

# Global Markets

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## Are we in for a commodities super-cycle? (Takeaways from our webcast with BCA Research)

*We hosted veteran commodities market strategist Robert Ryan from BCA Research. He shed some light on the ongoing debate on the commodity cycle. Ryan is largely inclined to call this a super-cycle and not just a bull run. However, he reckoned the commodities movement will be asynchronous in the medium term, led by different fundamental drivers. He is bullish on base metals (Cu, Al, Ni), bulk metals (Steel, Iron ore) and energy, and neutral on Agri/soft commodities.*

- In the short term (to the end of 2022), oil and base metals will appear to be in the early stages of a commodity super-cycle, but in the medium term, demand dynamics will rule.
- In the medium term, oil will behave like a commodity in its sunset phase, with demand rising slightly or remaining flat to down over the next decade. Base metals, amid their criticality to renewables and electric vehicles (EVs), will behave like a commodity in its early growth phase.
- Metals leg of this renewables buildout is just the beginning – higher prices will be required to incentivize the development of new supply.
- Steel prices work as a leading indicator for copper prices – leading copper prices by ~9 months. Steel, Iron ore, etc. will be supported by continued buildout of China's defense, technology, communications, and energy industries, in line with copper prices.

### Industrial metals (Copper/Aluminum): 2021-2030 will be their decade

- Base metals output will struggle to meet higher demand from the ongoing buildout of renewables infrastructure and growing sales of EVs. China's buildout of defense, manufacturing and infrastructure continues under its 14th Five-Year Plan and will support base metal demand.
- Metals markets – particularly copper and aluminum, which are critical for the transition to renewable generation – likely will be in physical deficits in CY21-22, with demand > supply which inclines them to believe the metals leg of this renewables buildout is just beginning – higher prices will be required to incentivize the development of new supply.
- However, high and rising copper prices could prompt the Chinese government to release some of its massive state holdings of copper.
- Another leg-up in copper would pull other base metals higher with it. BCA recommended investors to get long on politically-induced sell-offs, particularly with USD weakening in the near term.
- The tax on carbon emissions ahead would also enhance competitiveness of solar and wind energy – beneficial for copper and iron, respectively, which are the key inputs.

### Bulks (Steel/Iron ore): Bull medium-term; may correct marginally in near term amid easing supply

- Steel, Iron ore, etc. will be supported by the continued buildout of China's defense, technology, communications, and energy industries – in line with copper prices.
- Steel prices work as a leading indicator for copper prices – steel leads copper prices by ~9 months. This makes sense when one considers steel is consumed early in infrastructure and construction projects, while copper consumption occurs later with completed project (in the form of wires or pipes) as airports and houses are fitted with copper for electric, plumbing and communications applications.
- Even as steel is carbon intensive, there aren't any substitute to it yet. With US focus on infra increasing, steel demand is here to stay. Decarbonizing steel would be a story of later decades maybe, but in the visible medium term, possible higher carbon tax would mean higher demand even amid higher input cost of steel.
- Stronger steel margins and another round of environmental restraints on mills continue to boost demand for high-grade iron ore. Iron ore is trading off its recent highs and will likely move lower toward the year end as Brazilian supply returns to the market.

### Brent oil to hover around USD60-80/bbl for the next five years

BCA sees Brent oil to average USD65/bbl in CY21 and believes that the production-management strategy and physical supply deficits in base metals will keep growth in demand higher into 2022. Supply will be calibrated to demand in the global oil market amid equations of dominant producers. However, prices kept too far above USD75/bbl to put a dent in demand and incentivize US shale production, which can ramp up quickly, or encourage EV sales. Beyond 2025 and out to 2030, oil supply side looks cloudier. OPEC may not want to aggressively invest in increasing crude-oil production capacity amid uncertainty around global oil and gas demand once renewables kick into a high gear.

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty \(Page 4\)](#)

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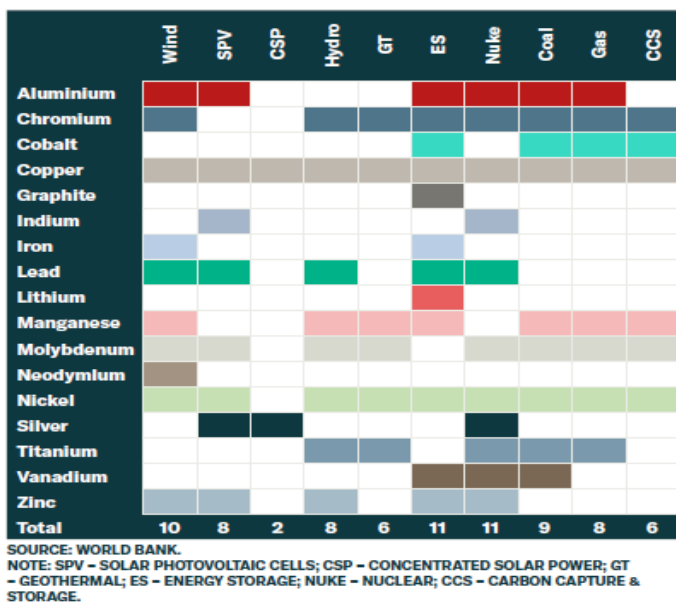
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### Take on EVs: China-led concentration risk

