



An Australian Government Initiative



Regional Development Australia

PILBARA

# Pilbara June 2022 Bi-Monthly Economic Report



## HIGHLIGHTS



### HIGHLIGHTS



### COVID UPDATES



### COST OF LIVING IN THE PILBARA



### COMMODITIES DATA



### OTHER PILBARA NEWS (INVESTMENT LEGISLATION, GOVERNANCE)

#### Interest rates

At its 7 June Board meeting, the Reserve Bank of Australia (RBA), lifted the official cash rate for the second time in more than 11 years, increasing the official cash rate by 50 basis points to 0.85% stating that "inflation in Australia had increased significantly. While inflation is lower than in most other advanced economies, it is higher than earlier expected. Global factors, including COVID-related disruptions to supply chains and the war in the Ukraine, account for much of this increase in inflation. But domestic factors are playing a role too, with capacity constraints in some sectors and the tight labour market contributing to the upward pressure on prices. The floods earlier this year have also affected some prices".

The RBA predicted that inflation would increase further however then decline back towards the 2-3% range in 2023. It advised that it would be "paying close attention to the global outlook, which remains clouded by the war in Ukraine and its effect on the prices for energy and agricultural commodities. Real household incomes are under pressure in many economies and financial conditions are tightening, as central banks withdraw monetary policy support in response to broad-based inflation. There is also ongoing uncertainties related to COVID, especially in China".

Whilst the RBA is expected to again increase interest rates at its July Board Meeting, the RBA governor advised at a UBS panel discussion in Switzerland in late June that the RBA was not intending to impose any 0.75% rise increases and in July would consider 'graduated steps' meaning an increase of 0.25% or 0.5% percentage points. (Cont' P12)

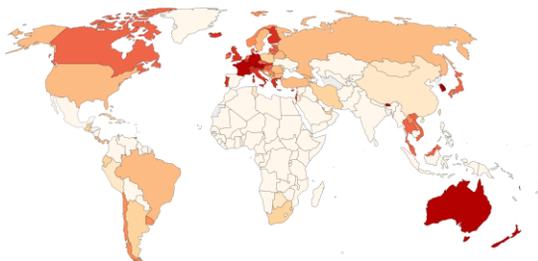
#### BP Investment in Asian Renewable Energy Hub

On 15 June BP announced it had agreed to acquire a 40.5% equity stake in and to become the operator of the Asian Renewable Energy Hub project based in the Pilbara (AREH). This AREH has the potential to support the development of up to 26GW of combined solar and wind power generating capacity. (Cont' P12)

#### WA AAA Credit Rating

On 27 June S&P Global upgraded Western Australia's credit rating from AA+ to AAA (the first time in 9 years).

Daily new confirmed COVID-19 cases per million people, Apr 15, 2022  
7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.



No data 0 10 20 50 100 200 500 1,000 2,000 5,000

Source: Johns Hopkins University CSSE COVID-19 Data

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## COVID UPDATES

### WA & Pilbara

The continued vaccine roll out and easing of restrictions have been met with falling new Covid-19 cases. Free RAT tests are available at pop-up locations across WA to meet the demand of self-testing.

The Pilbara is still considered an area prone to Covid-19 outbreaks due to the transient nature of the population with experts suggesting more prudent monitoring of FIFO workers (University of Western Australia) to address this issue.

- WA Dept of Health reported a total of 4,394 new cases across WA as of 25 June to bring the total number of active cases to 28,412. Of those, there are 242 people in hospital and 8 in the ICU.
- 5 new deaths were reported on June 25<sup>th</sup> dating back to the 24<sup>th</sup> of May bringing the total to 40. (WA Department of Health).
- The Pilbara currently has 419 active cases (as of 25 June).
- Pilbara vaccination rate remains the lowest in the nation with 63.7% of over 16s with one vaccination dose as of 26<sup>th</sup> of June 2022 (Department of Health, WA).
- WA has reported 880,808 cases since the COVID pandemic began (as of 25 June).

### The World

Globally, the numbers of weekly COVID-19 cases and deaths has surpassed half a billion confirmed cases and 6.4 million deaths across 200 countries (World Health Organisation). Almost 12 billion vaccine doses have been administered.

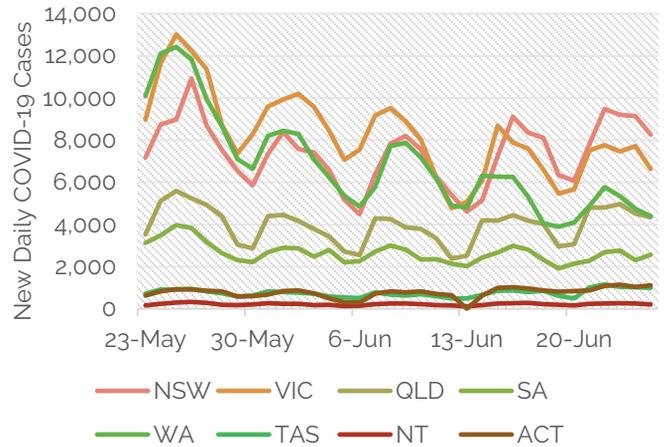
In the past 14 days from the 25<sup>th</sup> of June 2022, there has been a 15.7% decrease in new reported cases with a 28% decrease in deaths worldwide (NBC News). As of June 2022, the US, India and Brazil have seen the highest number of confirmed Covid-19 cases (BBC News).

### Australia

Australia's BA-55 Omicron Variant of Covid-19 and Flu cases are on the rise in the winter season.

National and International travel has been reinstated for Australia with no quarantine requirements for vaccinated travellers.

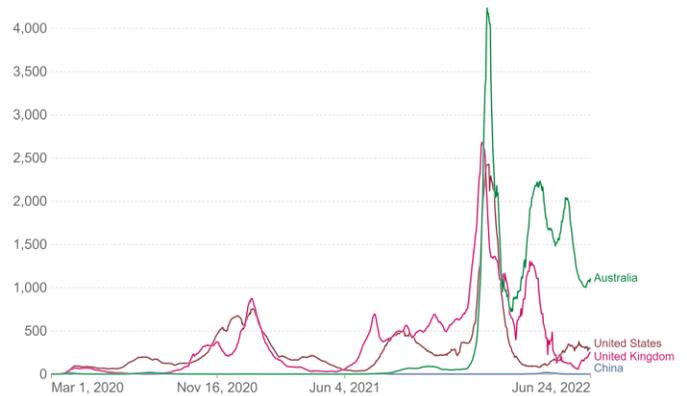
Daily COVID-19 Cases in the past 28 Days in Australia



Data from COVID-19 Data

### Daily new confirmed COVID-19 cases per million people

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.



