

PILBARA QUARTERLY ECONOMIC UPDATE

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Prepared by Imani Development Austral

Key Messages

Downside risks in the Pilbara have risen considerably in the short term, due to the impact of the global coronavirus (COVID-19) pandemic, although the negative impact is unlikely to be uniform across the different sectors of the local economy.

At the time of writing this quarterly update, despite the massive amounts of funding made available by many governments, including Australia, and by international organisations, such as the World Bank and the International Monetary Fund, a recession looks likely in the near future. Layoffs have already started on a large scale, there are risks to supply chains and overall economic growth will slow down globally. The depth of the recession and its duration is near to impossible to assess but there are **at least three possible scenarios:**

- A V curve which implies a sharp economic contraction followed by an equally sharp recovery within one to two years
- A sharp contraction followed by a slow recovery over a longer period of time, possibly five years or more
- A "hibernation" of the major economies slowing the contraction and then a gradual recovery supported by fiscal stimulus programmes.

Within the Pilbara itself, in line with the rest of WA, isolation actions have been taken and the impact on non-resources SMEs and the population at large will be negative. However, essential services provided by businesses and not-for-profits may not be as severely impacted due to the various support measures from government.

Discussions by Regional Development Australia Pilbara with Port Hedland port management in late March 2020 indicated that tonnages exported by the port have not decreased. This is a good indicator that illustrates that the mining sector remains resilient at present.

The Federal and State Governments recognise that a supportive policy response is required to keep the resource sector producing at maximum capacity for the good of the whole country. Moreover, the resource sector companies are taking measures to decrease the likelihood of infections in their work forces. FIFO rosters have been adjusted and FIFO workers have been banned from going into the Pilbara towns to reduce social contact. Changes to processes and procedures and compliance with social distancing recommendations have now become worksite policy.

Legislation

- Western Australia has become the top mining jurisdiction for investment, according to Fraser Institute's annual survey of mining company rankings. The state leads the way for the first time since 2015 after being rated the second most attractive jurisdiction in the world by the Canadian think-tank last year.
- Woodside Petroleum has called on the Government to "take a clear and visible leadership role" that charts a path to reducing emissions in State assets. It suggests this includes emission reduction targets for the State's electricity generation system, "emission control areas" at WA ports and mandating a level of hydrogen in the domestic gas supply network.



An outbreak of the virus at a mine or FIFO camp cannot be ruled out and would seriously affect that particular operation if it occurred.

Iron ore remains the sector underpinning economic stability. Iron ore prices remain buoyant, as supply constraints from Brazil continue and Chinese stimulus measures are assisting in maintaining demand. Furthermore, the \$AU has declined in value against the \$US and this has helped offset price fluctuations.

Gold prices have been robust and a number of promising results have been secured by exploration companies. The price declines for other commodities, excluding oil and LNG, may not impact exploration and production over the medium term.

What the landscape of the economy will look like over the medium and long term in the Pilbara is difficult to forecast at this point in time, as the full impact of the virus is still unfolding. In this regard we will be tracking all of the variables in play in the investment decision making process.

The main risk to the economy is the possibility of **curtailments in production in the resources sector** if the COVID-19 infects the workforce. The other main risk is that a prolonged slump in global economic activity results in even lower prices for commodities.

