

UNCERTAINTIES IN THE RESOURCES SECTOR BOARDROOM: IS THE MINERALS BOOM OVER?

Allan Trench

**Department of Mineral & Energy Economics
Curtin Graduate School of Business**

**Regional Advisor
CRU Strategies**



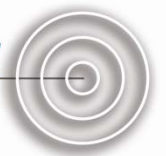
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allan.trench@curtin.edu.au
allan.trench@crugroup.com

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Current Boardroom Debate

Exploration & Mining Companies

- Understanding the economic turmoil?
- The commodity boom over?
- “Markets are weak, our shares are too...so”?
- Metal price volatility – An opportunity?
- “We’re in crisis mode already”....

Underlined issues (covered in presentation) Other issues for discussion

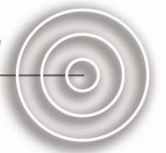


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Current Boardroom Debate



**Default response has been to
curtail investment**

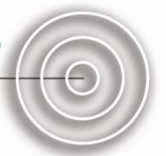


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Understanding the Economic Turmoil

- **Eurozone:** Two scenarios, bad and terrible
- **USA:** Fiscal cliff likely to be avoided (in part), then back to debt dialogue (again) ...
- **China:** doing OK; will do what's right for China economically...

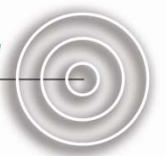


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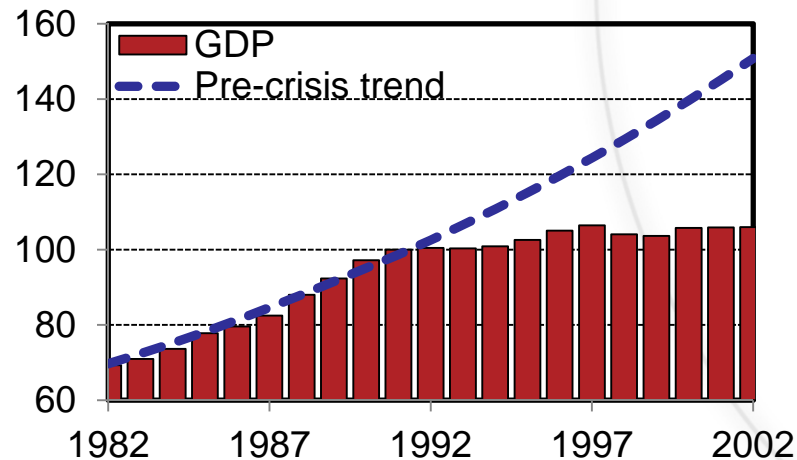
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China's slowdown – actually good news!

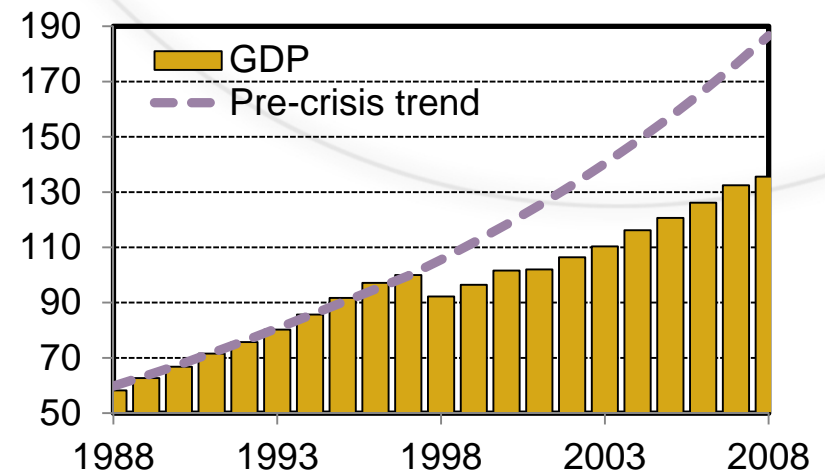
Japan's crisis, 1991=100



- Rebalancing means 7-8%pa GDP growth becomes the new norm

- China is aiming to diversify economic growth to maintain the up-trend – and avoid long-term stagnation or hard-landing.
- Learning the lessons of the past

Developing Asia's crisis,

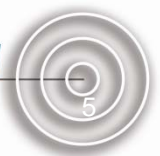


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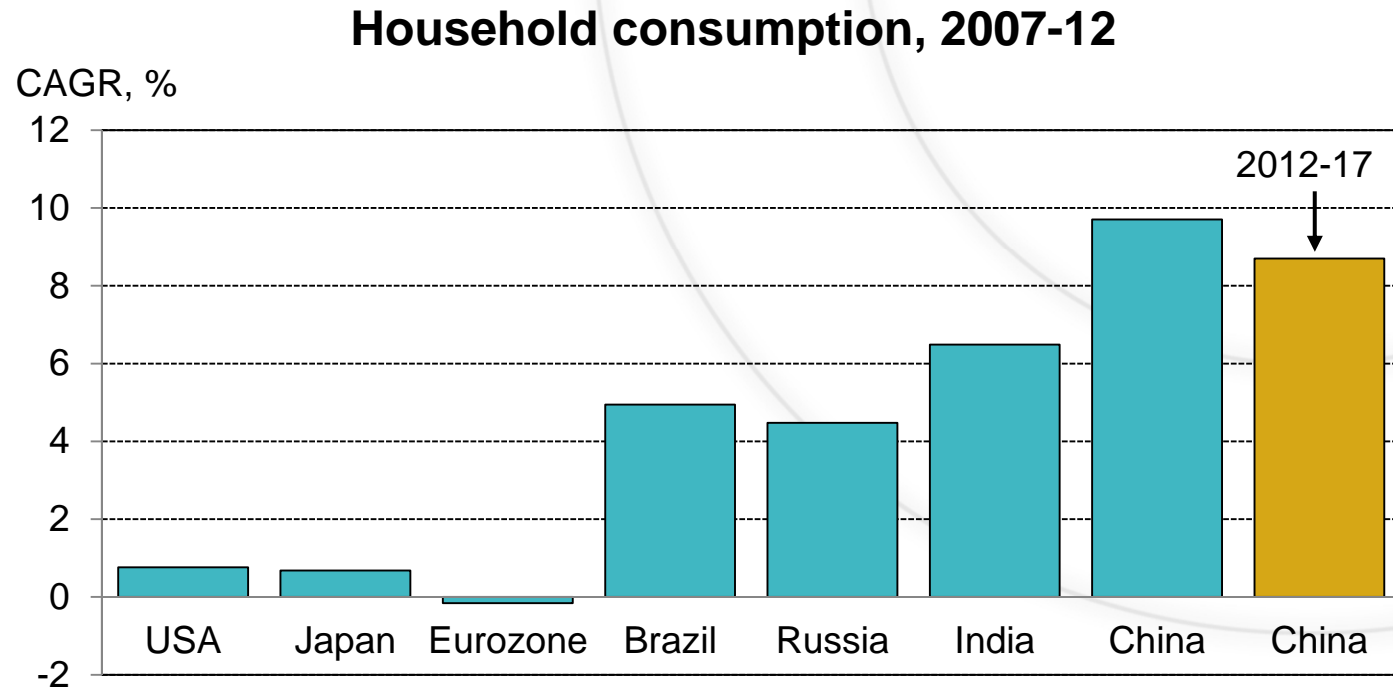
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The Chinese consumer is often overlooked