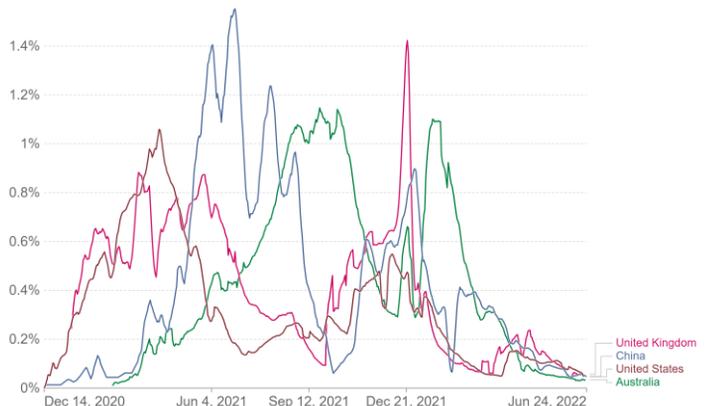
Source: Johns Hopkins University CSSE COVID-19 Data

Our World in Data

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### Daily share of the population receiving a COVID-19 vaccine dose

7-day rolling average. All doses, including boosters, are counted individually.



Source: Official data collated by Our World in Data

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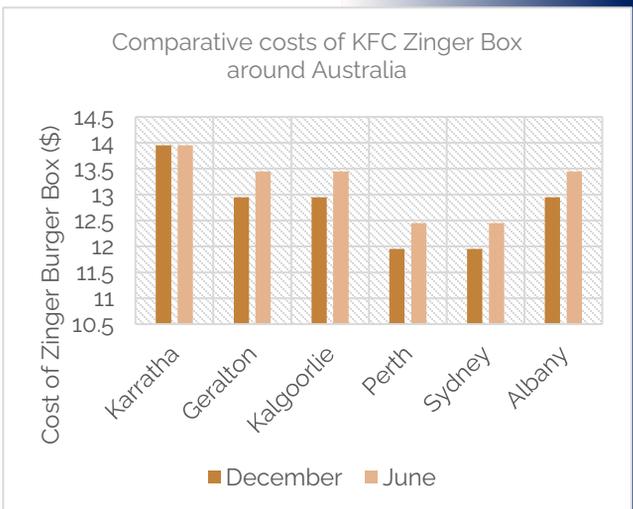
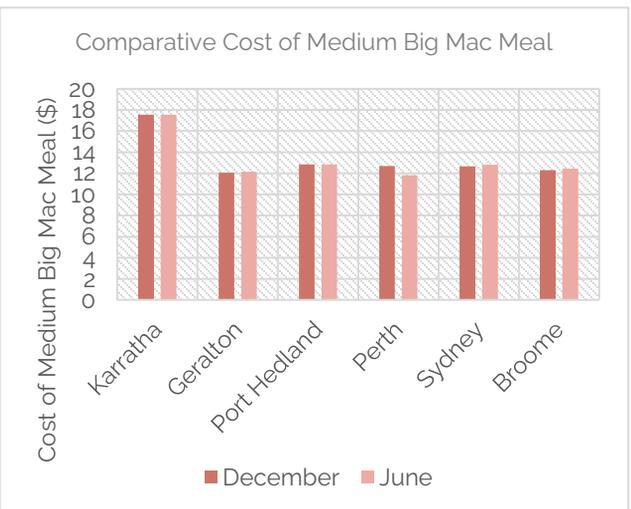
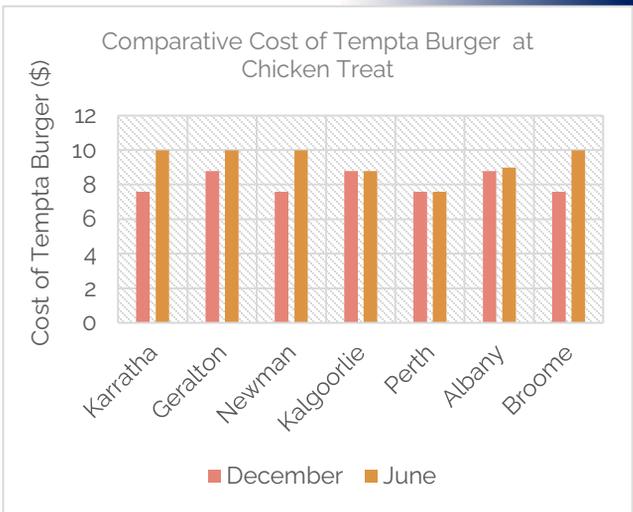
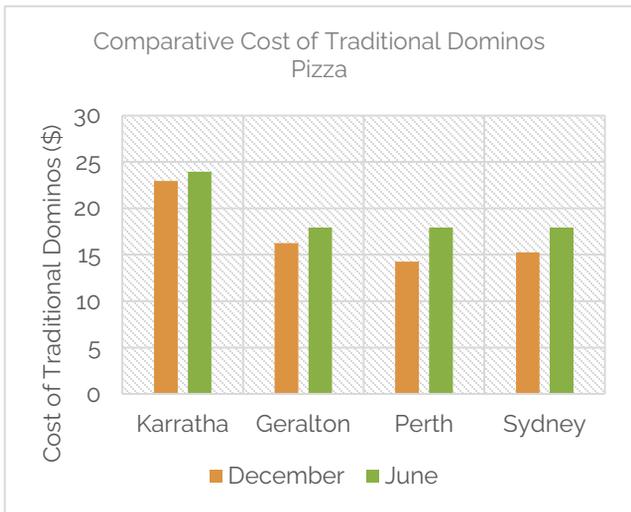
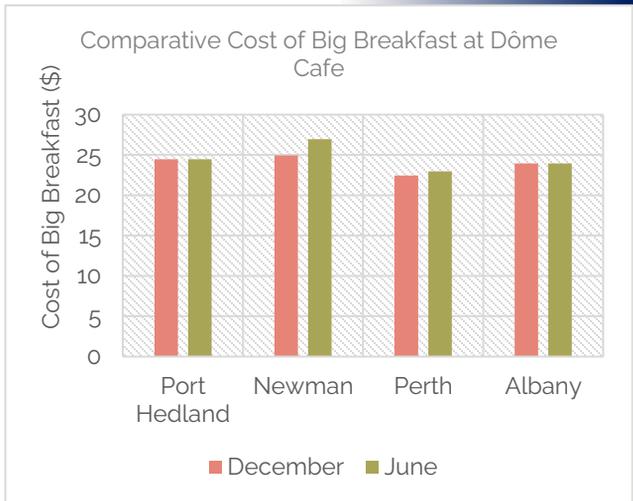
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## COST OF LIVING IN THE PILBARA CONT'

### Fast food price comparisons

Comparing the costs of popular meals from various fast food chain restaurants across Australia demonstrates the high cost of 'eating out' in the Pilbara. McDonalds, KFC and DOME prices are on average \$2 higher in the Pilbara while Domino's traditional pizzas are \$8 more expensive than Perth, Sydney and other major WA major towns.

