

PILBARA QUARTERLY ECONOMIC UPDATE

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Key Messages

In this issue we provide an update on some **impacts of COVID-19 on business in Australia and the Pilbara.**

In terms of **strategy for the mining sector in the Pilbara the release of the Federal Government 10-year plan to grow the resources and minerals sector** to create more jobs and economic opportunities for manufacturing business is positive. The roadmap speaks about expanding international partnerships in the resources technology industry so manufacturers can “scale up”. It refers to a recent survey of mining equipment, technology and services firms in Australia, which states on current estimates they generate 25% of revenue from exports.

At State level, WA is on track to bank nearly \$1.5 billion more in iron ore royalties than predicted in December, a windfall that would nearly double the State’s forecast budget surplus to \$3.7billion.

Downside risks have been reduced somewhat in relation to COVID-19, however geo-political trade risks remain and **labour costs continue to be a problem.** According to the Chamber of Minerals and Energy “Although the 135,000 people currently

working in our sector is a record, and CME and its member companies are strongly focused on creating jobs and training West Australians, survey responses also underscore the significant labour pressures we are currently facing”.

For example, Mineral Resources Ltd. is offering financial incentives for its Eastern States-based staff to relocate to WA and increasing training programs as it looks to beat a skills shortage in the State’s resources sector. Mineral Resources has reported that it is feeling the effects of the mining boom, which included jobs market tightness, wage inflation and delays in securing equipment and getting it to site. “We are all fishing out of the same pond in WA.”

Summary of Sector Developments:

- **Iron ore has continued to benefit yet again from strong price rises**, as demand from China remains strong and stimulus measures in the USA will probably open up further export opportunities.
- **Gold prices have declined further in the March 2021 quarter**, however exploration and investment in new mines has continued apace in the Pilbara.

- Copper prices have continued to rise strongly in the March quarter and exploration activities have broadened geographically within the Pilbara.
- Oil and natural gas prices in Asia and Europe have stabilised at a higher level. Indications are that investments in LNG by the Woodside led consortium are likely to be given approval within the next few months.
- Lithium prices have increased very sharply and are likely to continue to rise in the medium and long term, with a beneficial impact on producers in the Pilbara.
- Significant investments in fertiliser and salt in the Pilbara continue.
- Beef prices have flattened out globally, but Australian prices for cattle continue to be extremely high.

COVID-19 Economic Impact Update

The Australian Bureau of Statistics (ABS) is publishing a series of data and surveys on the socio-economic impact of COVID-19². Based on ABS data some interesting findings are as follows:

Work from home arrangements

For Australians 18 years and over with a job in February 2021, 44% had an agreement with their employer to work flexible hours, with 15% having their agreement in writing.

When asked about preferences for working from home:

- 42% of employed Australians wanted the amount of work from home to stay the same
- 14% wanted the amount of work from home to increase
- 8% wanted the amount of work from home to decrease
- 9% would prefer to not work from home
- 26% had jobs that could not be done from home.

Business Conditions and Sentiments

Key findings:

- 46% of Australian businesses expect it to be easy or very easy to meet financial commitments over the next three months, compared to 23% in August 2020.
- 29% of businesses are accessing support compared to 73% in May 2020.
- 19% of businesses expect to increase staff numbers over the next three months.

Expected actions when support measures are no longer available

Australian businesses accessing support also provided information on actions they expect to take when the support measures are no longer available.

Of the 29% of businesses that reported that they were accessing support, the most likely actions they expect to take once this support is no longer available are to:

- Seek additional funds (21%)
- Reduce staff hours (20%)
- Change quantity of orders of inputs (e.g. stock, raw materials) (15%)
- Defer or cancel investment plans (13%) and
- Increase prices (13%).

² These surveys are an unfolding exercise and caution should be exercised in the use of the information as advised on the ABS website.

Payroll Jobs

Change for the period 14 March 2020 to 13 March 2021:

WA increased by 2.5%

Total WA wages over same period up by 2.4%

For the Pilbara for the period 14 March 2020 to 27 February 2021, payroll jobs in the West Pilbara had increased by 0.4% while for the East Pilbara there was a 3.4% decrease.