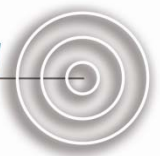


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Data: OE, CRU
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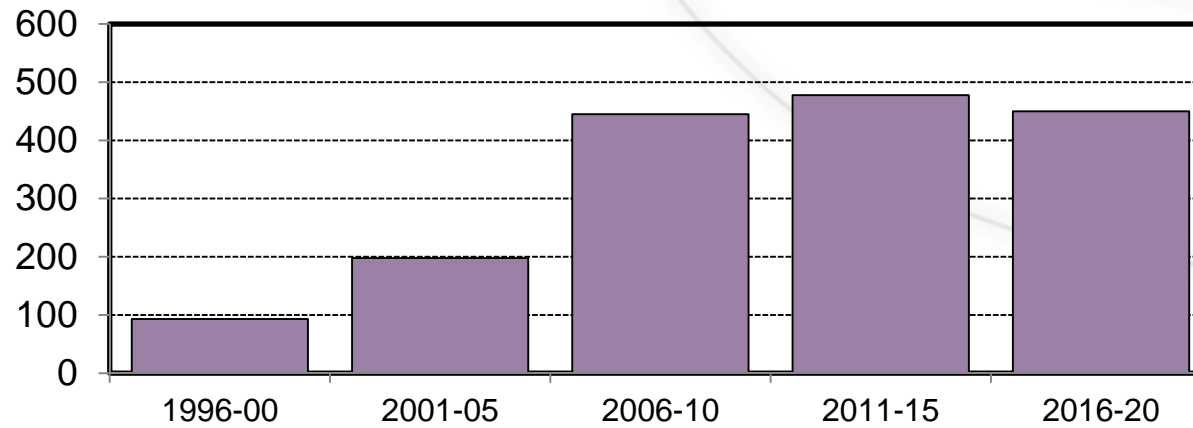


Infrastructure Investment will rebalance

- Residential and infrastructure investment volumes will be substantial, but growth rates limited
- Upward cost pressures and diminishing labour availability will drive investment in automation

China Infrastructure investment plateau...

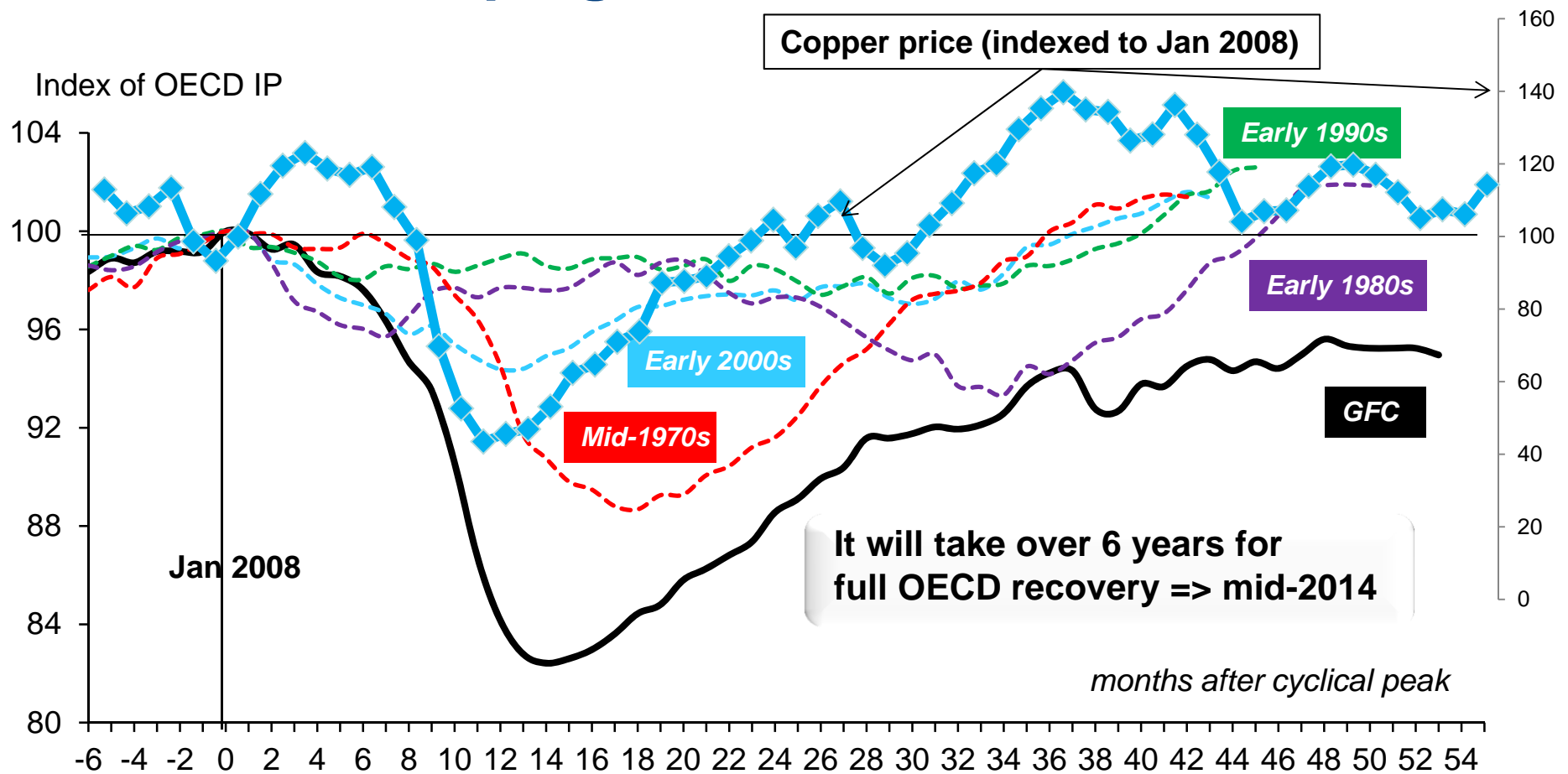
Net additions to power generating capacity, GW



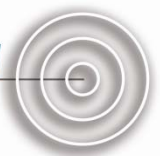
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The OECD is limping out of the GFC....