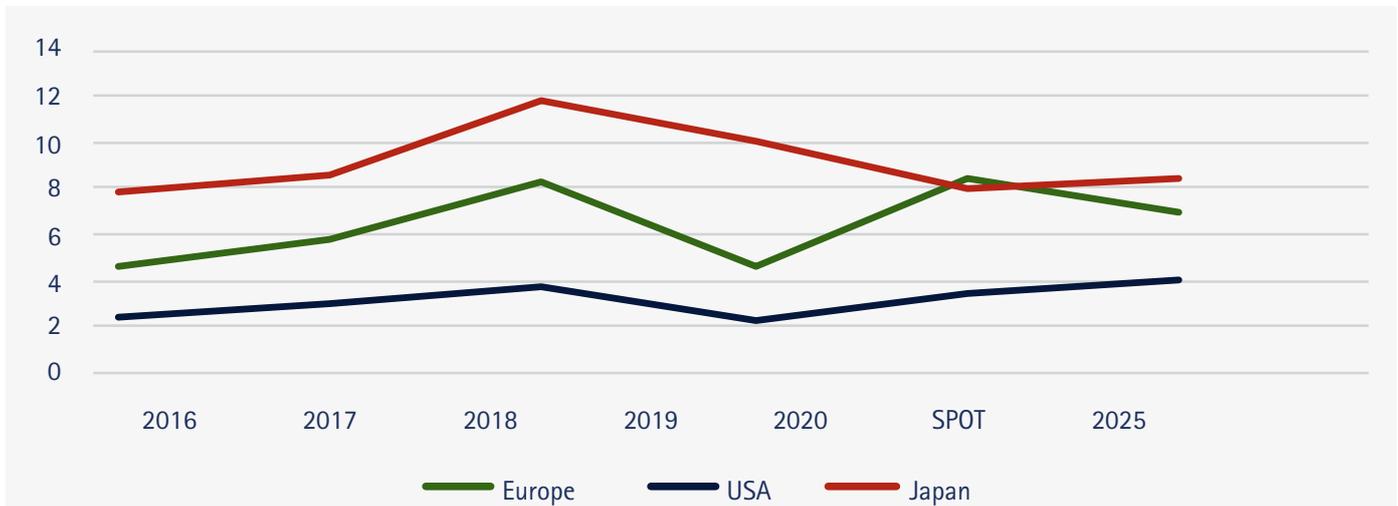
Looking to the future post-virus, it is essential that Local, State and Federal Governments **focus their funding on productive assets**, meaning assets that must generate a market-related return on investment, stimulate employment and/or generate an equivalent increase in government tax revenue.



Commodity Prices and Resource Sector Investments

LNG & Renewables

LNG PRICES: EUROPE, USA, JAPAN 2016 TO MARCH 2020 ACTUAL + PROJECTIONS (US \$MMBTU)



SOURCE: WORLD BANK AND SPOT MARKET

The LNG landscape has deteriorated markedly in the short-term, with abundant supplies and very weak demand in all global markets, leading to layoffs and postponement of capital expenditure in the Pilbara and globally.

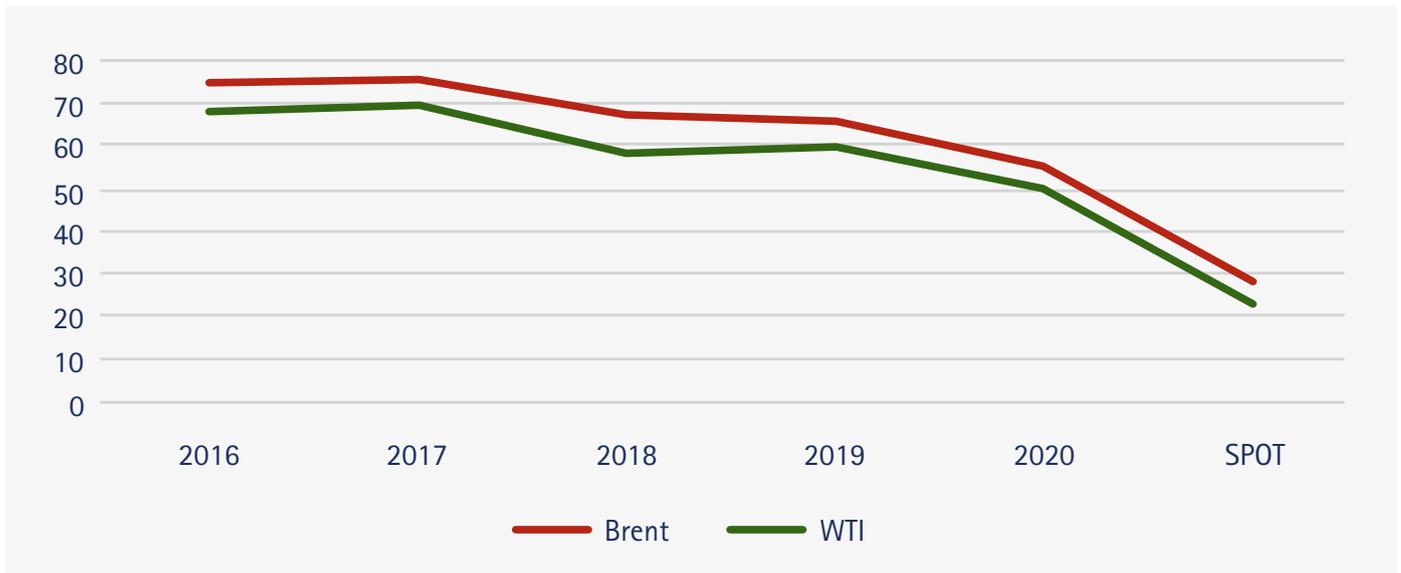
Very low prices short term, price recovery medium to long term, large-scale investments delayed