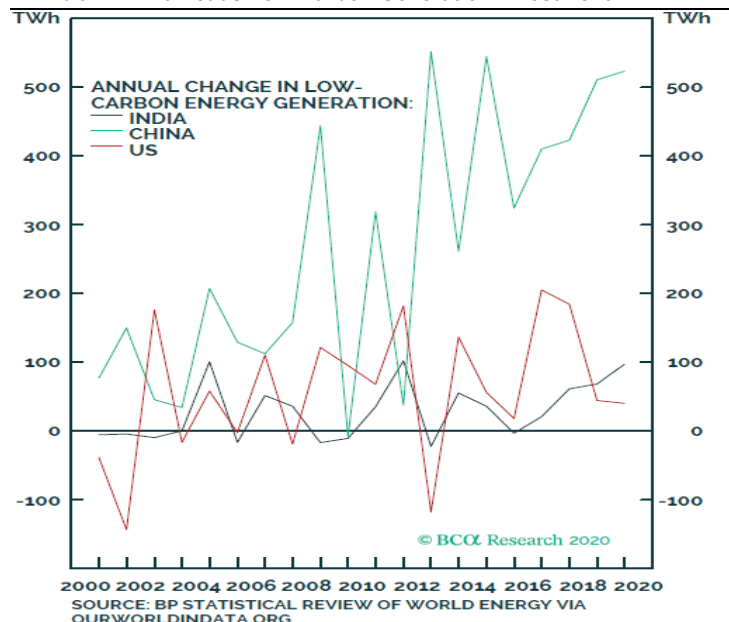
- EVs require 6x more copper than ICEs (Internal combustion engines). Hence, a lot of copper would be needed once EV demand reaches a meaningful level. **By 2030, the demand from EVs alone would amount to close to 4mn tons of copper per year.** Copper is limited in supply and with mining challenges. Despite requirement of capex, outlook on actual spends and supply globally is clouded.
- EV sales will rise, particularly in China, which has built a commanding position in global EV supply chains. This supports China's goal of reducing dependence on imported oil but increases supply chain concentration risk outside China.
- EV batteries are a combo of Lithium-Nickel-Cobalt. 70-75% of cobalt is mined in Congo (by Chinese players), while 60-70% of graphite for anodes is also from China. **Hence, there is an enormous concentration risk** and potential global dependence to China. The Biden administration appears poised to direct significant investment to reducing US exposure to concentration risks in battery supply chains.
- At present, EVs represent ~1% of the global automobile fleet and account for ~5% to 6% of nickel demand. By 2030, EV battery demand could hit 36% of total nickel demand.
- Against EVs, renewables and other clean tech, the global hydrocarbon industry is also working on a lot of innovations. **Carbon capture and storage is one such innovation, which can decarbonize the fossil fuel chain substantially.** It can be a game-changer and reduce emissions at much lower cost compared to renewables but it is far ahead in future. Hence, EVs are not a done deal and these challenges would come when scale of implementation increases.