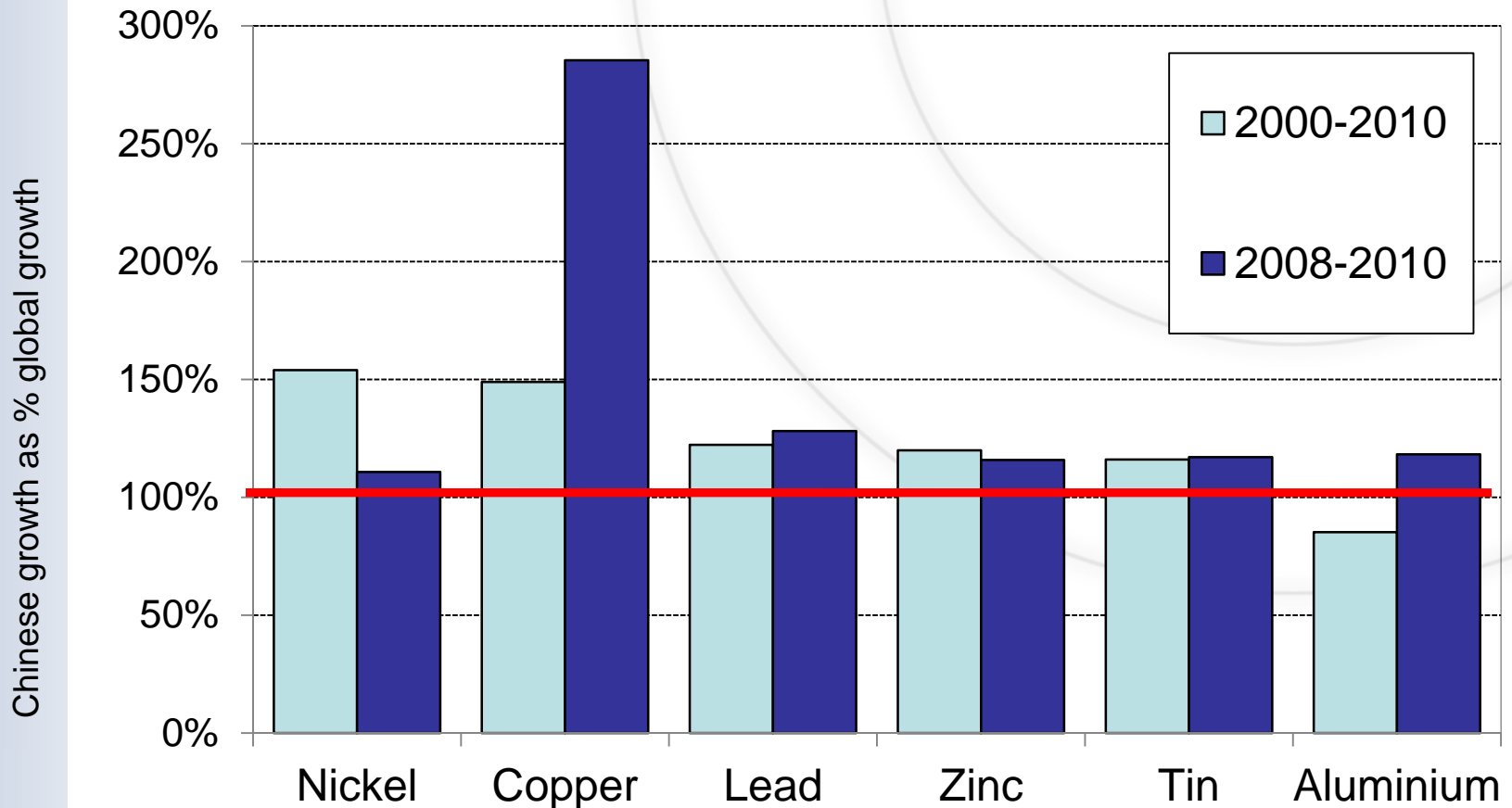


.....Metals Prices are reflecting China



Chinese Metal Consumption is Key

Chinese metal consumption growth as a proportion of all metal growth in 21st Century



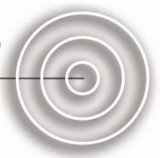
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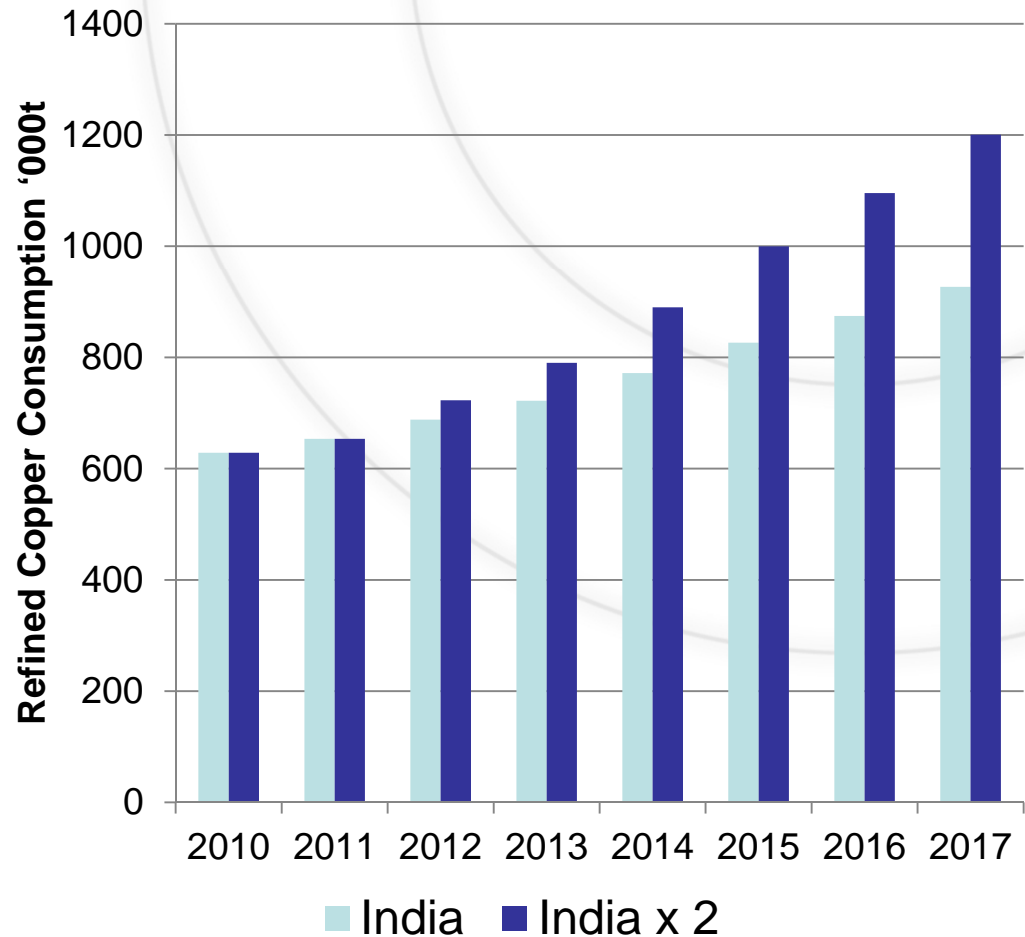
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Indian Metals Consumption also on the Rise



