

Special report: Apex 2011

2011 rankings INTL FCStone's Ed Meir, Deutsche Bank and Citigroup top 2011 table for base metal analysts

Meir takes top spot with 95.8% accuracy



APEX: OVERALL LEADERBOARD 2011

Rank	Analyst	Accuracy
1	INTL FCStone*, Ed Meir	95.8%
2	Deutsche Bank	94.1%
3	Citigroup	93.4%
4	Standard Bank, Leon Westgate	93.1%
5	Metal Bulletin Research	92.6%

*INTL FCStone acquired the metals division of MF Global UK in Q4 2011

'There are a lot of institutions that have a consistent bias toward price traction, and they don't seem to change it, no matter what happens' – Meir

Edward Meir receives his overall winner award for 2011 at his office in New York from Metal Bulletin executive Mary Connors

LONDON BY CLAIRE HACK

Edward Meir, formerly of MF Global and now of INTL FCStone, scooped first place on the overall leaderboard for price forecasts in base metals during 2011, with 95.8% accuracy across all six.

For the full year, Meir took the top spot in every metal, with the exception of aluminium, where he came third.

In copper, Meir, who writes a daily report for Metal Bulletin, managed 97.6% accuracy, while in zinc, it was 97.3%, in tin, 92.6%, in nickel, 95.2%, in lead, 97.2%, and in aluminium, 95.2%.

"The main things we look at in our forecast reports are currencies, fund flows, external markets, and perhaps lastly, fundamentals," he told Metal Bulletin.

"The fundamentals would have been on top in years gone by, but now, they're on the bottom, as other things displace them."

The factors that drive markets are always changing, according to Meir, particularly as volatility continues to reign across most markets.

"Things are unpredictable. We're still grappling with the European crisis, and just a few months ago, there were predictions about the demise of the euro," he said.

"The Middle East is also completely in upheaval. There are sweeping revolutions in a number of countries, and you have to watch out for other black swan events – will protests spread to Russia or China?" Meir added.

Unexpected major world events can upset long-term forecasts, he said, meaning short-term predictions are now more reliable.

"We've guided people very much to go short-term. The reason we did well in our forecasts was that we saw these events as bearish for commodities," Meir said.

"We didn't join in with the hype on the upside. The euro was a big cloud that people didn't really fully appreciate. Every time there was an agreement, people would forget until it reared its head again."

When commodity prices rallied earlier in 2011, furthermore, analysts at what was then MF Global became "gun shy" because of the volatility in the euro, Meir added.

"We didn't want to join the crowd because interest rates were going higher across the board, and we thought that would impact demand," he said.

"There's always a surprise, so you have to adapt your models, and not get stuck into a particular mode of thinking."

To make an accurate forecast, moreover, one must not be swayed by "group thinking", and must be prepared to make changes when necessary.

"There are a lot of institutions that have a consistent bias toward price traction, and they don't seem

to change it, no matter what happens," Meir said.

"What's really struck me is that even when the market proves them wrong, they don't change their thinking. It would behave them to be flexible, and say when they are right or wrong."

Edward Meir: veteran commodities expert

Edward Meir has been in the commodities business for about 30 years in various capacities. After getting his bachelor of arts degree in economics from Montreal's McGill University in 1978 and his MBA from New York University in 1980, Meir started his career in commodities with Drexel Burnham Lambert as a commodity futures research analyst covering the sugar, coffee and cocoa markets before leaving in 1985. He spent the next nine years in the physical markets, trading aluminium, tin and steel for Trans-World Metals.

After leaving Trans-World Metals in 1994, Meir formed Madison Holdings and, operating from London, was active in the physical markets, acting as an agent for various US companies sourcing



non-ferrous metals out of Europe, China and Russia. Since then, and over the past eight years, his firm was retained by MF Global as a senior commodity analyst for base metals and energy.

In November 2011, along with the rest of the MF Global team, he moved to INTL FCStone, where he continues to provide research commentary, both long-term and short-term, on the base metals markets to the firm's customer base and trading desks.

Success Team from German bank marries focus on fundametals with macro view

Deutsche Bank runners-up in base metals

LONDON
BY CLAIRE HACK

The metals research team at Deutsche Bank took second place on the overall Apex leaderboard for price forecasts in base metals during 2011, with 94.1% accuracy across all six.

For the full year, the team took third place in copper forecasts, with 96% accuracy; fifth place in zinc, with 94.2%; second in tin, with 92.2%; second in nickel, with 92.1%; and fifth in lead, with 93.9%.

The key to this success, according to Daniel Brebner, head of metals research at Deutsche Bank, is a focus on microeconomic factors, such as supply and demand.

"We're looking at what kind of changes we're going to see over the coming year on supply-side constraints, costs, potential disruptions, and those kinds of things," Brebner told Metal Bulletin.

"We also look at relevant data, not only on the global side, but for specific regions as well. China has clearly been very important, for example," he added.