- **Spot market prices are very low** in all markets around the globe as demand has collapsed, due mainly to the impact of the COVID-19. This situation will persist for some time, if recovery from the economic fallout is slow.
- **Asian spot LNG prices dropped below \$US3** per million British thermal units (mmBtu) towards the end of March. At this price LNG operators cannot make a profit, and natural gas prices in the USA have fallen to the lowest level in many years.
- **The impact of low prices** has resulted in large scale bankruptcies in the USA and delays in new capital investment around the globe.
- **In the Pilbara, Woodside Petroleum has decided to hold back investment expenditure by some 60%.** Final go-aheads for Scarborough, the expansion of Pluto and the Browse projects are all being deferred to rein back capex this year to as low as \$US1.7 billion (\$2.8 billion), from an original budget of about \$US4.5 billion¹
- Although it may take some time for the global market to return to normality, in the medium term the prospects for further investment remain positive and most of the corporate arrangements, technical options and the processes required for successful implementation of the Pilbara projects are already in place.
- Furthermore, it is possible that shale production in the USA and LNG investment elsewhere will be curtailed and the **level of competition in the future for WA suppliers might be reduced.**



Oil

OIL PRICES: 2016 TO MARCH 2020 (US\$/BBL.)



SOURCE: WORLD BANK AND OIL PRICE NOW

The short-term outlook for oil is bleak. Prices have cratered due to a collapse in demand as a result of the COVID-19 and abundant supplies that has been exacerbated by the oil price war between Russia and Saudi Arabia. The medium-term outlook is not strong.

Extreme fall in prices, medium term demand less certain, delays in capital expenditure

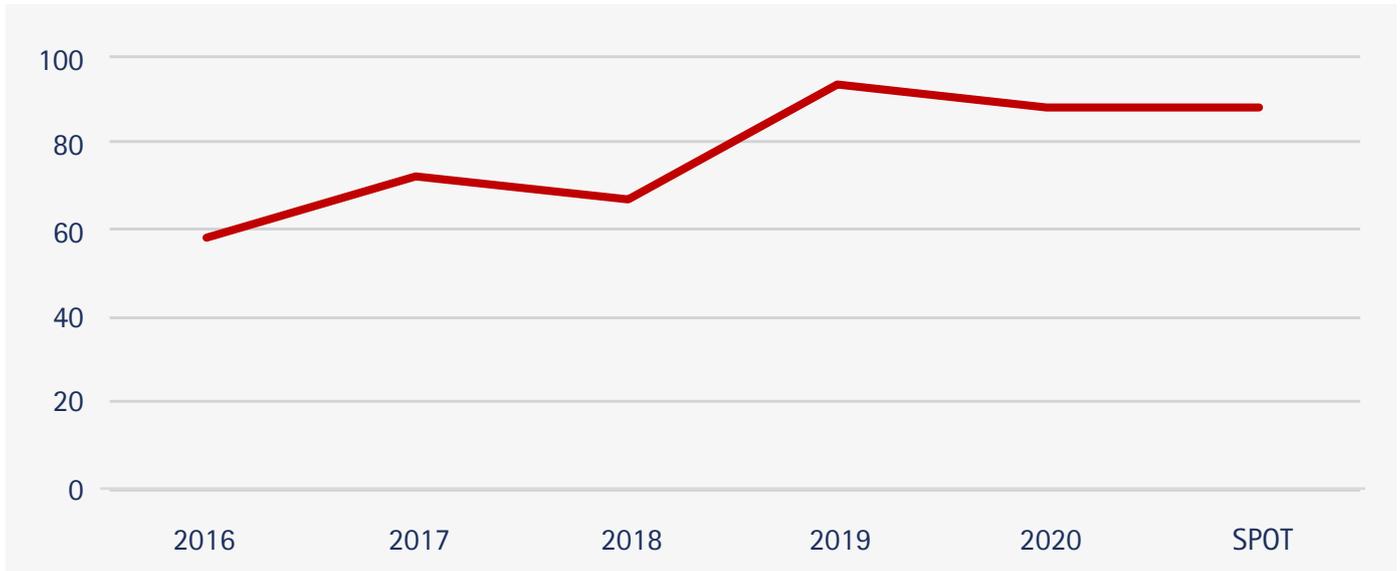
- Clearly, the impact of the COVID-19 epidemic will lead to **severe stress for oil producers**. The dynamics of the energy industry have changed yet again and are difficult to predict.
- It is interesting to note that the International Energy Agency (IEA) says the economic fallout of COVID-19 has led to a **cut in China's CO2 emissions** by a staggering 100 million metric tonnes, just two months after the first infections were reported in the country's sprawling city of Wuhan. That's about a quarter of the country's average emissions with reductions of 15% to 40% in industrial output recorded by key sectors.