As of January 2021 the following estimates were made in terms of percentage of local businesses that had applied for **JobKeeper Support**:

Ashburton:	3.7%
Karratha:	7%
Port Hedland:	6.2%
East Pilbara:	6.2%

In **Port Hedland**, based on ABS and Department of Employment data, there was an improvement in the unemployment rate from 5.5% to 4.5% over the period January to December 2020. This compares to a rate of 6.7% for the whole of WA in December quarter 2020. Also in February 2021, 9% of the working age population (15-64) was on JobSeeker and youth allowances. For WA it was 8.4%.

In **Karratha** by January 2021 overall employment was back to being close to the level last seen in March 2020 (pre-COVID-19). Total output of all industries was about 1.2% above that of March 2020.

Extracts from the latest CCIWA quarterly report to March 2021 highlight the following:

Business Confidence:

- After recently catapulting to its highest level in 13 years, Western Australian business confidence remains relatively high, down only slightly in the first three months of this year. Ongoing strength in the mining sector continues to be the most

significant factor driving confidence, followed by optimism around the nationwide vaccine roll out and record low interest rates. Rising skills shortages and the concern this will push up labour costs is the most significant headwind for confidence.

- Overall skills shortages are of greater concern for WA businesses than JobKeeper withdrawal. Concerns around skilled labour shortages were most acute in the resources sector, with more than half (55%) citing the availability of skilled labour as the largest barrier to growing their business over the coming year – up 3 percentage points since last quarter.
 - > Nearly four out of five (78%) businesses in the Mid-West/Gascoyne identified they are struggling to fill a skill.
 - > Other regions with a higher proportion of businesses struggling to hire skilled workers include Goldfields-Esperance (68%), Pilbara (66%) and the Kimberley (60%). For businesses in the resources sector, the ability to access skilled workers from other states (e.g., FIFO roles) and specialists from overseas is critical to the success of their operations.

In terms of labour costs in the regions:

- Businesses in the Mid-West/Gascoyne (61%), Pilbara (55%) and Kimberley (53%) are most likely to expect labour costs to rise over the next three months.
- Businesses in the Great Southern (27%) and Goldfields-Esperance (32%) are less likely to anticipate rising labour costs next quarter.

Top 3 occupations in demand by the resources industry:

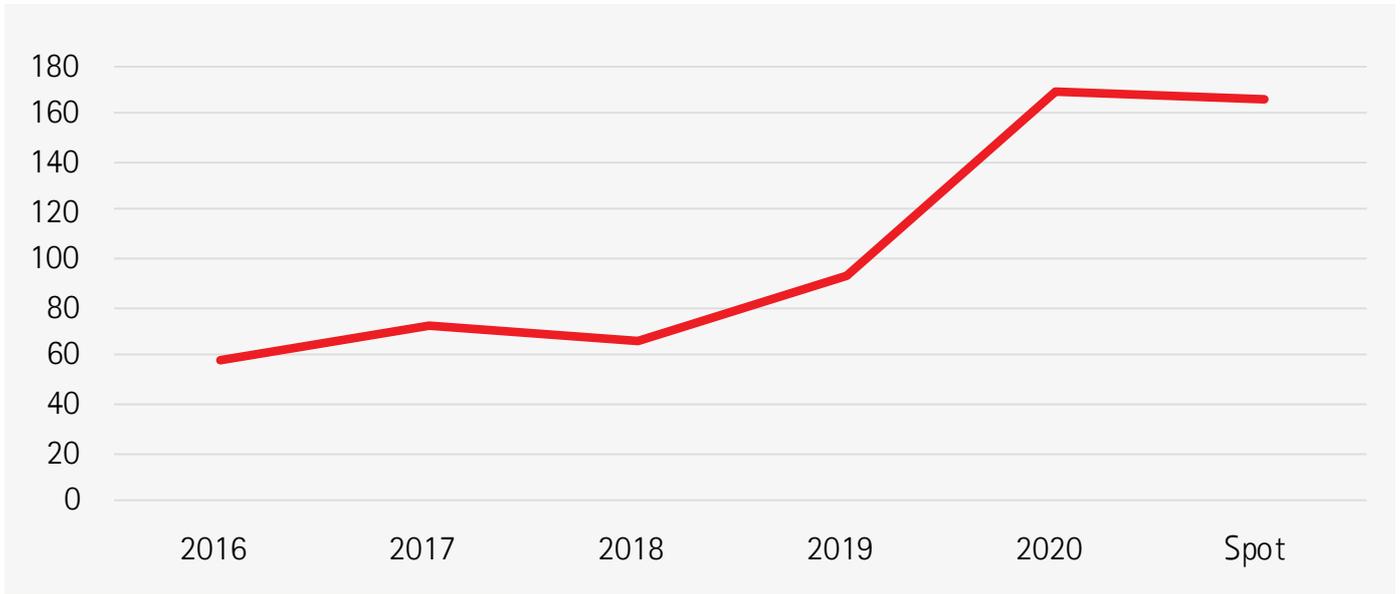
1. Drillers
2. Boilermakers
3. Managers



Commodity Prices and Resource Sector Investments

Iron Ore

IRON ORE PRICE: 2016 TO MARCH 2021 (US\$ DMT 62% FINES)



SOURCE: WORLD BANK AND BUSINESS INSIDER

Price increase, market remains firm, large-scale production to continue unabated, with investments and employment upside

- **The iron ore price** has remained at very high levels and forecasts indicate that although prices will eventually decline, they will remain quite high in historical terms. Longer-term **China's five-year strategy to reduce its reliance on imported iron ore** may squeeze Australian producers and royalties. The plan is to tap huge undeveloped reserves in Africa. Bloomberg has reported that a draft blueprint by China's Ministry of Industry and Information Technology says the country's steel sector should **aim to source at least 45% of its iron inputs by 2025 from suppliers controlled by China**. China currently imports about 70% of its iron ore from Australia and Brazil.

- **Iron ore developments in the Pilbara include:**
 - **Australia's iron ore resource base** is capable of sustaining production for at least six decades, according to the Minerals Council of Australia (MCA). The report estimated that the average remaining resource life for major Pilbara producers at 65 years, with Australia boasting an estimated 70 billion tonnes of remaining iron ore resources.
 - **With the United States re-entering the Paris Climate Agreement**, Australian iron ore producers are experiencing increased demand for higher grade product, which is considered more environmentally friendly than lower grades from other suppliers.
 - Despite the pandemic and trade restrictions applied to several commodities by Australia's biggest trading partner China, resources and energy exports are expected to deliver **\$296 billion in income for the nation in 2021**, up from a record \$290 billion last year.