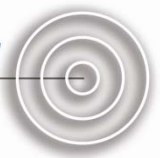
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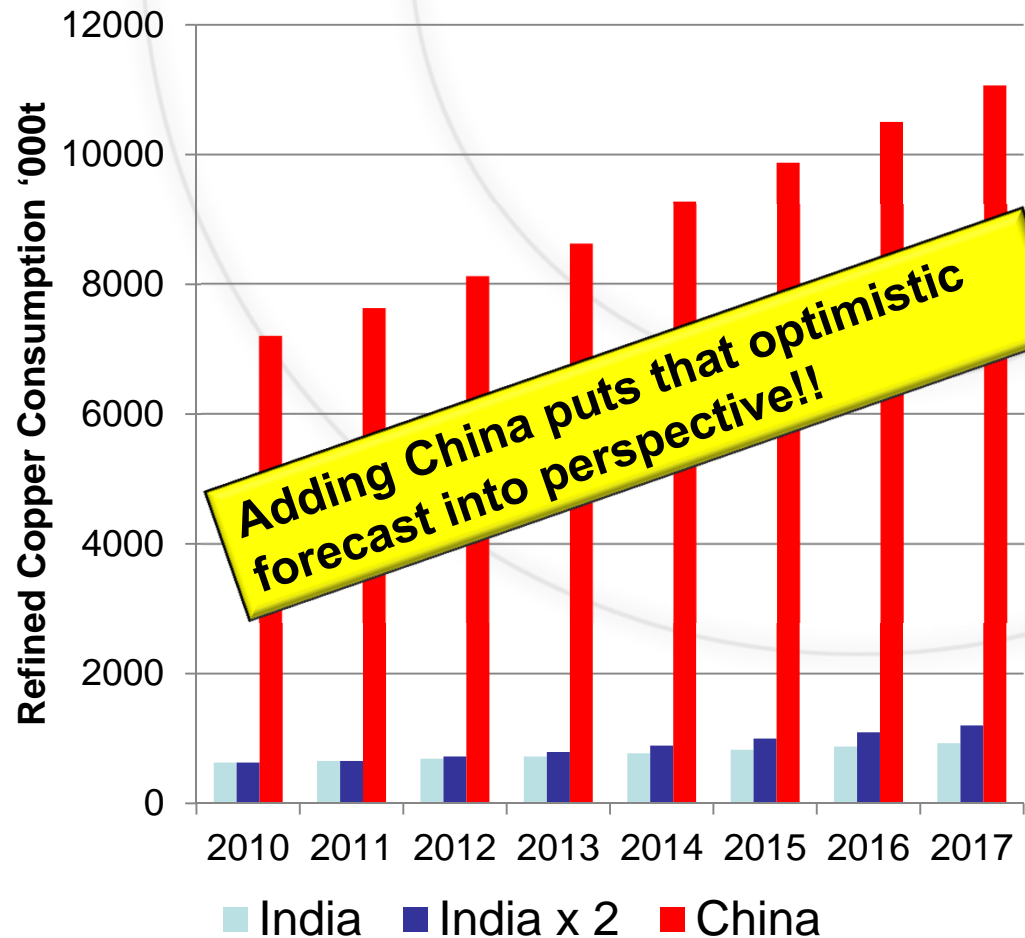
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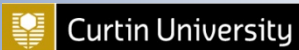
But India is no replacement for China



Adding China puts that optimistic forecast into perspective!!

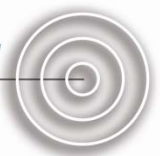


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Source: CRU Group

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So Is Economic Uncertainty 'Certain'?

- Europe:
 - Will remain a threat to global recovery
 - A new Japan?
- USA:
 - Uncertainty to be resolved
 - Do not expect a rapid rebound
- China:
 - The new norm is 7-8% growth
 - Rebalancing implies *important changes* in the mix of metals demanded

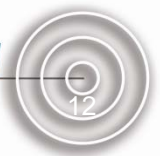


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Investors and Commodities: Is the Boom Over?

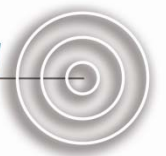


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Do people believe the commodity boom is over?

Whether they are right or wrong there has been an impact on sentiment



- “Commodities: Supercycle jitters slow projects”
(Jack Farchy, FT Oct-12)
- “The global boom in commodity prices is over”
(Martin Ferguson, Australian Resource Minister, Sep-12)
- “Mining boom over in two years”
(Deloitte Access Economics Jul-12)
- “Sun to set on commodities super-cycle”
(Morgan Stanley May-12)
- “Commodity ‘Super Cycle’ may be coming to end”
(Citigroup Apr-12)

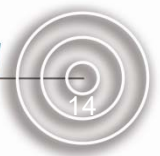


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This question cannot (or should not) be answered with a single statement