Data collected in June 2022 shows a \$1-2 increase in prices for all Pilbara based 'major fast-food chains' from December 2021 (PUC RDA December Economic Report).

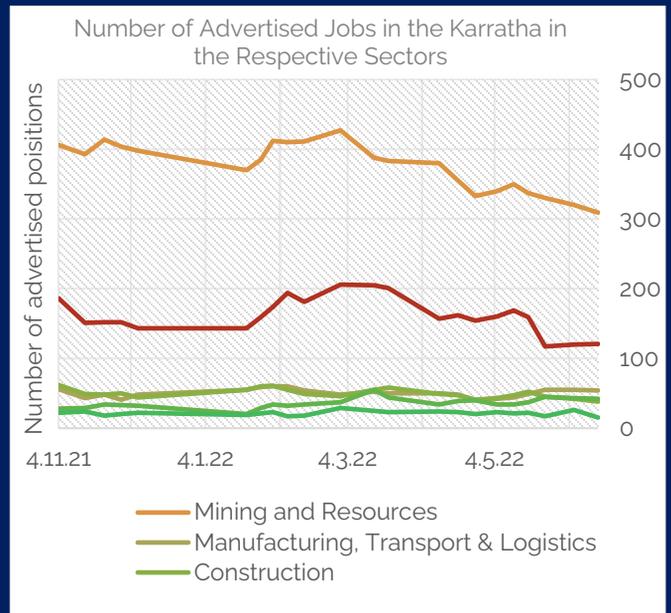
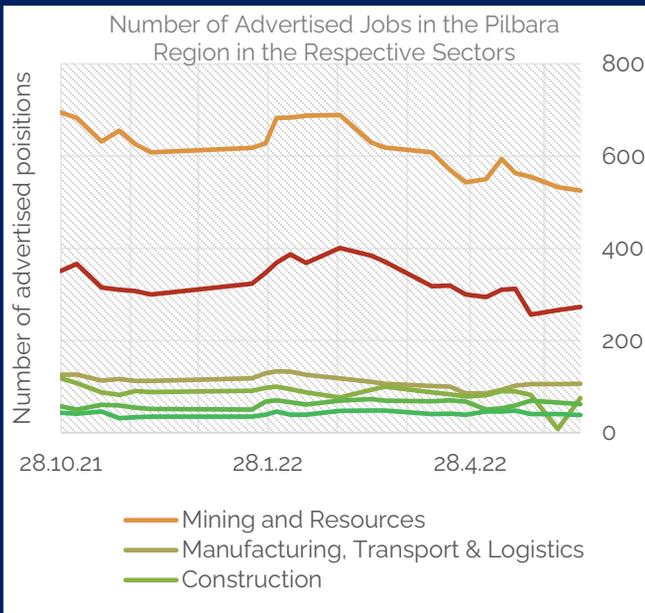


# COST OF LIVING IN THE PILBARA CONT'



## Employment Trends

The number of advertised jobs in both the Pilbara Region and Karratha have been decreasing since March. Mining and Resources as well as Trades and Services remain the largest sectors seeking new employees. Following the opening of the borders many Pilbara based businesses are increasing salary packages to attract new skilled workers into the region.

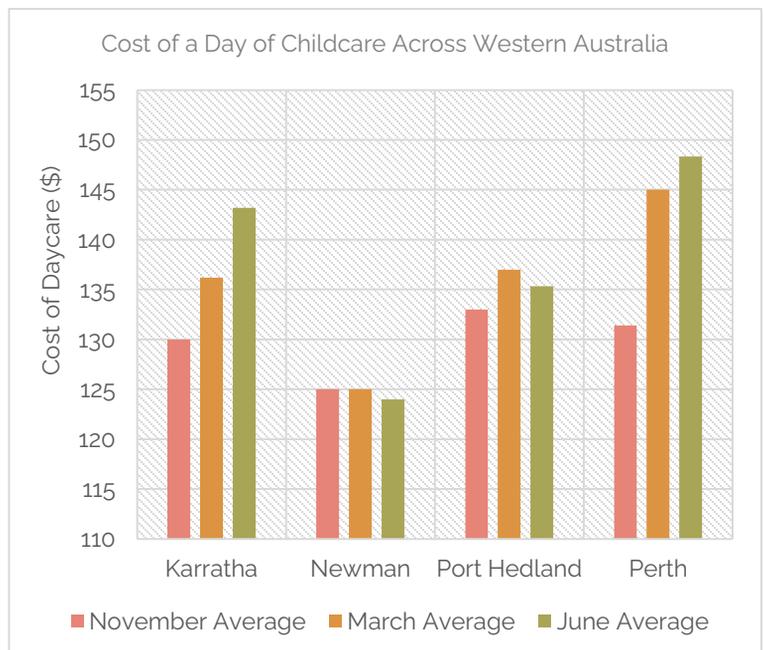


Data collected from Seek

## Childcare Costs

Childcare costs and availability are a key liveability indicator in the Pilbara region. Prices at Pilbara based day care centres for the start of the 2022/2023 new financial year have seen Karratha's day cares increase by \$10 however the average cost of one day at childcare in other Pilbara towns has decreased by several dollars following the steep price increases in early 2022. In contrast there are a variety of public, not for profit and private childcare options for Perth residents however the average costs of childcare exceeds that of the Pilbara.

The Pilbara childcare services shortage continues in 2022 with Port Hedland centres reporting up to a 4-year waitlist for their babies and toddler rooms. Many other Pilbara childcare centres have waitlists between 1 to 2 years for the baby rooms. Staff shortages, not infrastructure, is the key reason for lack of childcare services in the Pilbara. Currently childcare centres are unable to meet the demand for childcare services arising from new babies being born in and families moving to the Pilbara region.