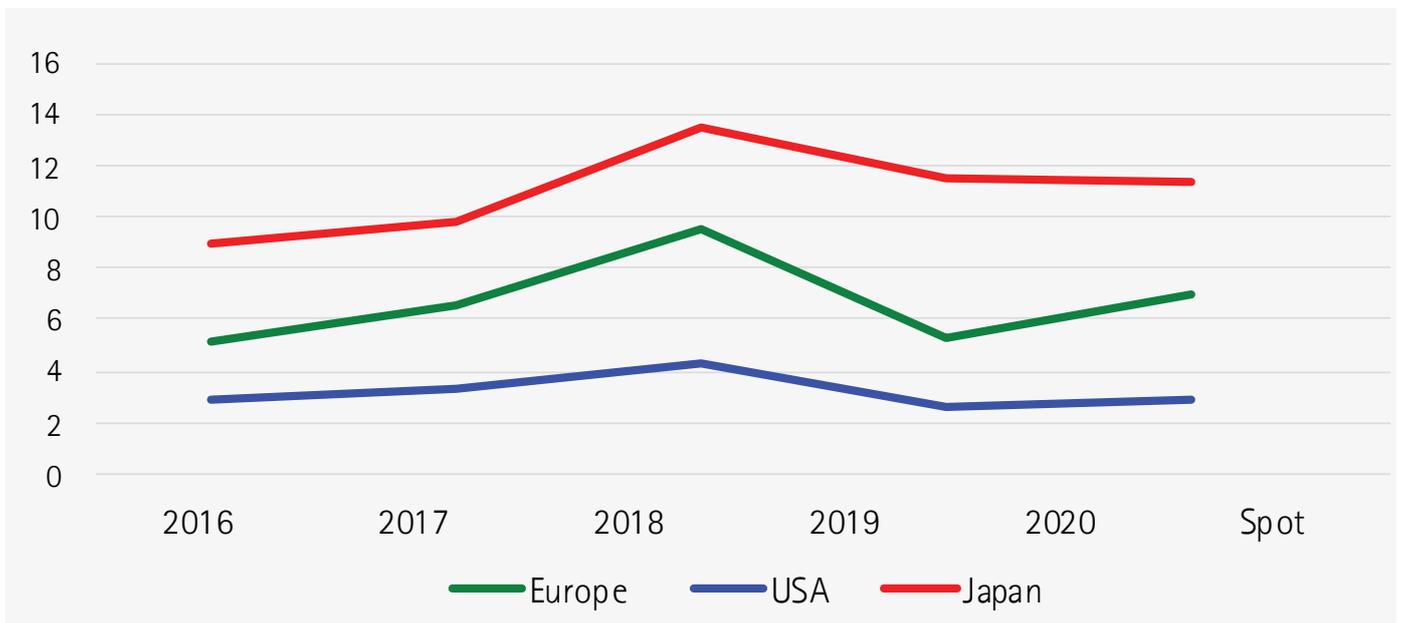
- **A near \$20 billion dividend pay-out** by BHP, Rio Tinto and Fortescue Metals Group means that the major iron ore producers have replaced the largest “big 4” banks as the top dividend payers in Australia, with most of this wealth generated from operations in the Pilbara.
- The **value of Pilbara iron ore production** to WA is further reflected by iron ore set to deliver a record-breaking \$10.7 billion in mining royalties to the State Government this financial year.
- **Atlas Iron** has hauled its first shipment of iron ore from the Sanjiv Ridge operation ahead of schedule. The first delivery of iron ore to Port Hedland starts the company’s four-to-five-million-tonne-per-annum output target.
- **BHP** has achieved record half-year iron ore production from its Pilbara operations of 128.4 million tonnes, representing a 6% jump on the previous corresponding half year, however BHP boss Mike Henry has wound back expectations the mining giant could ship as much as 330 million tonnes of iron ore a year from its Pilbara operations, saying the company was more focused on growth in “forward-facing” commodities such as copper and nickel. BHP has constructed 90% of the South Flank iron ore project, keeping the development on track to start production by mid-2021.
- **Rio Tinto** has spent over \$500 million to develop the Greater Tom Price iron ore operations in the Pilbara region. More than 1,000 people at peak construction have been employed. The latest investments come after Rio Tinto spent \$1 billion in late 2019 to maintain its level of iron ore production in the Pilbara.
- **CITIC** appears to have secured another one billion tonnes of future ore supply for its Sino Ore project in a resolution of one of its legal battles over mining rights with Clive Palmer.
- **Fortescue** has flagged a blowout on the cost and timetable of its US\$2.6 billion Iron Bridge magnetite project in WA’s Pilbara region, but has revealed its ambitions to build Australia’s first green steel pilot plant this year and has finished the first half of the 2021 financial year with a record 90.7 million tonnes in iron ore shipments.
- **CZR Resources** is planning a definitive feasibility study, on the proposed development of its 85%-owned Robe Mesa iron ore project 150 kilometres southwest of Karratha.
- **Atlas Iron’s** McPhee Creek project, has applied to the State’s Environmental Protection Authority to build a 14 million tonne per annum mine, 30km north of Nullagine.
- **Mineral Resources (MinRes)** has produced its first iron ore at the Wonmunna mine, the start of a five million tonnes per annum operation, with potential for expansion to 10 million tonnes per annum in the future. The first-half underlying net profit of MinRes has more than trebled to \$430 million in 2020/21.
- **Strike Resources** intends to increase its focus on the Paulsens East iron ore project in the Pilbara, by spinning of its lithium and battery minerals assets.