- However, the IEA says that multi-billion-dollar investments in clean energy are likely to evaporate, with the current year set to record the first fall in solar energy growth in four decades. Meanwhile, sales in electric vehicles - commonly viewed as the lynchpin to the electrification drive and transition from fossil fuel vehicles - are expected to come to a standstill for the first time in more than a decade.
- IEA executive director Fatih Birol says some of the stimulus packages being rolled out by governments should be invested in clean energy technologies. "We have an important window of opportunity. Major economies around the world are preparing stimulus packages. A well-designed stimulus package could offer economic benefits and facilitate a turnover of energy capital which will have huge benefits for the clean energy transition."



Iron Ore

IRON ORE PRICE: 2016 TO MARCH 2020 (US\$ DMT 62% FINES)



SOURCE: WORLD BANK AND BUSINESS INSIDER

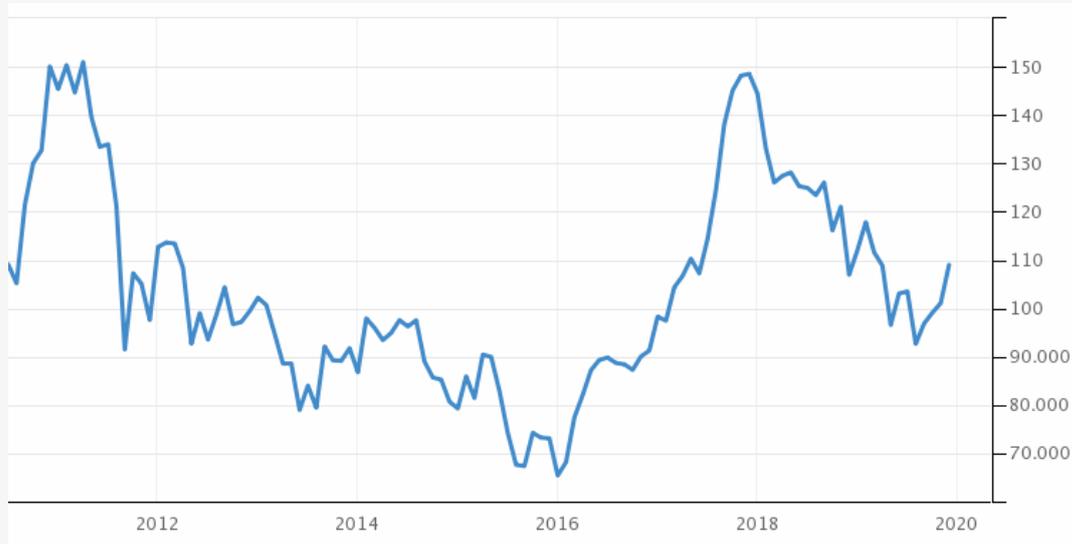
Relatively high prices continue, investments in replacement mines and some new production

- **Prices have remained at relatively high levels** in \$US terms, despite the sharp downturn in the economy of China. Moreover, **the price of iron ore in Australian dollars has actually increased**, due to the fall in the value of the Australian dollar. At the time of writing the price of iron ore was \$AU143 per tonne for 62% fines.
- Forecasting prices has become more complex. On the one hand, price reductions are anticipated with possible supply surpluses as steel production outside of China contracts. Goldman Sachs has cut its forecast average 2020 benchmark price to \$US79 a tonne from \$US85 a tonne, but downgraded its second quarter estimate to \$US70 a tonne from \$US79 a tonne. The sharp fall in economic activity is expected to deliver a 5% contraction in global steel production in 2020 compared to 1.4% growth in 2019. On the other hand, it is possible that China may stimulate its economy further, with beneficial implications for infrastructure spending and hence the steel industry.
- **From an economic and employment perspective the iron ore sector remains a bedrock for future prosperity:**
 - BHP plans to accelerate iron ore exports over the next six months to seize on what analysts expect will be a period of continued strength in prices for Australia's most lucrative commodity export.
 - Atlas Iron is planning to start development of its Corunna Downs iron ore project in the Pilbara by mid-year, at a cost of around \$50 million, after the Environmental Protection Authority recommended approval.
 - FMG has maintained shipments from Port Hedland in line with its 2020 guidance, and it expected no delays to the company's Iron Bridge and Eliwana growth projects either.
 - Contractor MACA has won a \$38 million contract for access road works associated with Atlas Iron's Corunna Downs project 33 km south of Marble Bar.