The industry needs to be segmented to answer this question

Low cost
miners &
developers

High cost
miners &
developers

Mineral
extraction
support
services

Smelters,
refineries &
steel mills

Metals Semis
industry

Resource
Sector
Investors



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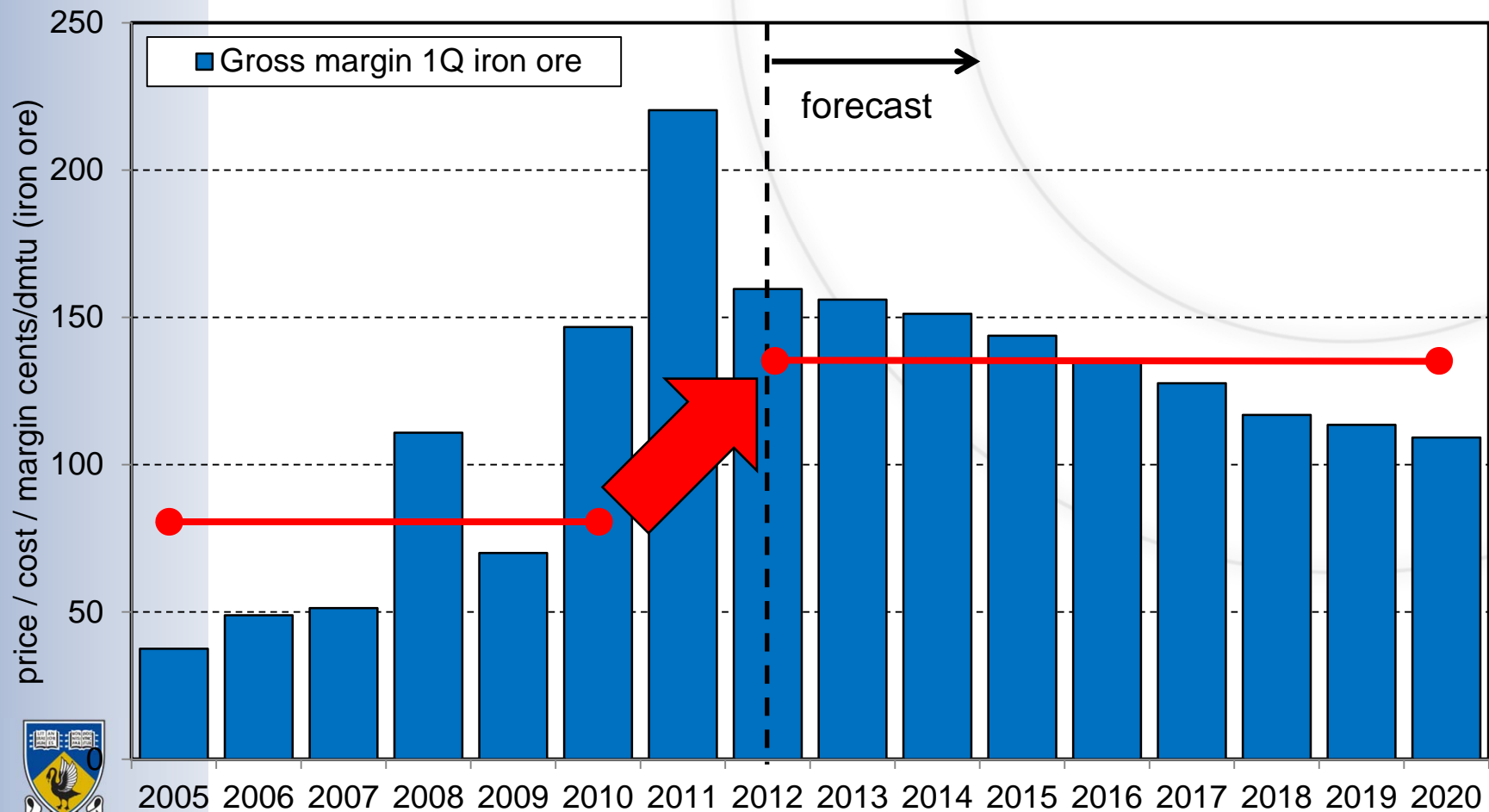
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The commodity boom is not over for low cost miners

1st Quartile mining margins to remain above historical norms

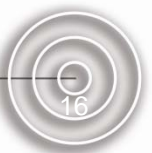


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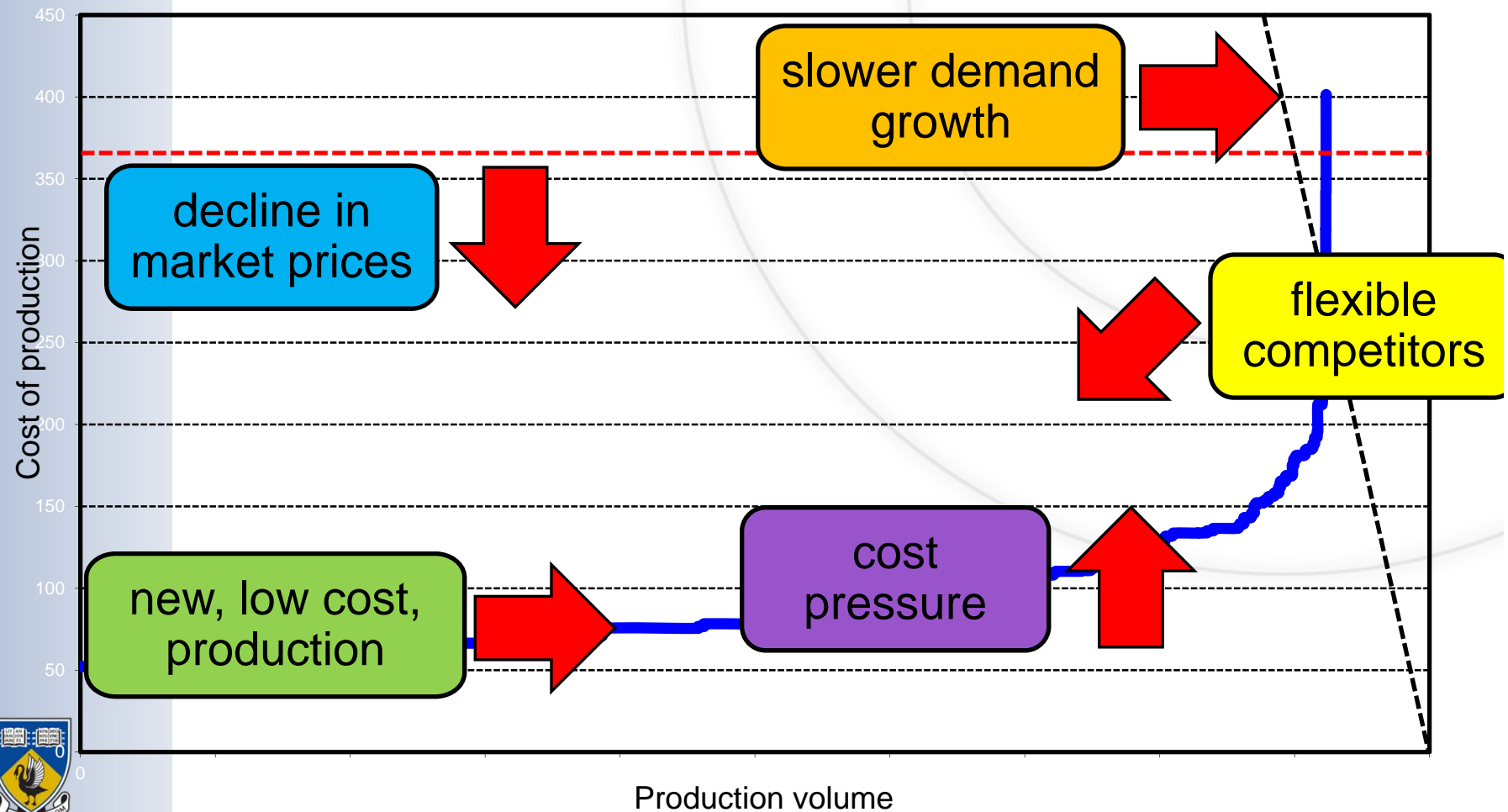
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The commodity boom is probably over for high cost miners