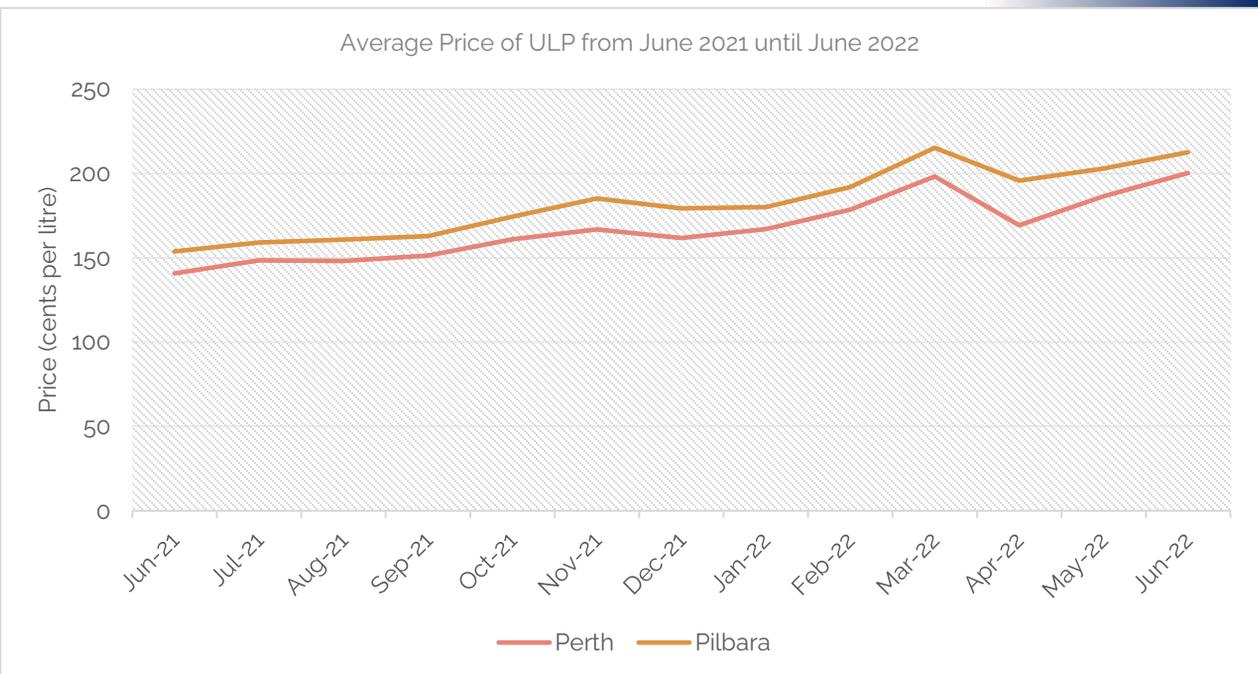
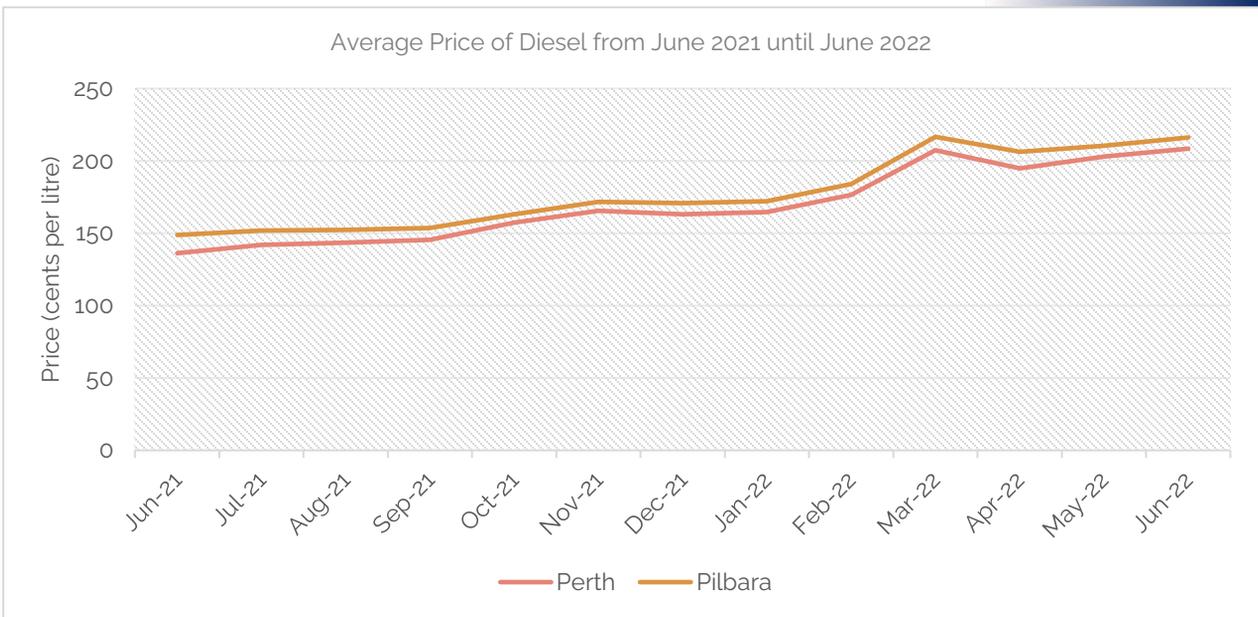


# COST OF LIVING IN THE PILBARA CONT'



## Fuel Prices in the Pilbara

Western Australia retail fuel prices have continued to increase over the past 12 months despite the Federal Government's fuel excise freeze that both curbed and reduced consumer petrol prices for a few weeks in March & April 2022. The wholesale cost of petrol jumped up nearly 20 cents in the end of May due to tight supply and supply chain disruptions caused by Russia's invasion of the Ukraine and the European Union. Whilst global oil prices have declined in recent weeks due to inflation and economic growth concerns, the Australian Dollar has also weakened therefore increasing the price of fuel in Australia due to oil being globally traded in US dollars.





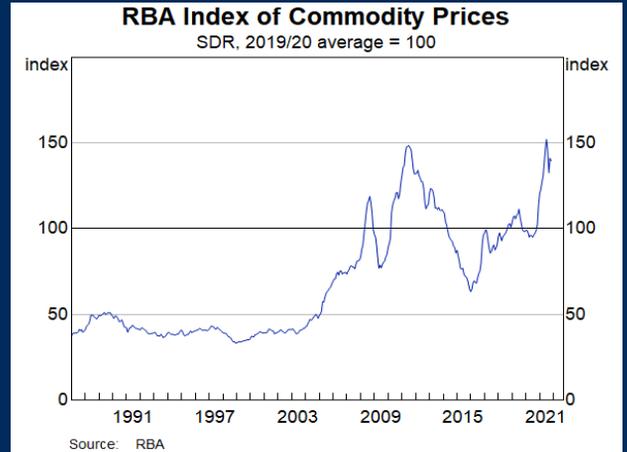
# COMMODITIES SUMMARY



### Summary

Many key Pilbara commodity prices have seen a decline in price over the past few months including oil, iron ore, copper, lithium and various agricultural commodities. Indeed, both the UBS industrial metals index and the RBA bulk commodity price index are currently down after peaking in March 2022.

