Glencore PLC

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Major mining companies faltering as trade war hammers commodity prices and dampens demand

Half-yearly results from Glencore PLC (LON:GLEN) made sombre reading for mining investors on the morning of 7th August.

Chief executive Ivan Glasenberg didn't mince words.

"Our performance in the first half reflected a challenging economic backdrop for our commodity mix, as well as operating and cost setbacks within our ramp-up/development assets," he said.

"Adjusted EBITDA declined 32% to US$5.6bn."

Amongst other things, a fall in the cobalt price has hit Glencore's profits and forced it into the unpalatable decision to shut its Mutanda mine in the Democratic Republic of Congo, incurring a US$800mln write-down.

But cobalt isn't the only metal under pressure as the effects of the trade war continue to bite. The squeeze being applied by Donald Trump to the Chinese economy has meant that copper is less in demand too, and the copper price has dropped by around 7% over the past six months or so.

That the copper price is falling when the global economy is still notionally in growth is deeply worrying, and one reason why mining company share prices, after a good run in 2018, have dropped significantly in the past few months.

Glencore itself has dropped from a high of 415p hit in January 2018 to its current price of 226.5p, the most precipitous decline having come since April of this year. The shares down a further 2% on the recent financials.

But Glencore is not the only one. Rio Tinto (LON:RIO), BHP Group Ltd (LON:BHP)(ASX:BHP) and Anglo American (LON:AAL) have all been boosted by higher iron ore prices in recent months, a commodity tow which Glencore has less exposure.

But the effects of that boon are beginning to wear off too, as demand has been caught in a strange pincer movement: because iron ore prices are so high, Chinese mills have been unable to buy without the prospect of producing steel at a loss; but at the same time, the effects of the trade war have reduced demand.

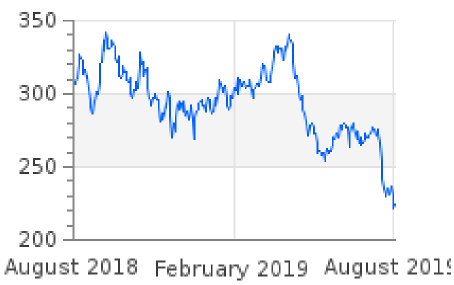
All of a sudden iron ore prices are now back below US$100 and heading towards the US$90 mark. True, everyone knew that the sky-high prices weren't likely to last long, but for prices to be falling at the same time as Trump's new tariffs are being met with a weaker Chinese yuan is unsettling. Will the Chinese ability and/or willingness to pay the dollar rate for metals be diminished by a weakening buying power? That's hard to know.

And at the same time, the supply constraints that hit iron ore earlier in the year, as Brazilian supply was abruptly curtailed by government action, now look to be easing.

Price: 222.15p

Market Cap: £30495000000000M

1 Year Share Price Graph



Share Information

Code:		GLEN
Listing:		LSE
52 week	**High**	**Low**
	343.60p	**188.51p**
Sector:		**Mining**
Website:		**www.glencore.com**

Company Synopsis:
Glencores is an Anglo-Swiss multinational commodity trading and mining company with headquarters in Baar, Switzerland, and a registered office in Saint Helier, Jersey. The current company was created through a merger of Glencore with Xstrata on 2 May 2013.

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Not surprising then that Rio's share prices shows signs of turning down, having dropped more than 14% since early July to the current price of 4,227p. Anglo American, traditionally seen as the weakest of the major mine companies, has been hit harder in percentage terms, dropping by nearly 20% to 1,829p across the same period. And BHP, perhaps the strongest operator at the moment is down by 10% to 1,771p in London.

In the US, Freeport McMoRan (NYSE:FCX) is down by almost a third on the year, and about 10% since the end of June.

Miners go through their ups and downs in any given cycle, but this time round the environment is doubly uncertain because of the political angle and the ongoing face-off between the US and China. Bond spreads are rising in the US, commodity prices are falling, and perhaps even more significantly uncertainty is rising.

At the end of July the VIX volatility index [http://www.cboe.com/vix/?gclid=EAIaIQobChMI7_7Js9Pw4wIVhrHtCh207AHJEAAYASAAEgKUEvD_BwE] spiked sharply to a level not seen since January. Meanwhile Purchasing Managers Index numbers, known colloquially as PMI have continued to decline around the world, in particular where the numbers relate to manufacturing.

All this bodes ill for the world's miners, who might in other circumstances have expected to be benefitting from what after all are still relatively strong growth numbers from both the US and China.

But the signs that that growth is now coming to an end are everywhere to behold. The Fed has dropped rates for the first time in years. The Chinese yuan has weakened significantly. This week the New Zealand central bank dropped rates too, the pound is already systemically weak, and President Trump is crying out for the Fed to do more, even as he ratches up the tariffs on China and encourages sclerosis into the arteries of world trade.

That Sirius Minerals PLC (LON:SXX) was forced to pull its bond offering in the US is a mere footnote.

What's more significant is the caution of a man like Ivan Glasenberg. And even if he does seek to sugar the pill later on in his commentary, there's no denying that metals are currently on a downward trend, and miners are too.