

Industry Top Trends Update

Metals and Mining

Margins contracting but cash flow is adequate for most

What's changed?

Prices correcting. Chinese lockdowns and recession fears are signaling a likely turn in the cycle for mining and metals companies. Prices that had been strong are typically still above historical averages. But even with supply challenges, demand expectations are now the key factor for prices.

Increasing costs. Diesel, power, machinery, wage bargaining, and now financing costs have been rising as inflation spikes and works its way through value chains.

Decreased Russian and Ukrainian supply. Sanctions and logistical challenges have removed significant volumes of steel, nickel, palladium, coal, and other commodities from European and global markets. Lost sales hit affected producers hard and market and supply chain disruptions continue emerging.

What to look out for?

Rising costs. Production outages can be severe for some, but higher costs are increasingly important for all producers. Differentiators include issuers' overall starting level, currency exposure, and companies' ability to adapt.

Chinese growth hit again by lockdowns. With our revised Chinese 2022 growth forecast now at 3.3%, additional disruption would imply deeper and longer impact on commodities' demand, especially if global inventories recover significantly.

Sustainability and funding. Companies' differing emphases on operations and long-term strategy are becoming more important for investors and lenders.

What if there's a recession?

Commodities and price fluctuations. Prices will move if recessionary fears intensify or crystallize. Some high-cost producers could retrench production expectations in 2023.

New developments halting. The limited development response to expected energy transition demand will moderate, but funded existing plans will likely proceed.

Balance sheets and financial policies. Lower debt than 2015 levels and financial frameworks and distribution policies that were already tested in 2020 are likely to cushion the credit impact of a short or moderate recession.

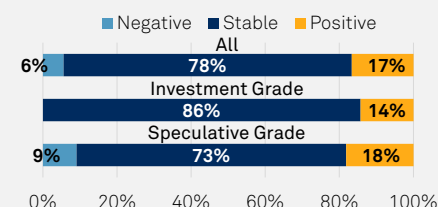
Latest Related Research

- [Metal Price Assumptions: Shortages Worsen And Prices Spike As Conflict Roils Metals Trading](#), March 18, 2022

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Ratings	7	11	18
Downgrades	0	0	0
Upgrades	2	10	12

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias

