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

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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
Current Boardroom Debate

Default response has been to curtail investment
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...
China’s slowdown – actually good news!

- 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

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

Source: CRU Group
The Chinese consumer is often overlooked

Household consumption, 2007-12

CAGR, %

USA, Japan, Eurozone, Brazil, Russia, India, China, China

Source: CRU Group
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

Source: CRU Group
The OECD is limping out of the GFC...

It will take over 6 years for full OECD recovery => mid-2014

Copper price (indexed to Jan 2008)

Early 1990s
Early 1980s
Early 2000s
Mid-1970s

GFC

Index of OECD IP

Jan 2008

months after cyclical peak

Curtin University
Source: CRU Group
Chinese Metal Consumption is Key

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

Source: CRU Group
Indian Metals Consumption also on the Rise

Source: CRU Group
But India is no replacement for China

Source: CRU Group
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
Investors and Commodities:
Is the Boom Over?
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)
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
The commodity boom is **not** over for low cost miners

1st Quartile mining margins to remain above historical norms

Source: CRU Group
The commodity boom is probably over for high cost miners
Some assets in this category will close due to a multitude of threats

Source: CRU Group
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

Brands: EURISTIRE, MARCHER, TMS, BRIDGESTONE, TECHKING, MICHELIN, Hengda Tyres, CATERPILLAR, RUD, GOODYEAR, YOKOHAMA, VEEKMAS OY
There never was a boom for smelters, refiners and mills

US secondary lead smelter margin

Smelter share of Cu price

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

Source: CRU Group
Some, in the semis industry, think the boom will continue
Chinese aluminium rolling mill production, capacity & utilisation forecast

Source: CRU Group
The commodity boom over?...

...is not over for low cost miners

...is probably over for high cost miners

...will continue for innovators in this sector

...never happened for smelters, refineries, etc

...will continue for some in the semis industry
Exploration Mining Processing Refining Marketing

Value Recognition

Convex minerals:
- Gold
- Tin
- Copper
- Nickel sulphide

Concave minerals:
- Lead
- Zinc
- Nickel laterite
- Vanadium


Mineral Discovery is Key for Investors
….and understanding sector risk types

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

Managing the Corporate Risk ‘Peak’:
- Single Asset Risk
- Financing mix
- Ownership Structure
- Asset Performance
- External factors
  - Commodity Price
  - Capital Markets

Source: Trench & Packey 2012
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..but wait there are more boardroom challenges too of course……

Ore Grades

Resource Nationalism

Environmental Concerns

Infrastructure

Scrap

Labour Availability & Cost

Energy & Consumables Costs

Governance and Compliance