Some assets in this category will close due to a multitude of threats



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Data: CRU



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Source: CRU Group

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Innovative support services will continue to flourish

Resulting in investment, increased competition and innovation

Global mining truck tyre shortage

Capacity
investment

Increased
competition

Industry
innovation

EURTIRE
Dedicated to Mining

 **MARCHER**


TyreSense

BRIDGESTONE

TECHKING

TMS
TIRE MONITOR SYSTEM

 **MICHELIN**

 Hengda Tyres

CATERPILLAR[®]


GOODYEAR

 **YOKOHAMA**

 **RUD**[®]

VEEKMAS OY
MOTOR GRADERS

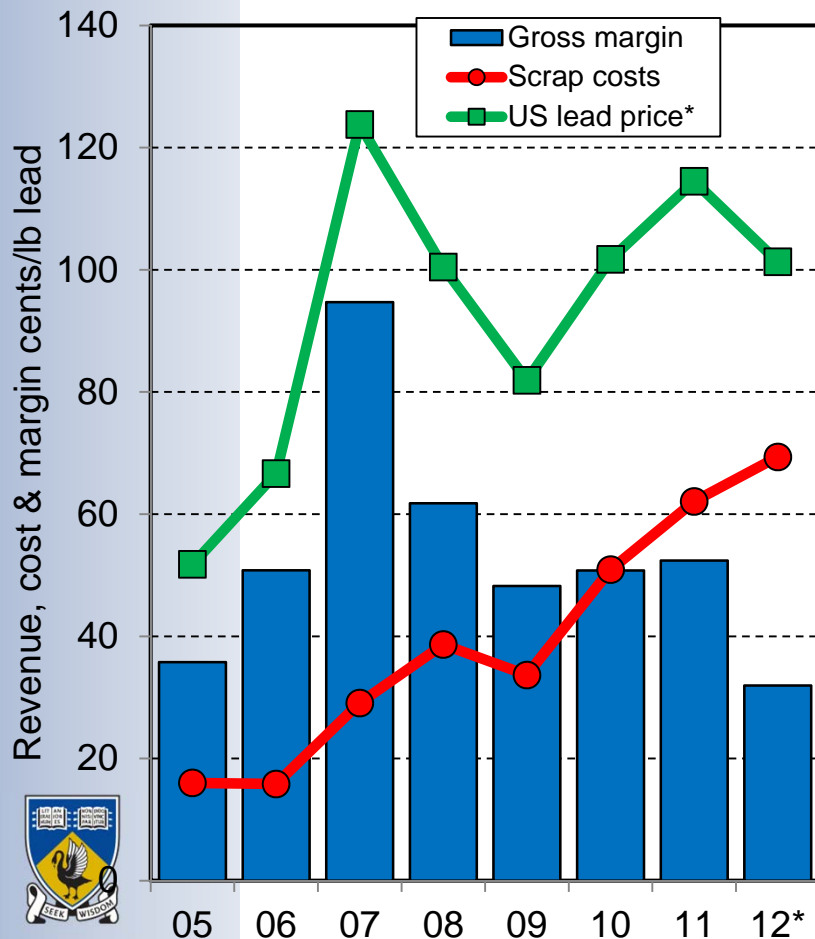
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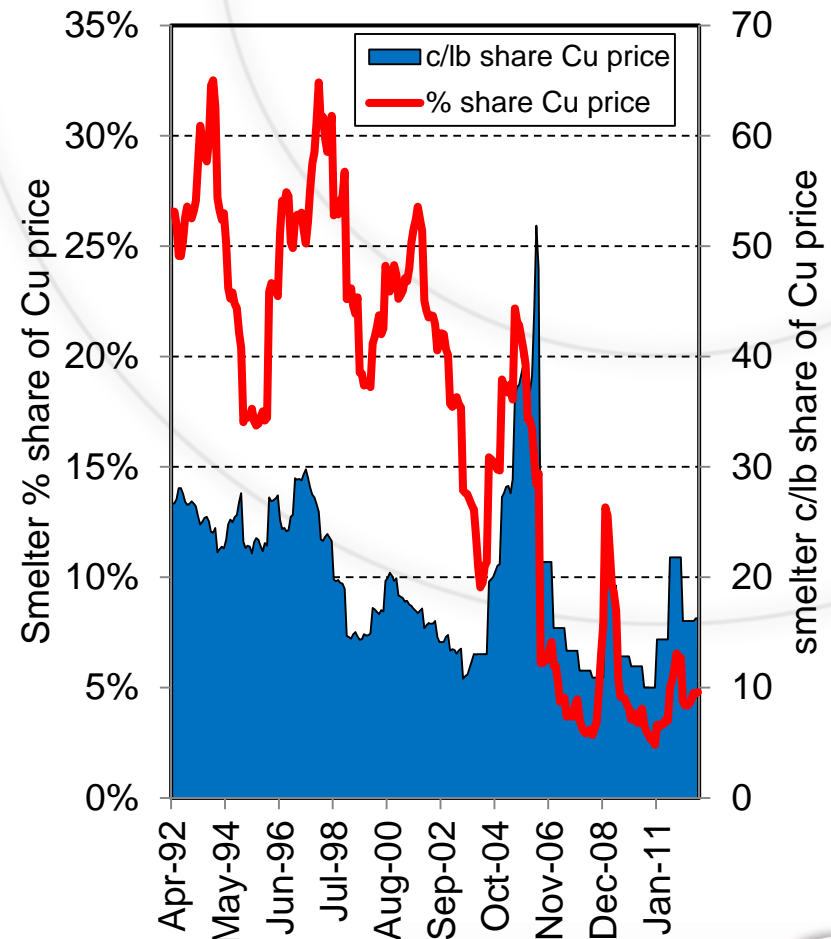
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There never was a boom for smelters, refiners and mills

