

VanEck: 2017 Expected To Be A Solid Growth Year For The Natural Resources Sector

- Restructuring and growth strategies will dominate the natural resources equities sector in 2017
- Significant tailwinds for the sector due to declining costs of equipment and technological advances

After a weak start to 2016, there are signs that energy and mining stocks are in the early stages of a cyclical rebound. “In the past, these cycles have generally lasted upwards of five years with, in some cases, commodities equity values doubling within the first three years,” explains Uwe Eberle, Head of International Business Development and Distribution at VanEck. “The harsher the market downturn, the higher and longer the upside, especially for investors prepared to weather periods of volatility.”

In 2017, VanEck believes, the natural resources equities sector will focus on executing restructuring imperatives and transitioning to profitable growth strategies. Companies will continue to cut costs, improve operational productivity and efficiencies, and strengthen balance sheets. Additionally, VanEck expects companies to outline sustainable, disciplined growth plans vital to creating long-term shareholder value. In the oil and gas sector, for example, companies are more likely to invest in U.S. unconventional shale plays and shallow water developments, rather than frontier, deep water exploration. For the mining sector, the priority will be achieving balance of supply and demand, rather than embarking on new projects.

Companies’ efforts to reduce costs should be supported by declining costs of equipment and technological advances. The all-in sustaining costs for gold, for example, have fallen from around USD 1,200 in 2012 to just over USD 900 today and could further drop to under USD 700. For oil and gas companies, reduced costs resulted from implementing innovations in drilling and well design and lower prices further down in the supply chain. The challenge will be to ensure that this low cost environment is not the exception, but the norm.

“We expect 2017 to be another solid growth year for the natural resources sector, and one in which we should see the profitability of gold, mining, and oil and gas companies rise as operational changes are implemented and the commodities price cycle becomes more favourable,” Mr. Eberle concluded.

Contact

Bettina Hessler, VanEck
+49 (0)69 4056 695 22
bettina.hessler@vaneck.com



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