Miners regain sparkle as commodity prices rebound

AFP, *Sydney*

Increased Chinese spending on housing and hopes of an infrastructure bonanza in the US and India are driving a recovery in resources giants, analysts said, with major miners raking in huge profits.

A slowdown in the global economy, particularly in the world's top consumer China, and a supply glut hammered prices in recent years, pushing many firms to the brink of collapse and forcing others to slash jobs and spending.

But with Beijing rediscovering its appetite for key metals -- and the economy showing signs of stabilising -- optimism is returning, although there are lingering worries the recovery might not last.

"Most miners are going to be making very good cash, and better cash than they have been making for years," UBS commodities analyst Daniel Morgan told AFP.

"Their cost bases are lower and in many cases they are back to sustaining capex (capital expenditure) rather than growing capex. So right now they'll be minting cash and improving their balance sheets."

Iron ore, a key ingredient in steelmaking, has been representative of the commodities rollercoaster.

After hitting a peak near US$200 a tonne in 2011, it tumbled some 80 percent to below US$40 in late 2015. Since then, it has rallied to spike above US$90 in February, surprising analysts. Copper prices have also rallied, with a strike at BHP's Escondida mine in Chile -- the world's biggest copper pit -- also providing support.

The main factors behind the broad-based revival have been supply constraints and a shift in Chinese demand, said CLSA's head of resources research Andrew Driscoll.

Chinese authorities introduced policies supporting the nation's crucial property market while also increasing credit, helping drive infrastructure investment. "Demand was persistently better than what was expected, led by those two sub-sectors, for much of the year," Driscoll told AFP.

At the same time, supply constraints emerged as the central government enacted environmental reforms that made it more costly to produce polluting commodities in China.

The November election of President Donald Trump, who has touted massive infrastructure spending, and the Indian government's vow to fund the modernisation of roads, airports and railways also boosted sentiment.

The world's two biggest miners -- BHP Billiton and Rio Tinto -- this month reported bumper profits for 2016 after plunging into the red the previous year and Brazil's Vale also said Thursday it experienced a strong earnings boost on the back of record production.

Coal giant Anglo American joined the party Tuesday, powering back into the black, while the surge in coal prices has led to the reopening of mines by operators including Swiss commodities giant Glencore.

US-listed coal miners such as Alpha Natural Resources and Arch Coal are also returning after a slew of bankruptcies.

Warrior Met Coal, which owns bankrupt Walter Energy's main assets, is hiring workers while Peabody Energy has plans to relist sometime this year.

"That's an interesting example of how things have gone full circle. We've come out at the other end, these companies have been restructured and it's a much stronger coal-price environment," Driscoll said.

"They... are likely to become significant companies again."

Shareholders could benefit from share buybacks as miners become awash with cash, while mergers and acquisitions could return.

But companies would be wary of embarking on a spending spree that might backfire if prices plunge again, with experts questioning whether the current commodities rally is sustainable and if prices will head south in case supply starts to outstrip demand.

Some commodities such as coal already face a longer-term decline owing to competition from cheap natural gas and a push for cleaner energy.

But the key factor that could prove crucial is the US dollar, in which commodities are priced. With Trump's big-spending, tax-cutting plan expected to ramp up inflation, the Federal Reserve will likely be forced to hike borrowing costs, fuelling demand for the greenback.

YUNUS CENTRE

Nobel Laureate Professor Muhammad Yunus poses with Fujio Cho, chairman of Business University Forum of Japan and honorary chairman of Toyota Motor Corporation. Yunus delivered a keynote speech on wealth concentration at the forum in Japan on February 22.

LFMEAB

Commerce Minister Tofail Ahmed speaks at a press meet to announce leather and leather goods as the Product of the Year 2017 at the Westin Dhaka hotel yesterday. The leaders of the Leathergoods and Footwear Manufacturers and Exporters Association of Bangladesh were also present at the event organised by the commerce ministry.

LYNX AD EVENTS

Professor Rehman Sobhan speaks in a memorial discussion on Dr Mahabub Hossain at the National Museum in Dhaka on Saturday. A book and a collection of essays written and compiled by Asaduzzaman were launched at the event jointly organised by the Power and Participation Research Centre and LYNX Ad Events & Communications.

LPG price mechanism in the offing

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The government plans to set up a deep-sea terminal and some investors have already shown interest to invest.

He said the terminal will be set up within two years and will be able to supply LPG at lower cost.

Currently, the price of a 12.5kg LPG cylinder is no more than Tk 1,100, according to Hamid. He said the Department of Explosives is very weak and the government plans to revive it by hiring consultants.