Lithium

LITHIUM PRICE: 2018 TO DECEMBER 2019 (US\$/TONNE)



SOURCE: TRADINGECONOMICS.COM

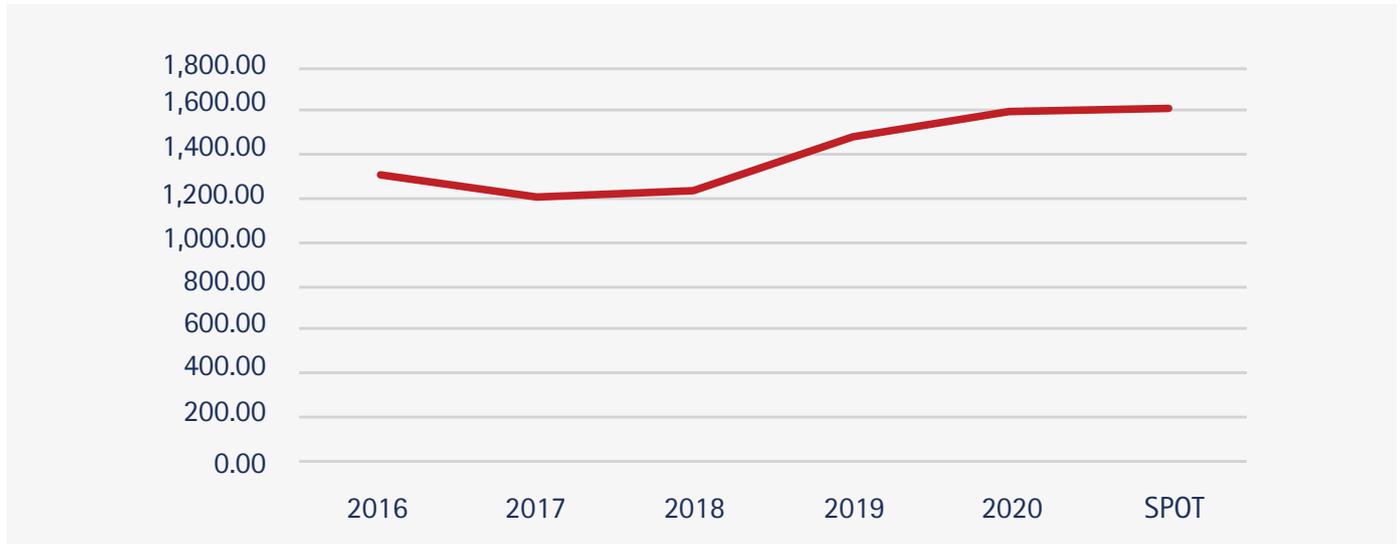
Short term prices fall, long term increase in demand & prices still anticipated, increased investment medium term

- **Lithium prices fell in the March quarter**, due to the impact of the COVID-19. Once again, extraction companies have continued with their cautious approach in the short term.
- Nonetheless, the **longer-term price forecast** remains intact with **price increases anticipated** by most analysts, but within an extended timeframe.
- The short-term impact of the price falls is illustrated through Galaxy Resources unveiling a full-year net loss of \$US284 million (\$430 million) over the last year. However, the company's 2020 production is fully contracted and customers are expected to confirm shipping schedules.
- The BMW Group has signed a contract with Ganfeng Lithium to receive its supply for battery-making ingredients from Australian mines. This entails a projected order volume of €540 million (\$873 million), representing 100% of BMW's lithium hydroxide needs for fifth-generation battery cells in its high-voltage batteries.
- Lithium Australia plans to continue its research into its proprietary lithium recovery process, to extract lithium from fine waste and tailings materials, after being awarded a Federal Government grant of \$1.3m. Lithium Australia is looking to commercialise "waste" streams with its LieNA processing technology.
- Pilbara Minerals has reported an improved financial performance towards the end of 2019, despite being impacted by difficult lithium market conditions, however, lower spodumene concentrate prices compelled Pilbara Minerals to launch moderating strategies at its Pilgangoora lithium-tantalum project in Western Australia.