LNG

LNG Prices: Europe, USA, Japan - 2016 to March 2021 (US \$MMBtu)



SOURCE: WORLD BANK AND EUROPEAN GAS AND GLOBAL LNG3

Prices in Europe and Asia stabilise at higher levels; spot prices remain firm, large-scale investments in the Pilbara more likely

- **The LNG investment landscape in the Pilbara has continued to improve as global demand recovers.** Gas consumption is set to grow by 2.8% year on year the International Energy Agency (IEA) has said in its new Q1 quarterly report for 2021.
- **In the Pilbara:**
 - **Woodside** has signed an expanded LNG supply deal for its US\$11.2 billion (\$14.5b) Scarborough gas project, with European energy group Uniper, for an initial supply of one million tonnes a year from 2021, increasing to about 2 million tonnes from 2026; and has signed a supply deal of 840,000 tonnes of LNG per year with a subsidiary of German energy and utilities group RWE, for seven years, starting 2025. “The agreement with Uniper highlights the strong market demand we are seeing for Scarborough LNG as customers consider their energy requirements from the second half of this decade,” Woodside chief executive Peter Coleman said.

³ <https://globalinghub.com/report-presentation/european-gas-and-global-lng>

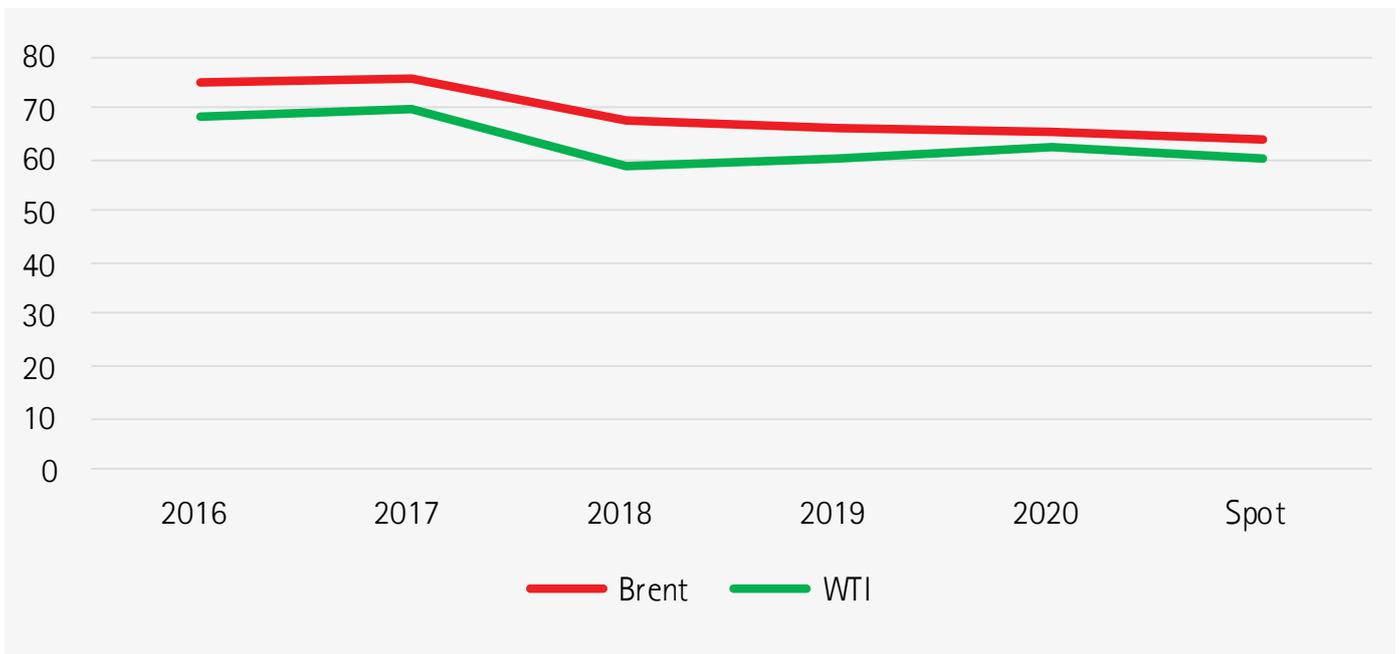
- **Woodside** is also building a new gas pipeline to enable gas from its Pluto fields to be processed at the North West Shelf venture's Karratha gas plant, pushing another 24.7 petajoules (pj) of gas into the domestic market between 2022 and 2025. Woodside has also agreed with the Government to supply an extra 45.6pj from its one-sixth equity position in the NWS from 2025 to the local energy market and has also started talks with gas infrastructure owners and financial investors about buying a stake in its Pluto Train 2 development.
- **Chevron's** permit to operate the Gorgon LNG hub will now expire in July 2028, rather than July 2038. Gorgon is expected to export LNG for 40 years and the change consigns Chevron to more frequent cycles of review and permitting. Gorgon is located on Barrow Island, which is ranked as a "Class A" reserve of Crown Land and is therefore subject to the highest level of environmental protection under WA's Land Administration Act.





