



# The last man standing

*“You won’t believe your eyes”*

*“Your eyes will not believe your ears...”*

- Bon Jovi

Commodity prices are driven by current supply and demand, in contrast to financial assets (shares and bonds) which anticipate and discount future cash flows into a present value.

In the current economic environment of anaemic demand it seemingly takes nothing less than a supply shock to lift prices. A recent example of this is Indonesia’s banning last week of the export of nickel ore in order to encourage local beneficiation rather than exporting the low margin, high volume nickel ore.

## Nickel price (2016 – 2019)

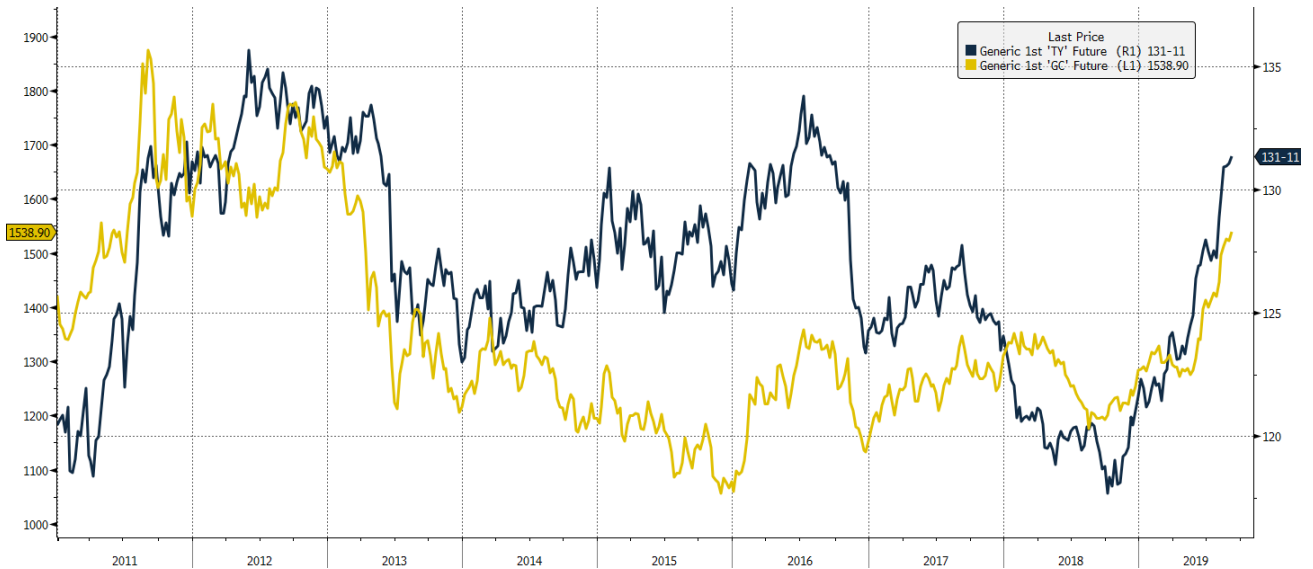


Source: Bloomberg

Nickel price has risen by 55% in the last 3 months.

Recently, commodities (except gold, which has been priced off the US bond rates – see chart below) have been telling us what every fund manager knows - which is whether there is rising or falling demand for their products and services - technology and scale will keep driving fund management margins lower. Unfortunately, regulatory costs keep rising to meet the falling incomes!

## Gold price (yellow line) vs 10yr US Treasury note futures price (blue line) - (2011 – 2019)



Source: Bloomberg

However, fund management, like all financial services, has been and continues to be disrupted by information technology driving down costs – and management fees – and insisting on participants increasing the scale of their operations.

This applies to both operational issues and also to investment ‘decision making.’ Operations require automation and STP (straight through processing). The economics of fund management businesses require a systematised investment approach that can be applied across a broader investment universe, with greater discipline and with fewer and lower salaries for the ‘rock star’ fund managers and analysts of yesteryear.

Bon Jovi’s “Last Man Standing” lyrics may well have been written for the active discretionary managers’ salary:

“I don't know where it's going”  
 “We all know where it's been ...”



**Andy Pfaff**  
 Head of Commodities

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