Gold

GOLD PRICE: 2016 TO MARCH 2020 (US\$/OZ)



SOURCE: WORLD BANK

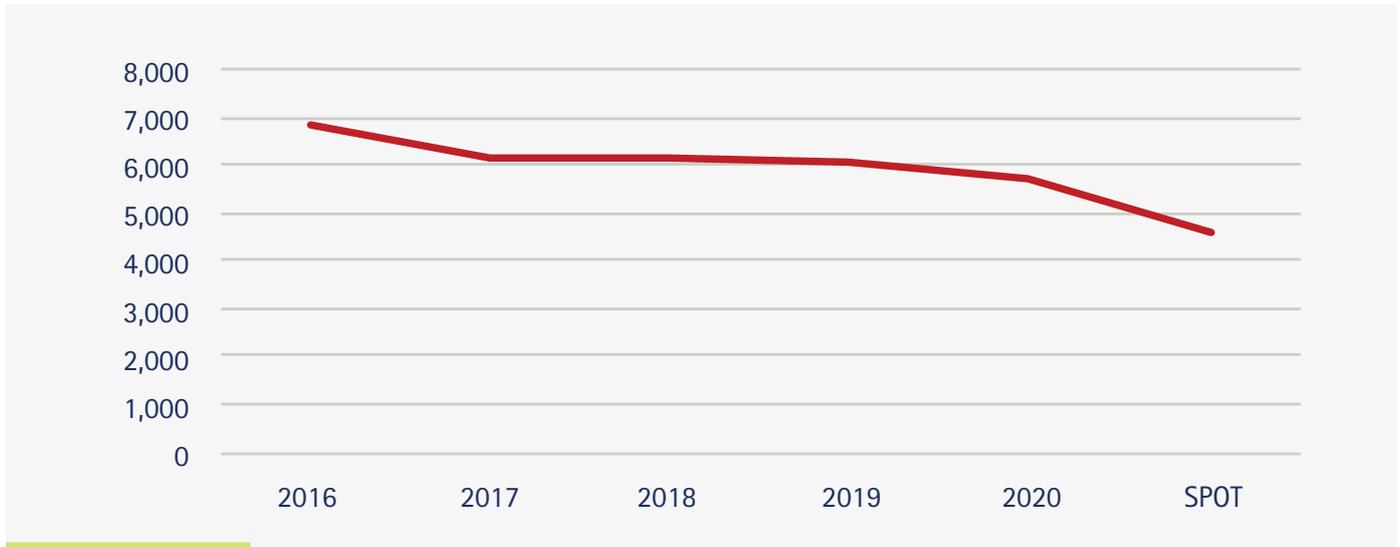
Sharp increase in prices continues, increased investment and employment

- **Gold prices have continued to increase** in the March quarter due to financial uncertainty throughout the globe. Positive price trends have encouraged additional activity in the Pilbara with promising results.
- The broader picture is that Australia is set to overtake China as one of the world's largest gold producers by the end of the decade, driving growth alongside Russia and Canada, according to Fitch Solutions. Fitch Solutions predicts a lift in Australia's gold output from 10.9 million ounces this year to 13.3 million ounces by 2029, averaging 2.3% annual growth. **Australia was also ranked second after Canada in respect to the number of new projects and mine expansions.**
- In the Pilbara:
 - Calidus Resources remains on track to deliver a definitive feasibility study for its 1.25 million ounces. Warrawoona gold project near Marble Bar. The company is targeting the commencement of development in the first half of 2021.
 - Coziron Resources will operate a diamond rig at its Croydon Top Camp project in central Pilbara after the company's maiden drill programme attained some notable results recently.
 - De Grey Mining has discovered a large-scale gold system at the Hemi prospect in Western Australia, which qualifies as "some of the best discovery intersections" ever seen, about 60 km south of Port Hedland.
 - Perth-based Kairos Minerals has indicated that it has a 1 million ounces global gold resource. The resource includes its Mt York, Iron Stirrup and Old Faithful deposits, about 100 km south east of Port Hedland.