Supply chain issues, the war in Ukraine and geopolitical tensions (China's fluctuating demand has contributed to 2022's volatility in oil prices), global recession concerns, rising inflation and quantitative tightening on many financial markets are all influencing market activity and contributing to current commodity price downturns.

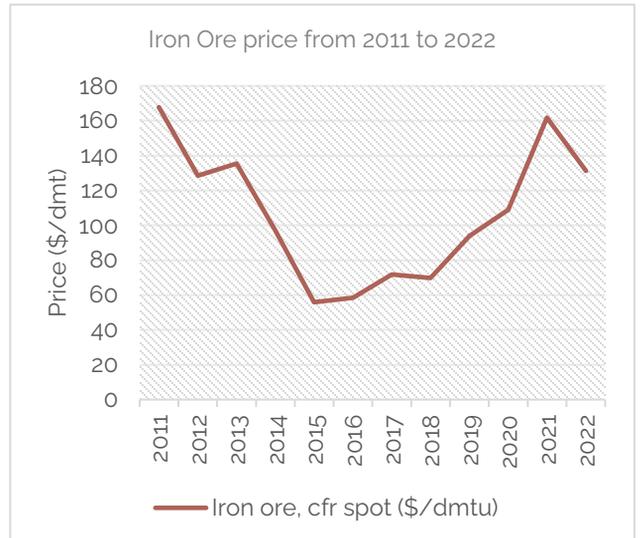
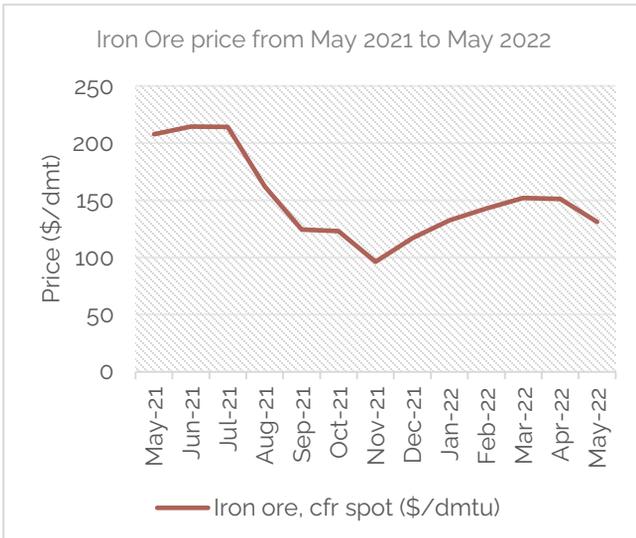


### Iron Ore

After a positive start to the year iron ore prices have declined over the past three months in response to global concerns about central banks raising interest rates to address rising inflation.

Nervousness surrounding rising energy costs has also raised concerns regarding the risk of a global recession that would ultimately curb demand and dampen global economic growth.

On 26 April 2022, China's largest steelmaking province, Hebei, locked down an area near an important commodities port as COVID continued to spread beyond the COVID locked down region of Shanghai. In April and June 2022, growing COVID outbreaks in China sparked a large slump in iron ore and coking coal prices.





# COMMODITIES SUMMARY CONT'



## Gold

The Gold price has continued its 2-year positive trajectory thanks to continued uncertainty of the Covid-19 pandemic and more recently Russia's invasion of Ukraine in February 2022.

At the start of June 2022, the gold price levelled off mainly due to the weakening of the US dollar and Japanese Yen. Gold is now within the \$1,700 an ounce range and it remains well below the \$2,000 level seen in early March. Prices are predicted to rise again if the US dollar continues to weaken.

On 28 June, the G-7 nations (an intergovernmental political forum consisting of Canada, France, Germany, Italy, Japan, the UK and the US), agreed to impose sanctions against Russian gold (Russia's second largest export industry after energy) due to the ongoing war in Ukraine.

The G7 pledge means the United States, Britain, Japan and Canada would ban imports of all new gold produced in

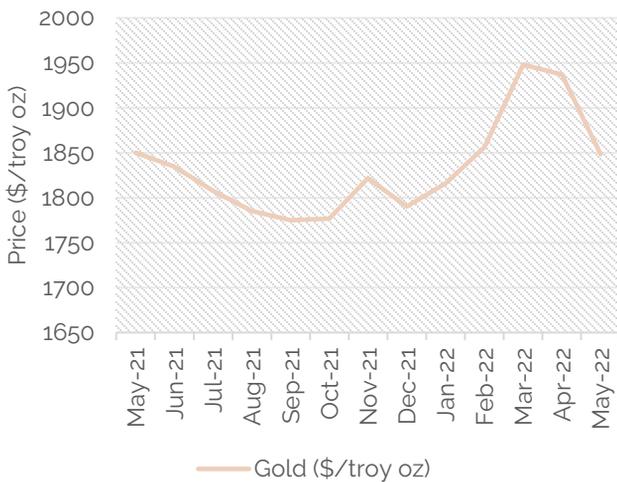
Russia (the second largest bullion miner in the world).

Canadian listed gold company Novo is fast tracking feasibility studies on more-lucrative fresh rock gold resource at its Beatons Creek project in the Pilbara. To date, the drilling has confirmed the high-grade nature of the site and Novo projected a net present value of US\$318 million. Novo now awaits key environmental and Department of Mines approvals.

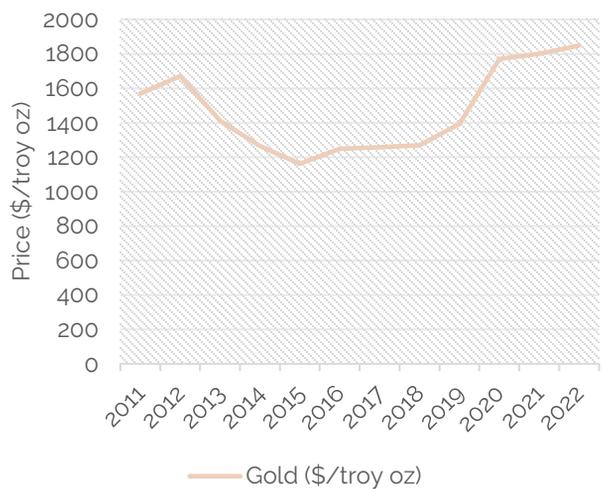
Tambourah Metals has confirmed gold-bearing quartz veins at the Tambourah King prospect in the Pilbara after drilling completed in March. They have acquired 5 additional licenses making a total of 38 covering 66.8 square km.

Capricorn Metals has acquired the Mumbakine Well gold project from Gascoyne Resources which will extend its current footprint in the Pilbara.