The team also looks closely at



Left to right: Metal Bulletin publisher Spencer Wicks, Daniel Brebner, Xiao Fu, MB editor Alex Harrison

'Nickel and copper are likely to outperform fundamentally in the near term, but we're slightly more bullish on zinc and nickel over the medium term,' Fu said

market expectations, Brebner said, and how these expectations might change over time.

"It's joining the market's anticipation of the balances [of

Apex: leaderboards, metal by metal, 2011

	Copper		Aluminium		Zinc		Tin		Nickel		Lead	
	Analyst	Accuracy	Analyst	Accuracy	Analyst	Accuracy	Analyst	Accuracy	Analyst	Accuracy	Analyst	Accuracy
1	INTL FCStone*, Ed Meir	97.6%	CLSA, Ian Roper	96.6%	INTL FCStone*, Ed Meir	97.3%	INTL FCStone*, Ed Meir	92.6%	INTL FCStone*, Ed Meir	95.2%	INTL FCStone*, Ed Meir	97.2%
2	Standard Bank, Leon Westgate	96.1%	Standard Bank, Leon Westgate	95.6%	Credit Agricole, Robin Bhar	95.2%	Deutsche Bank, Daniel Brebner	92.2%	Deutsche Bank, Daniel Brebner	92.1%	CLSA, Ian Roper	96.6%
3	Deutsche Bank, Daniel Brebner	96.0%	INTL FCStone*, Ed Meir	95.2%	Citigroup	94.9%	Citigroup	91.9%	BAML, Michael Widmer	92.0%	Citigroup	95.9%
4	Metal Bulletin Research	95.9%	Barclays Capital	94.5%	Standard Bank, Leon Westgate	94.7%	Standard Bank, Leon Westgate	91.4%	VM Group/ ABN AMRO	91.2%	Standard Bank, Leon Westgate	94.6%
5	Citigroup	94.7%	Metal Bulletin Research	94.4%	Deutsche Bank, Daniel Brebner	94.2%	Credit Agricole, Robin Bhar	90.6%	CLSA, Ian Roper	91.1%	Deutsche Bank, Daniel Brebner	93.9%

*INTL FCStone acquired the metals division of MF Global UK in Q4 2011

Apex vs average opinion

The value of the Apex system, weighting the forecasts towards the best analysts, is shown in the performance of the weighted Apex average relative to the unweighted

vanilla average.

There is a spread of results but, averaging across the metals, in 2011 the Apex forecasts outperformed the vanilla forecast in Q1 and Q3, with a close finish in Q4.

Apex has shown its value in the medium-term outlook, the critical area for fundamental analysis. Based on annual forecasts at the beginning of 2011, the Apex weighted numbers outperformed

in five of the six metals. Overall accuracy was 97.1%, against 96.6% for the unweighted average.

This is a significant difference as the range of accuracies is typically in the range of 85-100%.

supply and demand] with how we think they will evolve," he said.

"Increasingly, what has been important is the macro environment. It's to do with how investors perceive risk, and how they perceive the way the debt situation will evolve in Europe and the USA. That leads to complications in how commodities perform, as they're now a distinct asset class."

Exposure to metals and other commodities, he said, has been viewed as a way to hedge risks associated with factors such as low interest rates and increased quantitative easing.

"It's becoming much more complex, versus how things were ten years ago. There are extremes in leverage, particularly at a state level, which have led to risks becoming more apparent in terms of inflation or deflation," Brebner said.

The team makes forecasts across the London Metal Exchange complex, but it also looks specifically at individual metals, Xiao Fu, the research analyst who works alongside Brebner at Deutsche Bank, added.

"For example, nickel and copper are likely to outperform fundamentally in the near term, but we're slightly more bullish on zinc and nickel over the medium term," she said.



Brebner and Xiao

Daniel Brebner (right) is head of metals research at Deutsche Bank, but his focus also includes bulk materials such as iron ore and coal. Prior to joining Deutsche Bank,

Brebner spent ten years as an analyst at UBS, where he held various positions, most recently co-head of commodities research. He was a geologist in Lima, Peru, before working in banking.

Xiao Fu (left) joined Deutsche Bank in July 2008 through the graduate programme and now has three years' experience as a commodities analyst. Xiao has a BSc from the London School of Economics.

Call one, call all: Apex rewards analyst consistency

LONDON

The final calculations for the Apex forecasts over the four quarters of 2011 show there is consistency in accurate forecasting of base metal prices traded on the London Metal Exchange.

Quarter by quarter, and across the annual results, there appears to be a pattern in which the same analysts reappear several times across the different metals. This suggests that when an analyst or desk calls copper correctly they are also likely to fare well in their call on, for example, aluminium.

There is some predictability in this due to the correlation in price movements between the base

metals at a macro level.

The same economic factors drive a wide range of industrial metals, although supply-side factors are more independent for each metal.

Factors such as expectations of Chinese consumption growth would affect all metals. Auto production figures would also affect most metals in some manner.