US secondary lead smelter margin



Smelter share of Cu price

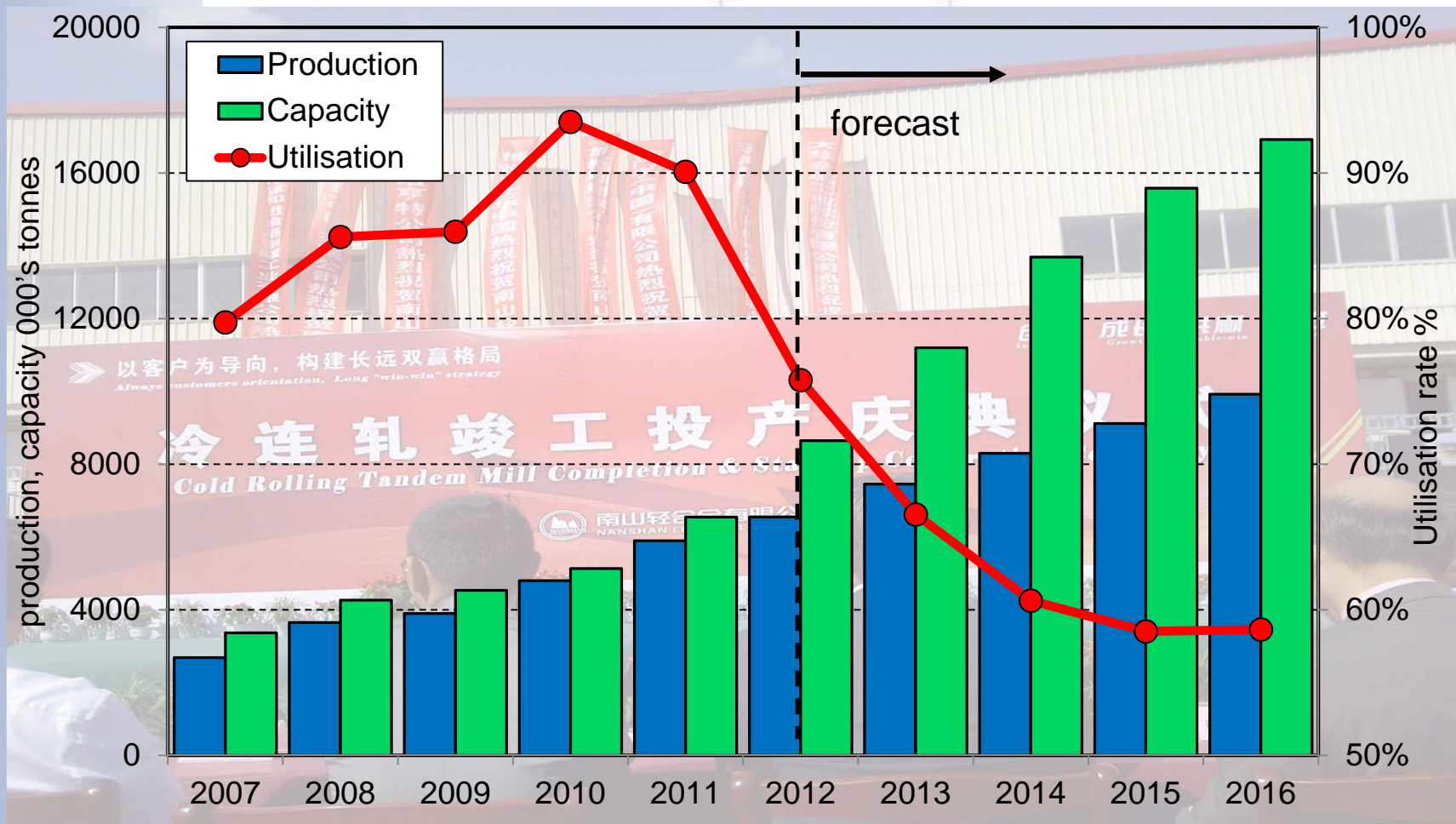


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Note: Copper Smelter share of monthly LME cash price according to annual contract TCRCs

Some, in the semis industry, think the boom will continue

Chinese aluminium rolling mill production, capacity & utilisation forecast



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Data: CRU Note:
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Source: CRU Group

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The commodity boom over?...

Low cost
miners &
developers

...is not over for low cost miners

High cost
miners &
developers

...is probably over for high cost miners

Mineral
extraction
support
services

...will continue for innovators in this sector

Smelters,
refineries &
steel mills

...never happened for smelters, refineries, etc

Semis
industry

...will continue for some in the semis industry

Resource
Sector
Investors?