Gold Price from May 2021 to May 2022



Gold Price from 2011 to 2022



## Lithium

As of late June 2022, the price for lithium carbonate was up 386% year on year (YoY) and up 116% since the beginning of 2022.

Lithium Carbonate is a key material in lithium-iron batteries that play a vital role in renewable energy storage and Electronic Vehicle (EV) production. The demand outlook for lithium is very strong going forward, however the supply of lithium is still quite tight despite strong Australian investment in lithium projects by existing and new miners in the lithium market. Despite the current healthy investment in lithium projects it will take quite some time for supply to match up with demand. IT is predicted that lithium prices will continue to remain elevated for several years.

Data from The World Bank

Lithium Carbonate Prices from 04 June to 22 June



Lithium carbonate min 99.5% cif China prices USD/kg

Data from Argusmedia



# COMMODITIES SUMMARY CONT'



## Copper

After a steady price climb from the end of December 2021, Copper prices have plummeted from March 2022. The metal's wide variety of uses in electrical, industrial and transportation applications and sudden price drop could suggest that the global economy is contracting. This economic downturn may be signalling a global recession (USB). Prior to each of the past 4 recessions copper has entered a bear market.

Copper is now experiencing a 19% decline in price in the three months from March to June 2022. This is copper's worst quarterly performance since the beginning of 2020 and the start of the coronavirus impacts. Overall, the copper price is still holding near the 10 year high.

The previous sky-high copper prices were due to strong economic demand following the end of Covid-19 lock downs and historically low inventories due to mining and refining disruptions from facility closures. The rising demand of electronic vehicles (EV) also drove copper prices up, as EVs require 10x the amount of copper as conventional vehicles (Copper Development Association). Copper is also a key component in solar panels, wind turbines, battery storage and EVs.



Data from The World Bank





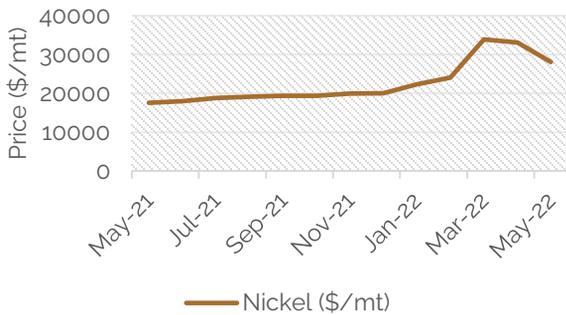
# COMMODITIES SUMMARY CONT'



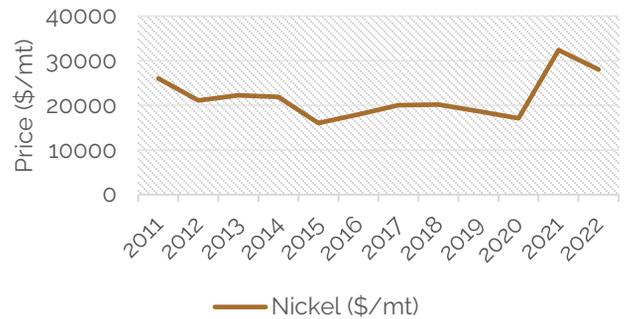
## Nickel

Nickel prices appear to be steadying after volatile price fluctuations in March. Following the invasion of Ukraine by Russia, the potential sanctions in nickel exports resulted in a steep rise in nickel prices as markets looked for alternatives to Russian nickel. Nickel prices peaked at US\$100,000 in March amid a vicious short squeeze as China's Tsingham Holding Group bought large amounts to hedge its short bets on the metal (Trading Economics). The price of nickel is expected to remain volatile in the near term as the nickel world market finds equilibrium following recent events. However, the slowing global growth of nickel supply may cause disruptions as demand increases particularly in China. Nickel is a key metal in many green technologies and other electronics.

Nickel Price from May 2021 to May 2022



Nickel Price from 2011 to 2022



Data from The World Bank

## NATURAL GAS & CRUDE OIL

### Oil

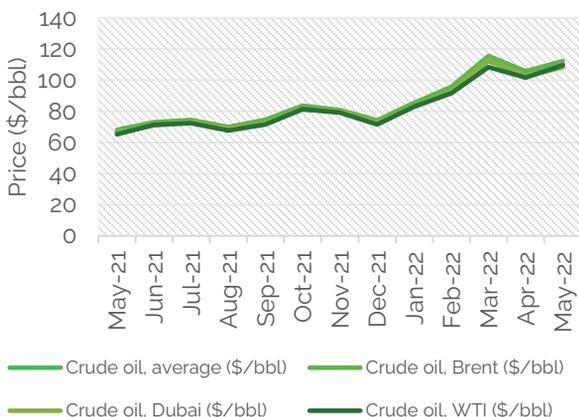
Oil prices have declined over the past few months. West Texas crude futures decreased by 4.5% to \$US102 a barrel on 22 June 2022, taking losses to 22% over a consecutive two-week period, therefore meeting the definition of a 'bear market' (*being a peak to trough fall of 20% or more*). Brent crude oil prices have been more resilient, relatively speaking, down 10% over that same two-week period.

Several factors have contributed to this decline in oil prices including supply factors (the purchase of Russian oil by India and China has helped reduce the demand and price) of non-

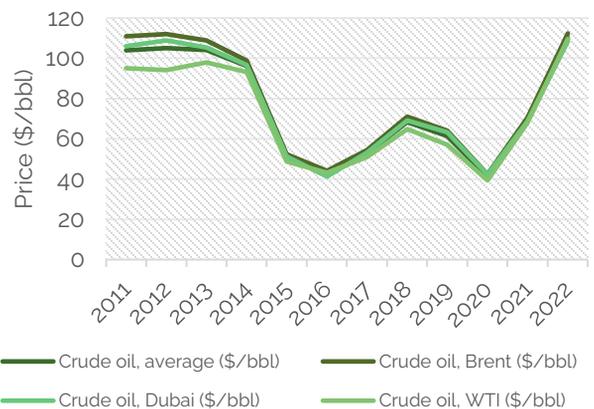
Russian oil) and the mounting fear that recession in the US and other parts of the world will slow economic growth and reduce oil demand.

Despite the current price decline, the long-term view is that with commodity demand above supply, markets remain tight (even as growth rates slow) and with the underinvestment in oil production the global outlook for oil prices is for them to remain high (AFR & Goldman Sachs Group).