Salman F Rahman, president of the LPG Industries Association of Bangladesh, said the price of LPG should be fixed in line with global prices. "We will sit with the government soon to formulate the price mechanism so the price reflects the fluctuation in the global market price."

About 285 million tonnes of LPG were consumed globally in 2015 and the sector is worth $250 billion, according to a keynote presentation of David Tyler, director of the WLPGA. LPG consumption in Bangladesh was 350,000 tonnes in 2016 and it is estimated to go up to 1 million tonnes by 2020.

He said the majority of LPG is being consumed in Asia, mostly in China and India. "The demand is growing incredibly fast in Asia," he said.

North America and the Middle East is the major exporter of LPG but their consumption has remained static in the last 10 years. "The LPG business is shifting to the Asian market," said Tyler.

According to the presentation, the largest demand of LPG in global market is in the residential sector which consumed 44 percent in 2015. The demand of LPG in chemical and refinery sector was 33.5 percent, industrial sector 13.1 percent and transport sector 9.3 percent.

He said Bangladesh's residential sector consumed 12 percent or more of the natural gas produced in the country. "If we can provide the households an alternative then we will be able to free up more gas for industries. The benefit of using natural gas in industries is more than in households."

Tanzeem Chowdhury, assistant general manager of Omera Petroleum, said Bangladesh imports most of its fuels. So it is rational to increase the use of LPG in the households and other sectors. The current shortage of natural gas is 22 percent of the daily demand, he said.

Analysts suggest ways to beef up garment sector

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Miran Ali, a director of BGMEA, said more than 90 percent factories in Vietnam and Cambodia are owned by foreign investors.

The scenario in Bangladesh is completely different -- more than 90 percent factories here are owned by local entrepreneurs, he added.

A problem with entrepreneurship here is that many factories might not be able to sustain the current improvement due to financial constraints, he added.

Mahmud Hasan Khan, vice-president of BGMEA, said, "We are spending a lot of money on relocation." There were more than 6,000 BGMEA member factories a few years ago, but now, the number came down to around 2,900.

Buyers are not paying higher prices for garment products in Bangladesh, although they offer higher rates in China, India, Vietnam and Pakistan. This is not a level playing field, he said.

Remediation costs a garment factory $614,000 or Tk 4.9 crore on average, according to the new survey.

The findings were based on the learning and remediation measures adopted since the Rana Plaza tragedy of 2013.

After the industrial disaster, western buyers began inspection of local factories through two platforms – the Alliance and the Accord. They have together inspected 2,500 out of 3,660 factories in the country.

Some 33 factories of different sizes were surveyed and their total expenditure for the remediation was over $20 million. The amount, however, did not include other implicit costs, such as the production loss owing to factory relocation, the ongoing remediation process and migration of skilled workers.

Most of the factories surveyed were established in 2002 and each earns between $15 million and $30 million a year.

A factory, which is categorised as large in the sample, earns $50 million a year. The report found most factories faced multiple challenges in implementing the remediation recommendations.

Singer's earnings increase 30pc

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The company expects to renovate over 60 stores in 2017. Some new stores will also be opened in key locations. The number of wholesale dealers is expected to increase significantly in the years ahead.

The financial services products offered from the Singer retail stores, like Western Union, bKash, Grameen airtime reloads and utility bill payments, increased in value by 110 percent in 2016, with nearly 55,000 customers visiting the outlets each month on average to take the services.

Singer, famous for sewing machines and hire purchase finance, is the largest retailer of consumer durables in Bangladesh, with 374 company-owned stores.

It commenced operations in the region in 1905. Today Singer sells all categories of consumer durables under Singer and third party brands. The company has over 425 wholesale dealers.

Singer Bangladesh is 70.1 percent owned by Retail Holdings Bhold BV of the Netherlands. Its shares are traded on both Dhaka and Chittagong bourses.

FIDS

Masud Ahmed, comptroller and auditor general of Bangladesh, attends a conference on "Exploring and combating fraud risks in Bangladesh, at the Westin Dhaka hotel on February 23. A Qasem & Co and Ernst & Young LLP India, member firms of Ernst & Young Global, organised the event.