In addition, financial factors such as exchange rates, equity prices and interest rates have a similar influence across all the metals, with those analysts able to make the correct call getting good results across the board.

Some of the results across the year reflect Apex's concentration

on accuracy rather than rankings.

Ed Meir, now of INTL FCStone (which bought the metals division of MF Global in Q4 2011), managed to achieve a remarkable first place for his forecasting of five of the six metals in 2011, and a third place in the remaining metal, copper.

Meir's performance was consistently strong across 2011, with a fourth place in Q2, first place in Q3 and second place in Q4, the only one to achieve a leaderboard position in every quarter.

Deutsche Bank also scored well in the middle of the year, but did not appear on any leaderboard in Q4. Despite this their average score gave them second place overall.

HOW IS APEX ACCURACY CALCULATED?

There are several ways of looking at average accuracy in forecasting base metal prices over the year, and Metal Bulletin has prioritised accuracy over quarterly rankings.

The annual average accuracy calculations are an average of the quarterly accuracies in each metal, the critical parameter for clients.

Analysts/desks needed to be present in all four quarters, and also to have forecasts in at least four of the six base metals, to be included.

Quite a few institutions did not publish (or only occasionally published) lead and tin forecasts, but these have not been penalised.

Third place overall Team led by Jansen and Wilson impress by 'putting research behind the idea'

Citigroup take third place for the year by forecasting prices with 93.4% accuracy

LONDON
BY CLAIRE HACK

The metals research team at Citigroup came in third on the overall Apex leaderboard for base metals price forecasts for the whole of 2011, with 93.4% accuracy.

The team also came fifth in their copper predictions, with 94.7% accuracy, third in zinc, with 94.9%, third in tin, with 91.9%, and third in lead, with 95.9%.

In a closely fought battle, they came in behind Edward Meir, formerly of MF Global and now of INTL FCStone, who took the overall top spot, with 95.8% accuracy, and the team at Deutsche Bank, in second spot, with 94.1% accuracy.

David Wilson, formerly of Société Générale, joined Citigroup towards the end of 2011, and is now director of metals research and strategy.

"We start off by building a fundamental picture. We compare mine supply expectations, refinery capacity, refinery utilisation rates – we get a lot of data from looking at companies," Wilson said.

He added that Citi also looks at a range of data points on the demand side, including stock reduction expectations, and



Left to right: David Wilson and Heath Jansen accept their award from Metal Bulletin editor Alex Harrison and publisher Spencer Wicks

'It's building a supply and demand picture. On top of that, there are macro assumptions – GDP growth rates, exchange rates, expectations for fund flows'

intensity of use expectations.

"It's drilling down, looking at production rates, and what guides production rates, and then building a fairly detailed supply and demand picture," Wilson explained.

"On top of that, there are macro assumptions – GDP growth rates,

exchange rates, expectations for fund flows."

Heath Jansen, md and head of Citi Investment Research and Analysis (CIRA) metals, mining and steel team, added that there must also be strength of conviction in order to make a credible forecast.

"It's really putting the research behind the idea. Sometimes, you'll feel more convinced on one metal than another," he said.

The biggest issue to contend with over the course of 2011 has been the lack of supply in certain commodities, Jansen said, while the demand scenario has been relatively strong across the complex.

In the short term, he added, price forecasts in base metals can in fact be a driving force for the market, as factors such as shifting fund flows can cause instant reactions among participants.

"It depends on the liquidity of the market. Arguably, in less liquid markets, such as tin or nickel, an analyst could have an impact," Jansen said.

In the longer term, supply and demand will always be the most dominant factors affecting the market, he said.

"A lot of macro hedge funds will often look in detail at market fundamentals. Some proactive funds will be looking at next year's expectation for supply and demand. Their impact is to bring these expectations into today's market," Wilson said.

Jansen and Wilson: a combination of metals industry experience and commodities expertise



Heath Jansen (pictured left) is md and head of the Citi investment research & analysis (CIRA) metals, mining and steel team, which covers both equities and commodities.

Jansen rejoined Citi in 2010 after starting up a commodity hedge fund. He originally joined the company in 2005 from JP Morgan, where he headed the European metals and mining team. Jansen began his career with Comalco Aluminium (100% Rio Tinto) as a process engineer, before advancing to the position of smelter superintendent. He holds bachelor degrees in science (chemistry) and commerce (accounting).

David Wilson (pictured right) is the director of metals research and strategy in the Citi

investment research and analysis (CIRA) commodities team.

Wilson is responsible for short-term and long-term base metals forecasting and analysis. He joined Citi in 2011 with 17 years of experience as an economist/analyst, largely covering metals and energy markets.

Previously, Wilson worked for Société Générale as director of metals research (2008–2011) and for Norilsk Nickel (2005–2008) as senior economist.

Prior to that, Wilson held various positions including senior consultant at CRU International, covering aluminium and energy. Wilson holds a BA in economics and an MA in economics & policy analysis, both from the University of Nottingham.