Crude Oil Price from May 2021 to May 2022



Crude Oil Price from 2011 to 2022



Data from The World Bank



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# COMMODITIES SUMMARY CONT'

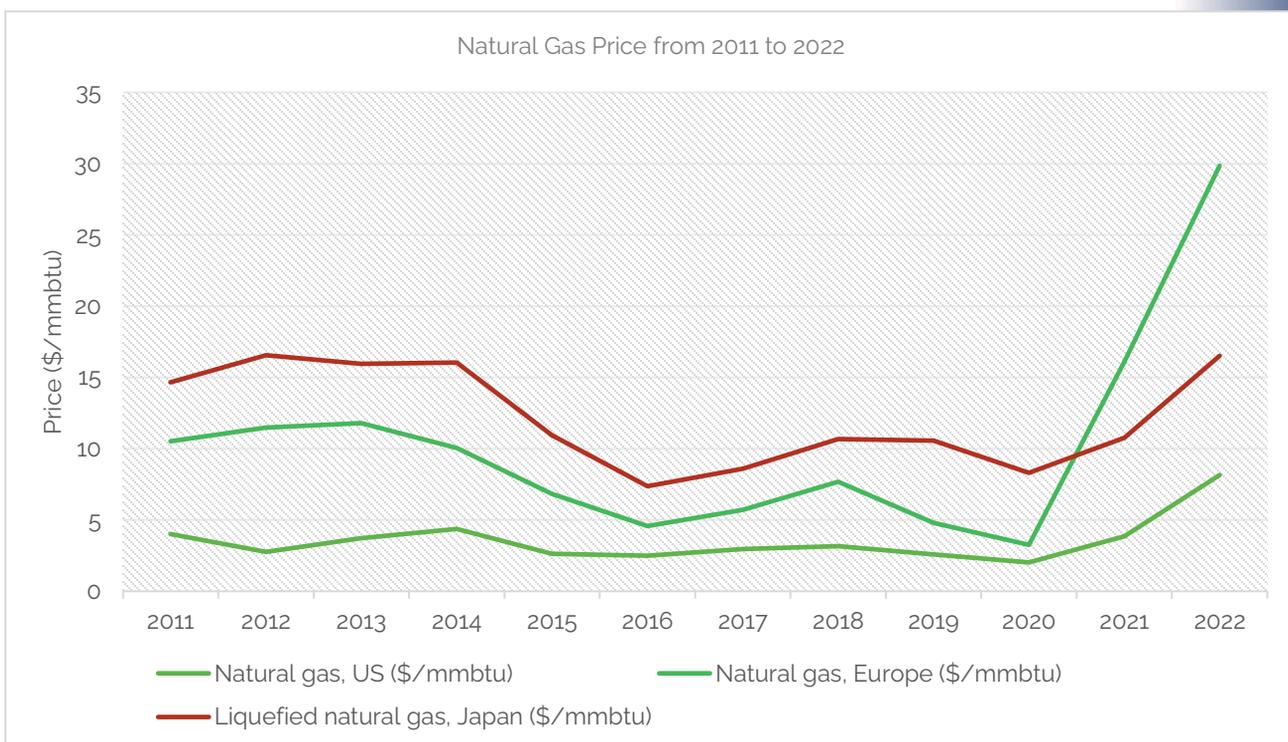
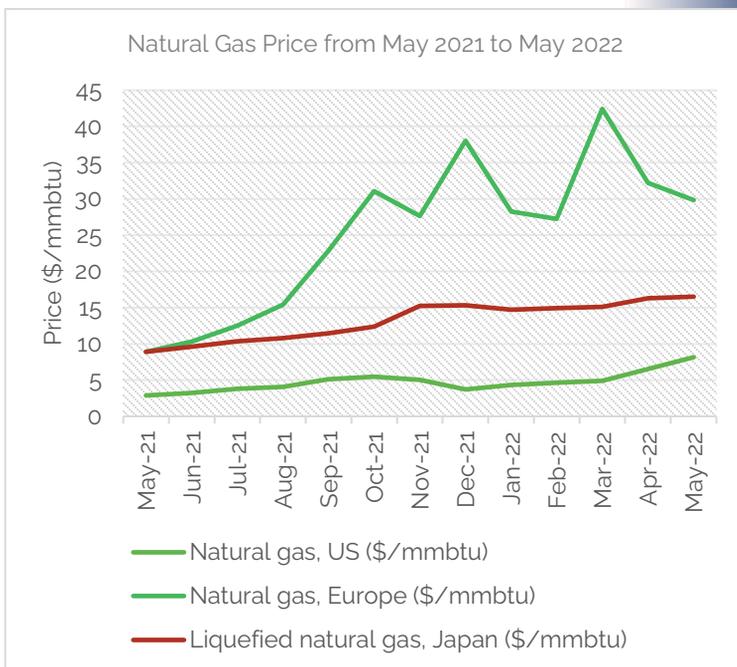
## NATURAL GAS & CRUDE OIL

### Gas

In contrast to oil, global gas prices are soaring as major global importers seek alternatives to Russian gas and global demand far outstripping supply. The surge in demand is a windfall for Australian based gas producers with Australia being one of the largest exporters of liquified natural gas.

Approximately 40% of the EU's total gas imports currently come from Russia. The EU and the US have moved rapidly to impose sanctions on Russian exports. However, there is not enough global supply to meet demand and European energy companies continue to face unprecedented uncertainty with the Ukrainian invasion adding further pressure and uncertainty to an already tight LNG market.

Even prior to its invasion of Ukraine, spot LNG prices in Europe were five times their five-year average with high prices encouraged by Russia's actions to reduce short-term gas sales to Europe which left European storage levels 17% below their 5-year average at the beginning of the European 21/22 winter season.



Data from The World Bank



## COMMODITIES SUMMARY CONT'



### Fertiliser and Salt

Fertiliser is the latest commodity experiencing a parabolic price increase as a direct result of Russia's invasion of the Ukraine. Fertiliser prices have reached a record high on the back of the war in Ukraine and its repercussions on trade flows. Russia is a key exporter of nitrogen, phosphate and potash fertilisers and whilst trade with Russia has not stopped completely it has slowed significantly due to trade sanctions and traditional customers seeking other markets.

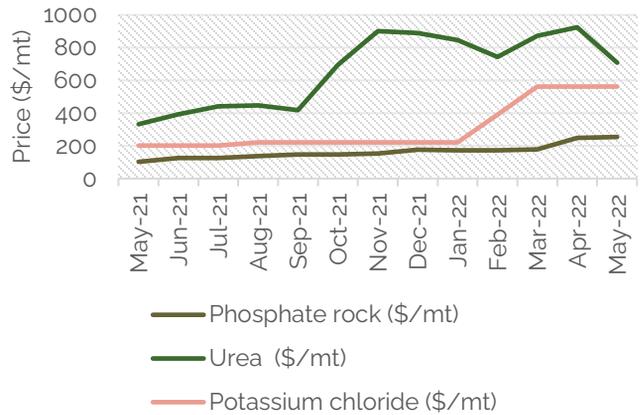
Rising gas prices have also contributed to high fertiliser costs as gas is a key input for fertiliser production, particularly urea which is the most used nitrogen fertiliser. High gas prices have resulted in a curtailing of fertiliser production in regions such as Europe further constricting an already tight market.