Oil

OIL PRICES: 2016 TO MARCH 2021 (US\$/BBL.)



SOURCE: WORLD BANK AND OIL PRICE NOW

Increase in prices stabilises, medium term prices expected to remain higher, long-term decrease in oil demand remains likely

- Oil prices have continued to rise in the March quarter, with production cuts by OPEC+ remaining in place, and increasing demand globally as economies start to recover from the pandemic.

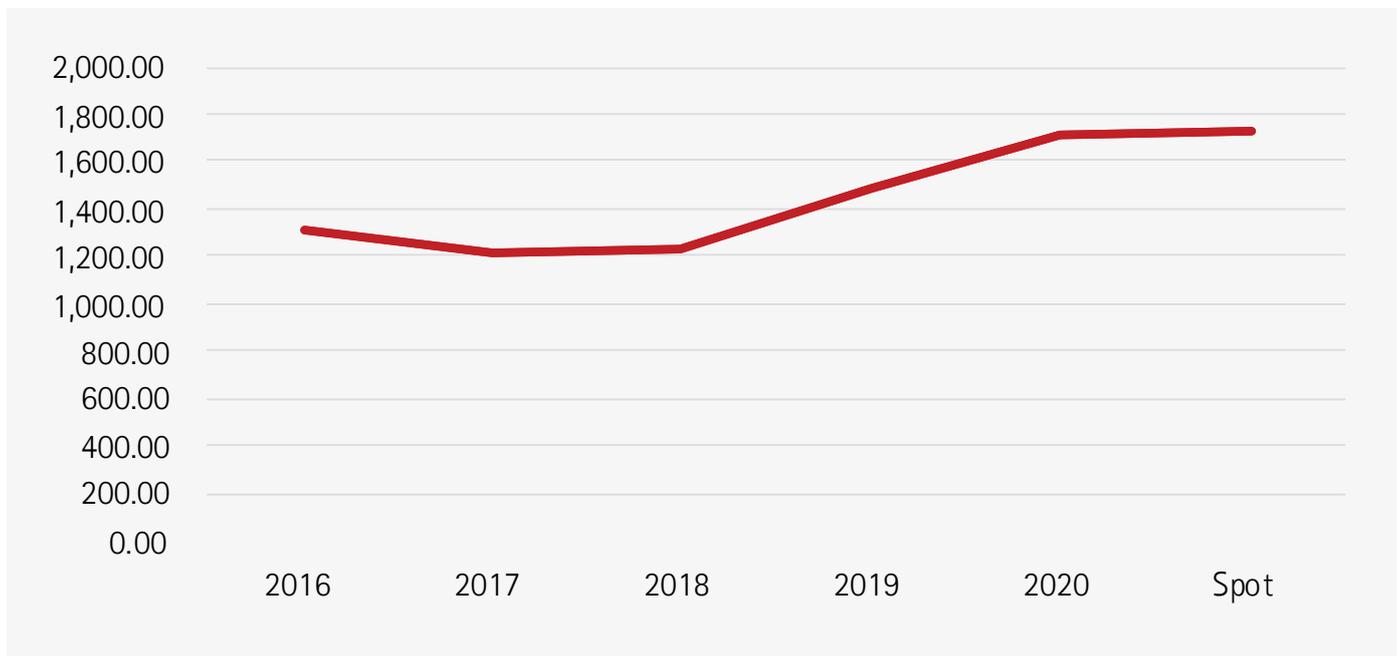
Renewables

- The global movement to green economies has received another boost with the proposal by the Biden administration to spend over US\$2 trillion on an economic growth package that includes renewable energy and green economy initiatives.
- The Pilbara Ports Authority (PPA) has announced the arrival of the HL Green bulk carrier. The switch to LNG-fueled vessels to export bulk iron in the Pilbara would reduce sulphur and particulate matter by 95% and nitrogen emissions by 85% by bulk carriers.



