prices for all sorts of commodities and related services, such as higher shipping costs, is not transitory but more permanent. This would benefit the cash flows of all sorts of “old economy” companies, more than investors are expecting. Many investors are still focused on “work from home” beneficiaries... but the stock market has rotated.