Sanction in Belarus have had significant implications for the potash market as combined with Russia they contribute to around 40% of traded volumes annually.

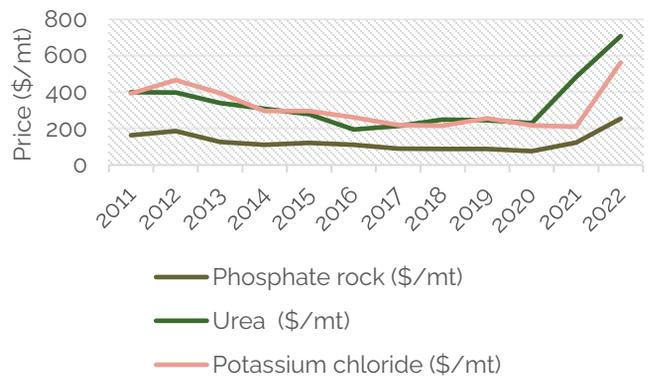
Australia imports approximately 70% of its urea from the Middle East and China with tensions around supply chain mounting since China implemented an export ban in August 2021 and Russia also restricted nitrogen and phosphate fertiliser exports for a period of 6 months from December 2021.

Whilst Australian farmers have benefitted from high agricultural commodity prices, helping to partly offset high input prices, demand destruction is increasingly likely due to high prices and supply shortfalls. Fertiliser/plant nutrition is one of many variables in farming systems and a prolonged period of fertilizer underapplication as farmers seek to increase margins will likely impact longer term yields. Given the already tight grains and oilseeds market, and the importance of both Russia and the Ukraine in those markets, food price inflation is an increasingly prominent and probably global risk.

Phosphate Rock, Urea and Potassium Chloride price from May 2021 to May 2022



Phosphate Rock, Urea and Potassium Chloride price from 2011 to 2022



### Cattle Outlook

Global demand for livestock products are forecast to continue their 2022 upwards trajectory with red meat supplies expected to remain tight due to key export markets continuing their economic recovery. However, there are factors which present downside risk to global prices. There is uncertainty around the impact of mobility restrictions on exports to China, including reports that transport shortages are making it difficult to move product from port to markets.

Disposable incomes in developed countries are generally expected to fall due to inflation increasing higher than wages but are more likely to impact fresh and chilled meat exports. This situation could however push consumers from higher quality cuts towards ground beef, particularly in the United States. This would increase US import demand for lean beef from exporters like Australia.

US beef production is expected to be slightly lower in the 2022 calendar year than 2021, but it will still provide strong competition for Australian beef in major export markets. Brazilian beef production is expected to be higher than last year, but still below the highs of the 2018-2020 period.





## OTHER PILBARA NEWS (INVESTMENT, LEGISLATION, GOVERNANCE)

### Australian Domestic Energy Prices

Australia is one of the world's largest LNG exporters and the surging LNG prices whilst a boon for Australian exporters is putting sustained pressure on households and businesses. Much of Australia's exportable gas is contracted and must remain offshore (to prevent government controls being excised) (AFR). Cargo not contracted is fetching significant returns on the spot market, a healthy margins for local exporters such as Woodside.

In comparison to the surging gas prices in Europe, gas price increases in Australia during March and early April were relatively modest however recent rocketing prices resulted in the Australian Energy Market Operator being forced to impose a price cap on 31 May 2022 after wholesale prices in Victoria increased more than 50 times normal levels.

Much of this spike can be attributed to the soaring price of coal, which is the dominant source of electricity generation in Australia. Russia is also a major exporter of coal, and sanctions on Moscow have resulted in soaring global coal prices. As coal increases in price, the cost of producing coal-powered electricity in Australia rises. To compensate, some Australian energy generators have increased gas power generation, increasing demand for gas. The Australian cold winter has also fuelled demand as much of Australia's east coast uses gas for their home heating requirements.

The Australian Government does not have the ability to set energy prices however it does have the capacity to limit exports. In 2017 the Turnbull Government legislated the Australian Gas Security Mechanism (**Security Mechanism**) in response to concerns that Australian producers were not supplying enough gas to the domestic market resulting in local prices being driven up. The Security Mechanism gave the relevant Federal resources minister the ability to control exports in the event of a supply shortfall.

The Albanese Government (elected in May 2022) has pledged to drive a significant increase in renewable energy generation with the aim that this in turn will lower demand for coal and gas power and therefore reduce domestic energy prices. It is important to note that new renewable energy projects can take several years to develop and often require new transmission lines to be built to connect the zero-emission energy source into the grid to provide power to the consumer.

### Pilbara 2022

The Pilbara 2022 Conference was held on 29-30 June in Karratha, WA and focussed on Major Projects, Development, Investment & Building Communities. The event focussed on economic growth, investment, development, productivity and innovation across the Pilbara region.

### Interest Rates June 2022 (cont' from Pg 1)

The Governor advised that the RBA only has a narrow path to curb runaway inflation without triggering an economic downturn in Australia stating that *"it's a fairly narrow path we're on. We're trying to get demand and supply to increase at the same rate and achieving that is difficult"*. He went on to state that if workers and businesses did not believe that the RBA could chart a credible path back to its inflation target, they may get stuck in an inflationary mindset that would keep fuelling wages and price growth. This would then force the RBA to impose much higher interest rates.

### BP Investment in Asian Renewable Energy Hub (cont' from Pg 1)

A full scale Asian Renewable Energy Hub could produce 1.6 million tonnes of green hydrogen or 9 million tonnes of green ammonia per annum making it one of the largest green hydrogen projects in the world. AREH intends to supply renewable power to local Pilbara and also produce green hydrogen and green ammonia for the domestic Australian market and export to major international users.

AREH has plans to develop onshore wind and solar power generation in multiple phases to a total generating capacity of up to 26 gigawatts (GW) – the equivalent of producing over 90 terawatt hours per year, which is around a third of all electricity generated in Australia in 2020<sup>1</sup>.

At full capacity, AREH is expected to be capable of producing around 1.6 million tonnes of green hydrogen or 9 million tonnes of green ammonia, per annum. Situated on a 6,500-square kilometre site, AREH is already in a highly advantaged position with access to abundant solar and wind resources with consistent output.

Frédéric Baudry, president, bp Australia stated that *"this is an incredibly exciting development, and we are looking forward to working closely with our partners, InterContinental Energy, CWP Global, Macquarie Capital and Macquarie's Green Investment Group, as well as the Nyangumarta people"*.