Gold

GOLD PRICE: 2016 TO MARCH 2021 (US\$/OZ)



SOURCE: WORLD BANK

Prices decrease slightly, increased exploration, investment and employment continues

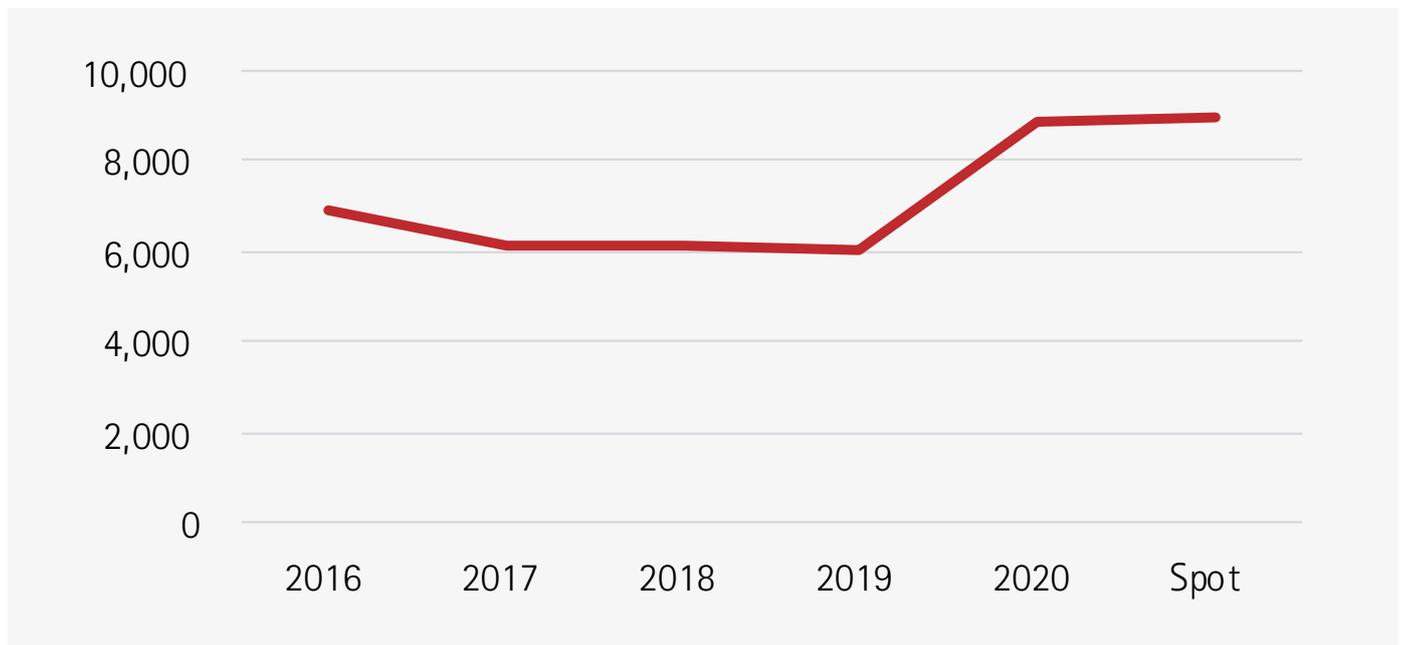
- **Australia's gold mine output** hit a record 327 tonnes in 2020 representing approximately 10.5 million ounces, worth \$27 billion. However, the **price of gold has been declining** from the highs of US\$2,056 per ounce in August 2020 to about US\$1,720 per ounce at present. They still remain relatively high and with signs of inflation in the US and global economies future declines may be limited, with prices remaining high enough to encourage exploration and new production.
- **Developments in the Pilbara** include:
 - **Capricorn Metals** has started to mine gold at Birba gold mine with a lift in production planned for the June quarter and has taken up an approximately 12% shareholding in Pilbara neighbour DiscovEx Resources.
 - **Novo Resources** preliminary economic assessment of its Beaton's Creek conglomerate gold mine has underlined the profitability of the operation, at a cash cost of around US\$700 an ounce. The first gold has been poured and the company has wrapped up its acquisition of the Comet Well project in the Karratha region.