- Newcrest Mining has reached a \$60 million agreement with Antipa Minerals to explore the southern portion of the Paterson Province in east Pilbara. The Wilki project comprises 1,700 km² of ground, which includes existing gold-copper resources at Minyari-WACA.
- Novo Resources has acquired the joint venture interests of Artemis Resources to take control of 100% of the Purdy's Reward and 47k gold leases south of Karratha. Novo has achieved some outstanding gold recovery rates on the latest set of mechanical ore sorting tests from its Egina and Beatons Creek gold deposits.

Copper

COPPER PRICE: 2016 TO MARCH 2020 (\$US/MT)



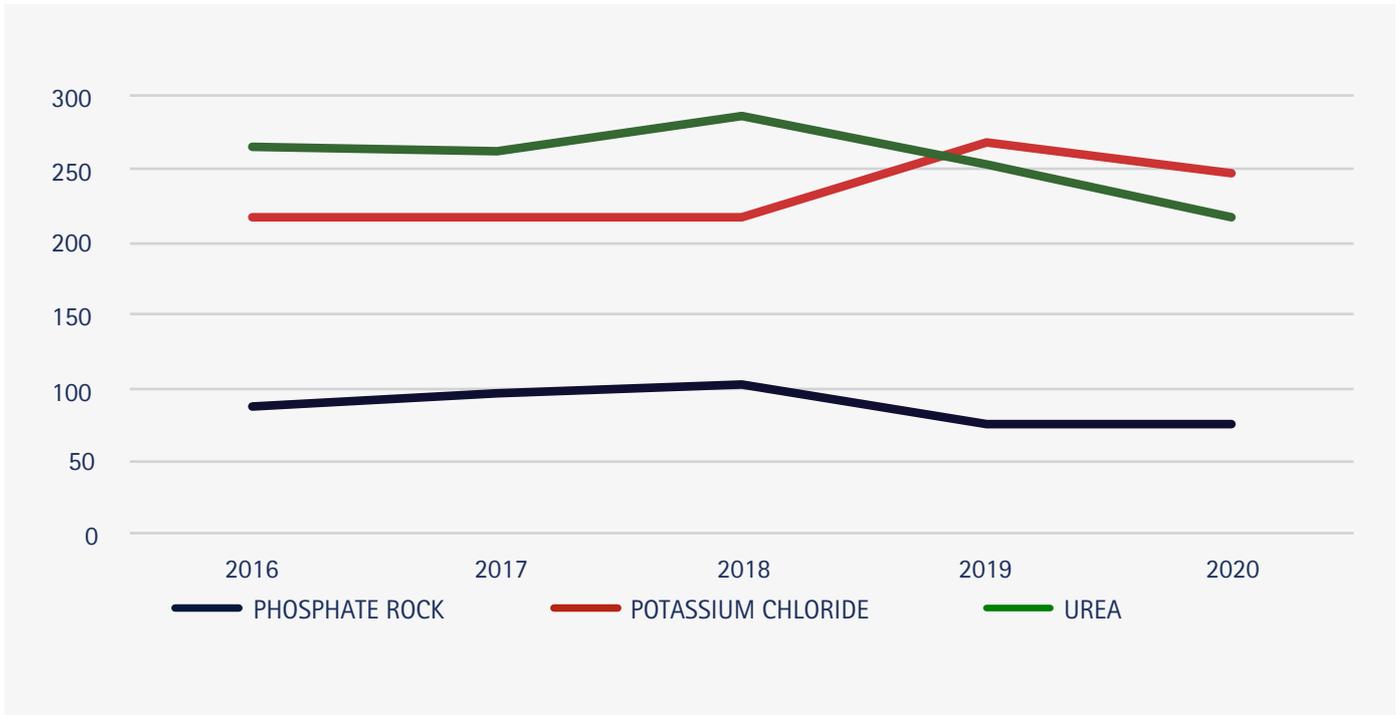
SOURCE: WORLD BANK

Sharp fall in prices, recovery in prices in medium term, large scale investments possible