Exhibit 1: Copper, Aluminum Span New Energy Applications



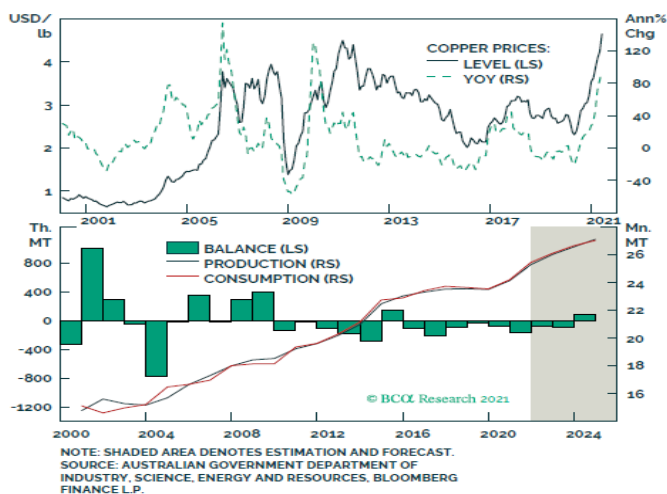
Source: World Bank, BCA research

Exhibit 2: China Leads Low-Carbon Generation Investment

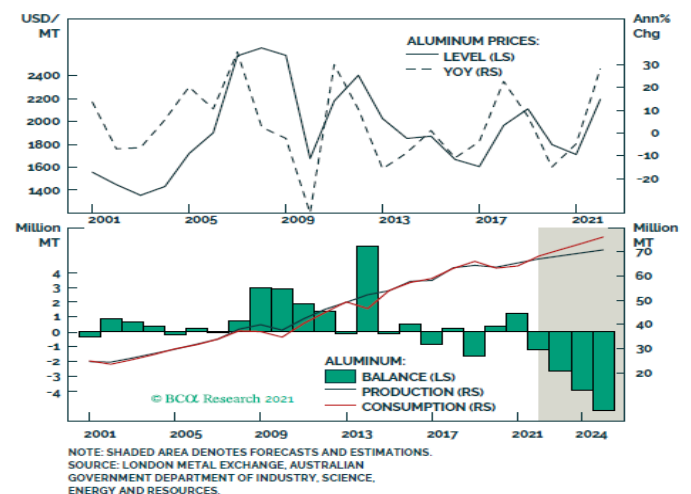


Source: World Bank, BCA research

Exhibit 3: Base metals balance tightening and will lead the price situation ahead



Source: BCA Research estimates



**Speaker Profile**

Robert Ryan is a veteran in commodities strategy, having more than 25 years of experience in tracking the sector. Currently heading BCA commodities strategy research, Ryan's previous stints include Limehouse Research & Trading, Clarendon Ltd, Bankers Trust, Goldman Sachs, Deutsche Bank, etc. As a research economist at the N.Y. Mercantile Exchange, he developed the crude oil options contract. He also worked as an economist at the U.S. DOE. Ryan is an honorably discharged veteran of the US Navy and holds degrees from Penn State University in Journalism and Economics.

## Emkay Alpha Portfolio – Nifty

### EAP-Nifty (25 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
<b>Agri Input &amp; Chemicals</b>	0.68	0.00	-100%	-68
UPL	0.68	0.00	-100%	-68
<b>Auto &amp; Auto Ancillaries</b>	5.42	8.21	51%	279
Bajaj Auto	0.83	1.35	62%	52
Eicher Motors	0.55	1.56	185%	101
Hero Motocorp	0.59	0.00	-100%	-59
Mahindra & Mahindra	1.20	0.00	-100%	-120
Maruti Suzuki India	1.40	2.40	72%	100
Tata Motors	0.86	2.90	237%	204
<b>BFSI-Banks</b>	26.62	31.62	19%	500
Axis Bank	2.84	4.80	69%	196
Bandhan Bank	0.00	0.85	NA	85
HDFC Bank	9.73	9.62	-1%	-12
ICICI Bank	6.80	6.74	-1%	-6
Indusind Bank	0.86	3.90	355%	304
Kotak Mahindra Bank	3.93	1.01	-74%	-292
State Bank of India	2.46	4.71	91%	225
<b>BFSI-Insurance</b>	1.41	1.92	37%	51
HDFC Life	0.83	0.35	-58%	-48
SBI Life	0.58	1.57	172%	99
<b>BFSI-NBFCs</b>	10.17	7.62	-25%	-254
Bajaj Finserv	1.08	0.00	-100%	-108
Bajaj Finance	2.27	0.00	-100%	-227
Cholamandalam Investment	0.00	0.88	NA	88
HDFC	6.81	6.74	-1%	-7
<b>Cement &amp; Building Materials</b>	2.54	4.99	96%	244
Ambuja Cements	0.00	1.01	NA	101
Grasim Industries	0.82	0.81	-1%	-1
Shree Cements	0.56	1.51	167%	95
Ultratech Cement	1.16	1.66	43%	49
<b>Consumer Goods &amp; Retail</b>	11.07	5.76	-48%	-531
Asian Paints	2.00	1.98	-1%	-2
Britannia Industries	0.61	0.00	-100%	-61
Hindustan Unilever	3.13	0.00	-100%	-313
ITC	2.78	1.77	-36%	-101
Nestle India	0.95	0.00	-100%	-95
Titan Company	1.00	0.99	-1%	-1
Tata Consumer	0.59	0.00	-100%	-59
United Breweries	0.00	1.01	NA	101
<b>Engineering &amp; Capital Goods</b>	2.70	2.67	-1%	-3
Larsen & Toubro	2.70	2.67	-1%	-3
<b>Information Technology</b>	16.50	15.38	-7%	-112
HCL Tech	1.54	2.51	63%	97
Infosys	7.83	7.77	-1%	-6
TCS	4.96	1.95	-61%	-301
Tech Mahindra	0.95	1.94	104%	99
Wipro	1.21	1.20	-1%	-1
<b>Metals &amp; Mining</b>	3.59	4.80	34%	122
Coal India	0.46	0.45	-1%	0
Hindalco	0.85	1.59	87%	74
JSW Steel	0.99	0.98	-1%	-1
Tata Steel	1.29	1.77	38%	49
<b>Oil &amp; Gas</b>	11.32	7.01	-38%	-431
BPCL	0.66	1.70	158%	104
GAIL	0.00	0.00	NA	0
Indian Oil	0.42	0.99	135%	57
ONGC	0.62	1.09	78%	48
Reliance Industries	9.63	3.23	-66%	-640
<b>Pharmaceuticals</b>	3.61	5.55	54%	194
Cadila Healthcare	0.00	1.04	NA	104
Cipla	0.72	1.20	67%	48
Divi's Lab	0.78	0.00	-100%	-78
Dr. Reddy's Lab	0.96	1.68	74%	71
Sun Pharma	1.14	1.63	43%	49
<b>Ports &amp; Logistics</b>	0.83	0.00	-100%	-83
Adani Ports	0.83	0.00	-100%	-83
<b>Power</b>	1.67	2.14	28%	47
NTPC	0.79	0.78	-1%	-1
Power Grid Corporation	0.88	1.36	55%	48
<b>Telecommunications</b>	1.89	2.33	23%	44
Bharti Airtel	1.89	2.33	23%	44
<b>Cash</b>		<b>0.00</b>		
<b>Nifty</b>	<b>100.0</b>	<b>100.0</b>		