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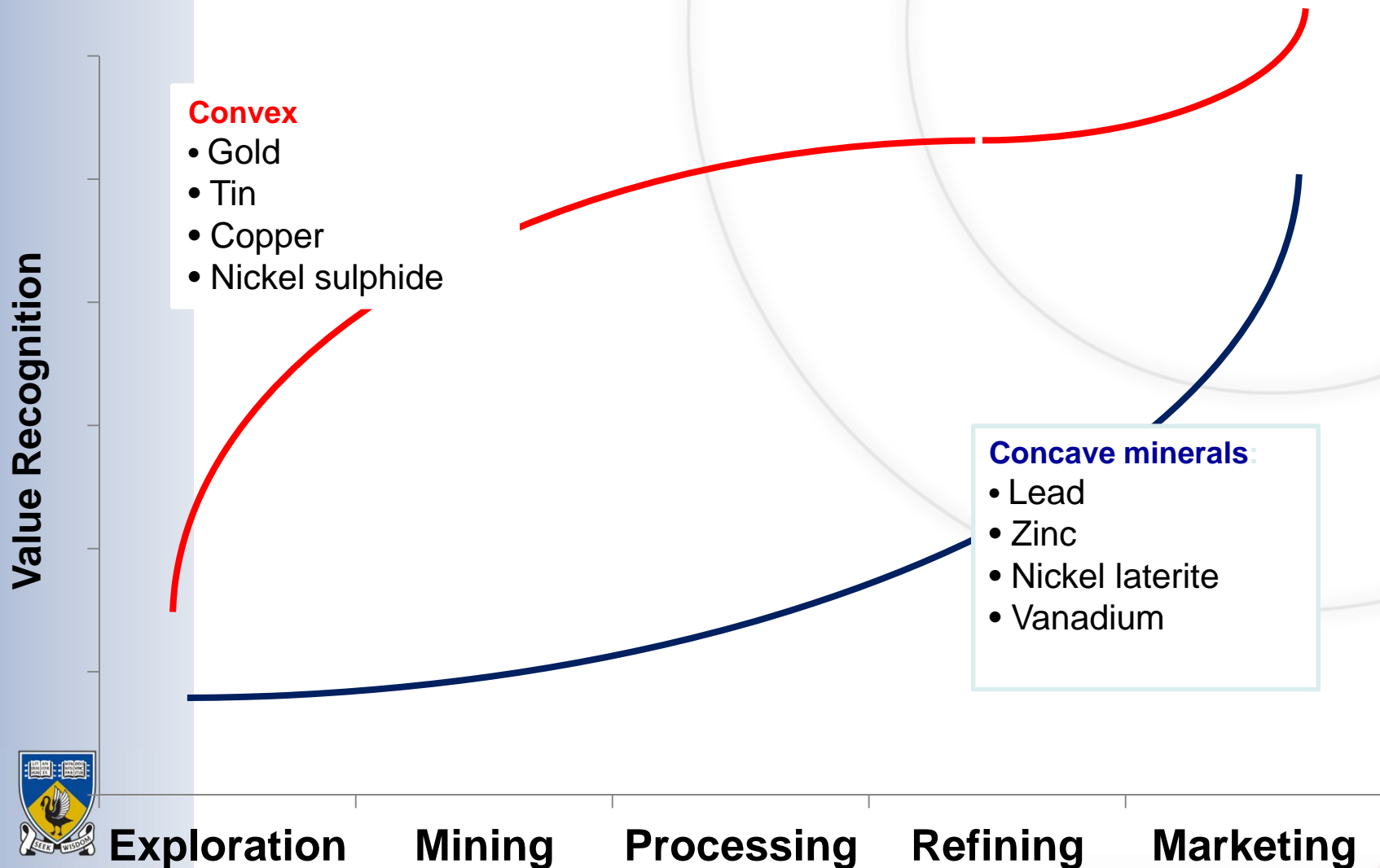


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Mineral Discovery is Key for Investors



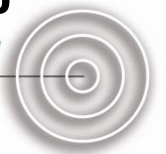
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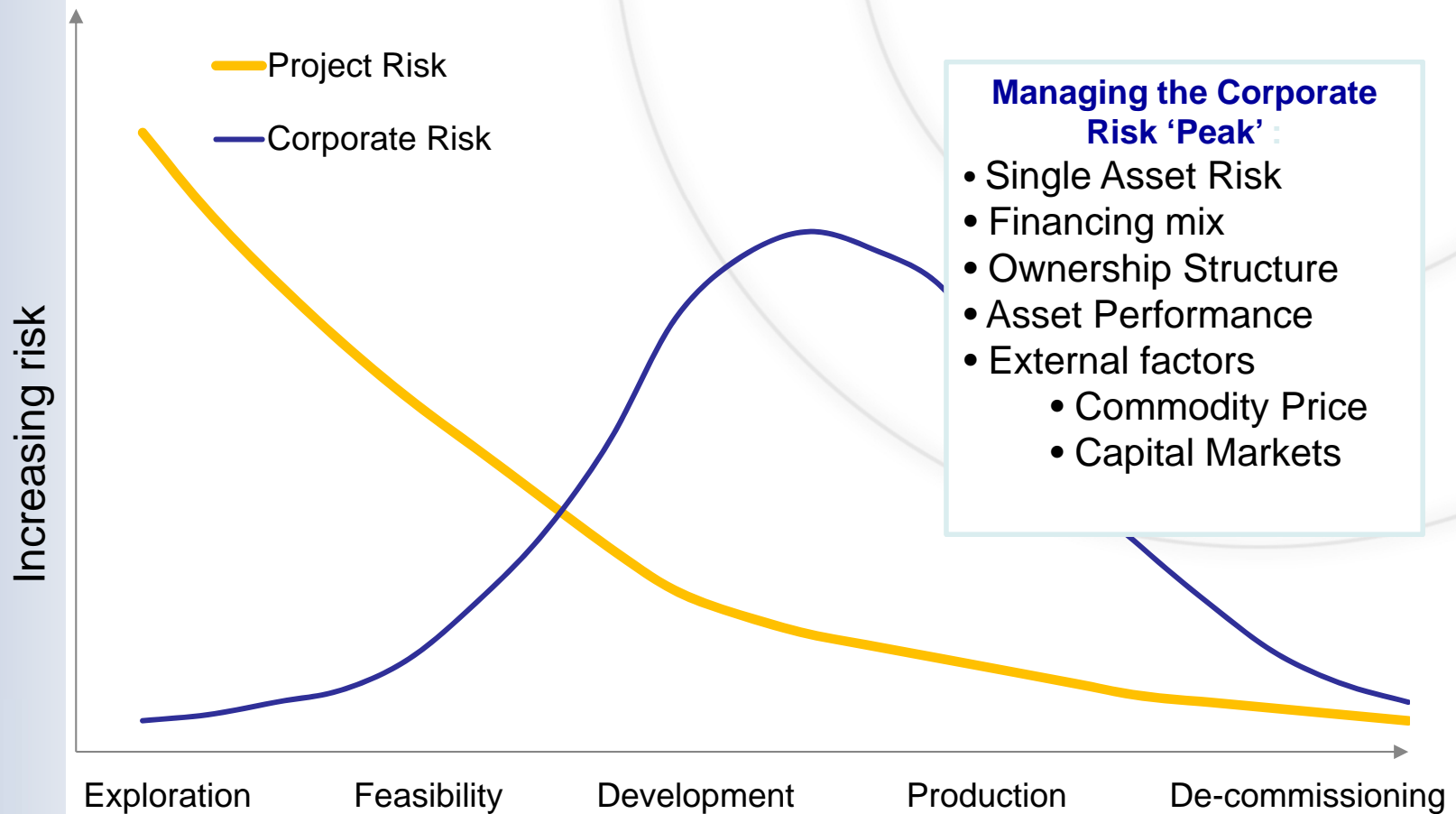
Source: A. Trench, 2011; J Sykes 2011 Trench & Packey 2012

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....and understanding sector risk types

- Project/Technical risk versus Corporate Risk in the Minerals Sector
 - Important to understand the difference between the two:



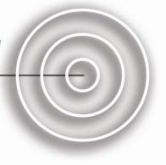
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Source: Trench & Packey 2012

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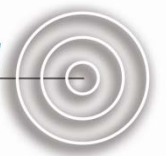


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..but wait there are more boardroom challenges too of course.....