- Due to the global economic conditions **copper prices have fallen** sharply, but are expected to recover over the medium term.
- New developments in the Pilbara include:
 - St George Mining is exploring in Paterson province.
 - IGO is exploring for copper in Paterson province, by exercising an earn-in option with greenfield explorer Encounter Resources. IGO will fund up to \$15 million in exploration at Encounter's Yeneena copper-cobalt project about 20 km south-west of Newcrest Mining's Telfer gold operation.
 - Rio Tinto aims to bring its Winu project into production by 2023. Guidance from Rio suggests the East Pilbara's Paterson province could host two new mines within the next three years, with Newcrest also confident of developing a mine at Havieron.
- Rio Tinto has funded over \$11 million in exploration expenditure on Antipa Minerals' Citadel project in the Pilbara, with the formation of a joint venture (JV) between the two companies.
- JV partners Rio Tinto Exploration and Alloy Resources plan to commence a drilling programme in the Paterson province between April and May this year.
- Exploration for copper and gold in Paterson Province has been strengthened after Newcrest Mining struck a \$60 million exploration farm-in deal with Antipa Minerals.



FERTILISER PRICES: 2016 TO MARCH 2020 (\$US/MTB)



SOURCE: WORLD BANK

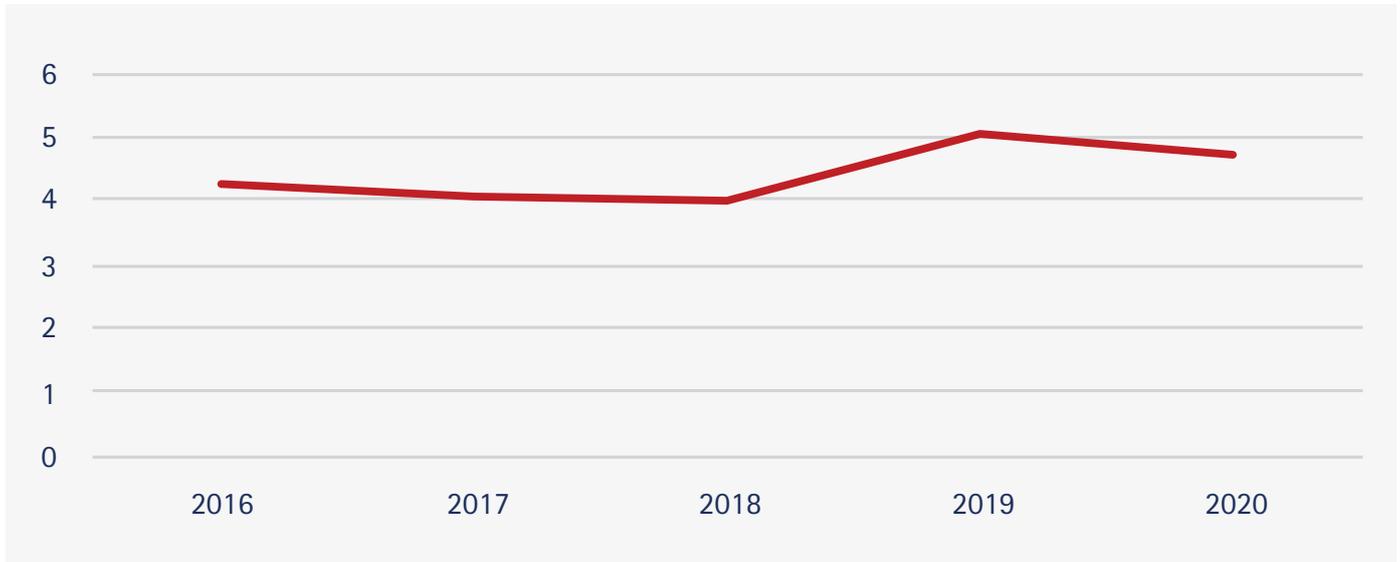
Urea and Phosphate prices falling, but large-scale investments likely in the short to medium term

- The prospects for further investments in urea and potash projects remain positive in the Pilbara, despite declining prices for urea and phosphate. In the medium term prices may rise as global agricultural production increases to feed the still fast-growing world population.



Beef

BEEF PRICE: 2016 TO MARCH 2020 (\$US/KG)



Prices fluctuating at reasonable levels, with recent increase

- Beef prices have continued to support the industry in the fourth quarter of 2019. **Although prices have fallen in the first quarter of 2020, they are still relatively high.** Export market growth represents a significant opportunity and is a sector where the WA government is supporting bi-lateral investment to develop integrated value chains.
- The value of the Pilbara beef industry is expected to increase with integrated feedstock and beef operations continuing to be developed.

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