Source: Emkay Research; Note: \*We have internally capped single stock exposure to 10% in our EAP

**Sector portfolio NAV**

	Base					Latest
	1-Apr-19	27-May-20	26-Nov-20	25-Feb-21	27-Apr-21	27-May-21
EAP - Nifty	100.0	79.8	103.7	125.5	121.1	128.4
Nifty50	100.0	79.8	111.3	129.4	125.6	131.4

\*Performance measurement base date 1<sup>st</sup> April 2019

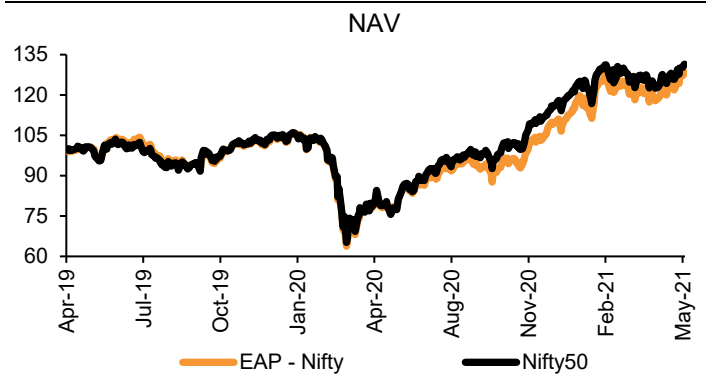
Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - Nifty	6.0%	2.3%	23.8%	60.9%
Nifty50	4.7%	1.6%	18.1%	<b>64.7%</b>

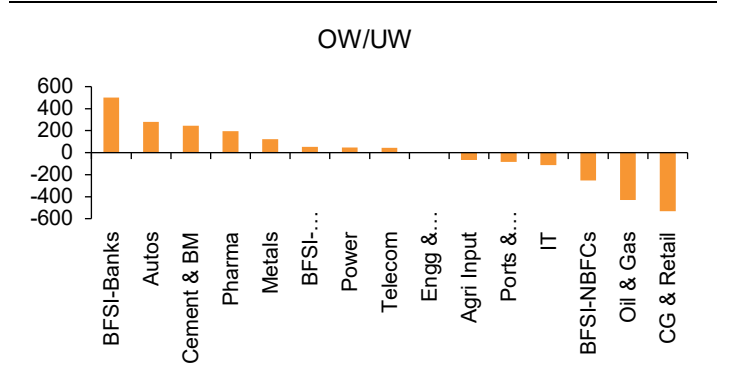
Source: Emkay Research

**NAV chart**



Source: Emkay Research

**Sector OW/UWs**



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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