Govt to cut foreign fund spend 17.5pc

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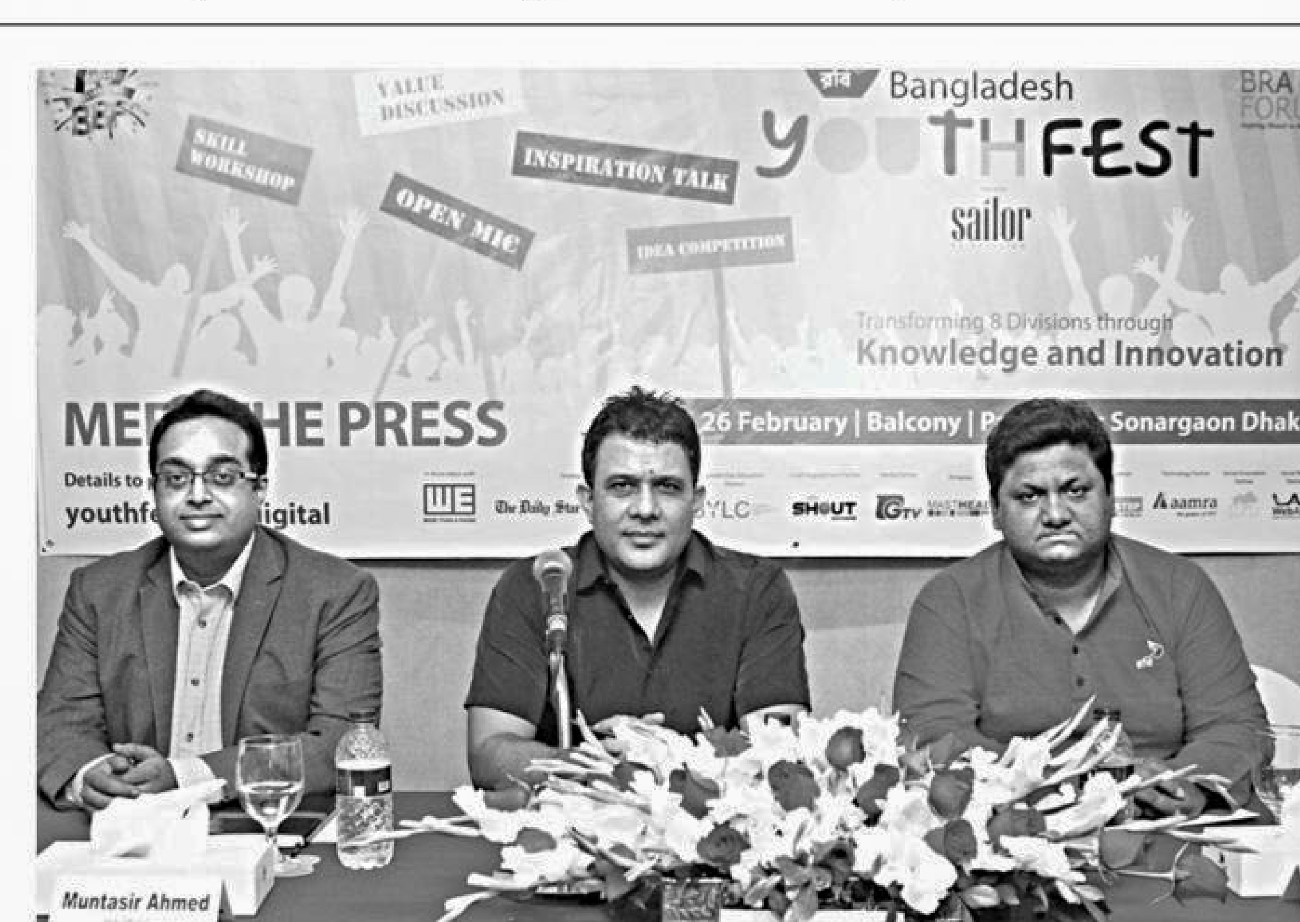
The power sector has got 11.85 percent of the allocation while rural development and rural institutions 9.55 percent, science and ICT 5.25 percent, agriculture 4.97 percent and health 4.76 percent.

Meanwhile, development allocation for the state-owned enterprises is being slashed hugely in the revised ADP.

The planning ministry has proposed to earmark Tk 8.595 crore for state owned enterprises in the revised ADP which would be 32 percent less than the original amount.

IDCOL

Officials from banks, financial institutions and corporate organisations attend a training programme organised jointly by Infrastructure Development Company Ltd and the Public Private Partnership Authority at the IDCOL office in Dhaka.



Muntasir Ahmed, head of marketing of WE Mobile; Shariful Islam, managing director of Bangladesh Brand Forum, and HM Tarikul Kamrul, vice-president of Robi Axiata Ltd, attend a press conference at Sonargaon Hotel in Dhaka yesterday to announce the second edition of Robi Bangladesh YouthFest. A number of youth engagement programmes will be organised at university levels.

YOUTHFEST