- **Aruma Resources'** maiden RC drilling campaign at its Saltwater gold project about 100 kilometres south-west of Newman has returned encouraging results.
- **Calidus Resources** has bought out another royalty for its Warrawoona gold project, that will help boost cash flows, and has completed all early works, following government approval for its mining operation. Construction of Warrawoona is fully funded and is on schedule to pour first gold in the first half of 2022.
- **Newcrest Mining** has received regulatory and funding approval for the Havieron joint venture (JV) with Greatland Gold, with commercial production starting in about three years.
- **Kairos Minerals** has commenced a drilling campaign designed to grow existing gold resources at Mt York, with several gold drill hits.
- **Trek Metals** is set to expand its footprint in the Pilbara, having secured an agreement to acquire gold and iron ore tenements from Tambourah Mines. The Tambourah project covers 290 square kilometres of gold and base metals targets within the Western Shaw greenstone belt.



Copper

COPPER PRICE: 2016 TO MARCH 2021 (US\$/MT)



SOURCE: WORLD BANK

Prices upward trend, large-scale investments possible

- **Demand for copper** has continued to **increase sharply in the March quarter**, with further price increases anticipated.
- **China's imports of copper concentrate from Australia** dried up completely in December, however Australian producers are diversifying their customer base.
- **New developments in the Pilbara include:**
 - **White Cliff Minerals** has had encouraging copper results from an extensive soil-sampling program at its early-stage Midas copper-gold project in Paterson Province.
 - **Rio Tinto** has pushed back the timeline for its Winu copper-gold project by a year, as it seeks further engagement with traditional owners over the proposed development. First production is now expected in 2024 compared to previous plans for production in 2023.
 - **Venturex Resources** continues to explore the potential of its Sulphur Springs copper-zinc project and considers the potential to discover additional copper and zinc resources to be excellent.
 - **Anglo American** is to receive a royalty on Anax Metals' copper-zinc production at the Whim Creek project, about 120 kilometres southwest of Port Hedland.



Lithium

Lithium carbonate prices: November 2020 to April 2021 (Yuan/t)



SOURCE: EXTRAPOLATED FROM TRADING ECONOMICS

Short term prices continue to strengthen markedly, long term increases in demand & prices likely, increased investment medium term

- According to Trading Economics, **Lithium Carbonate prices surged to 85,000 Yuan per tonne for the first time since August of 2018** after government incentives boosted demand for the metal while supplies remain tight. The supply-and-demand balance for lithium fell into deficit in 2020 and is this is expected to continue in 2021, due to lack of investment in mines after prices declined following the boom that lasted until 2018.
- **Fitch** has said it expected the global Electric Vehicle (EV) fleet to average 24% year-on-year growth between 2021 and 2030, reaching 84 million EVs on roads worldwide by 2030, compared with 10 million in 2020. Moreover, the installation of domestic and commercial-scale lithium-ion batteries that store energy is also on the rise globally.
- The world's **biggest automaker Volkswagen** this week announced US\$29 billion plans to build six battery factories in Europe.
- **Lithium Australia** is confident the evolution in the global EV industry will underpin a 500% expansion in the lithium-ferro-phosphate type of lithium-ion battery market within the next 10 years.
- **In the Pilbara**, Pilbara Minerals has expanded its offtake agreement with Yibin Tianyi Lithium Industry for spodumene concentrate produced at the Pilgangoora lithium-tantalum operation, and has granted a works contract to SIMPEC for stage one improvements. It has reached record December quarter shipments and finalised its acquisition of the Altura lithium project from Altura Mining for \$201 million.

Manganese

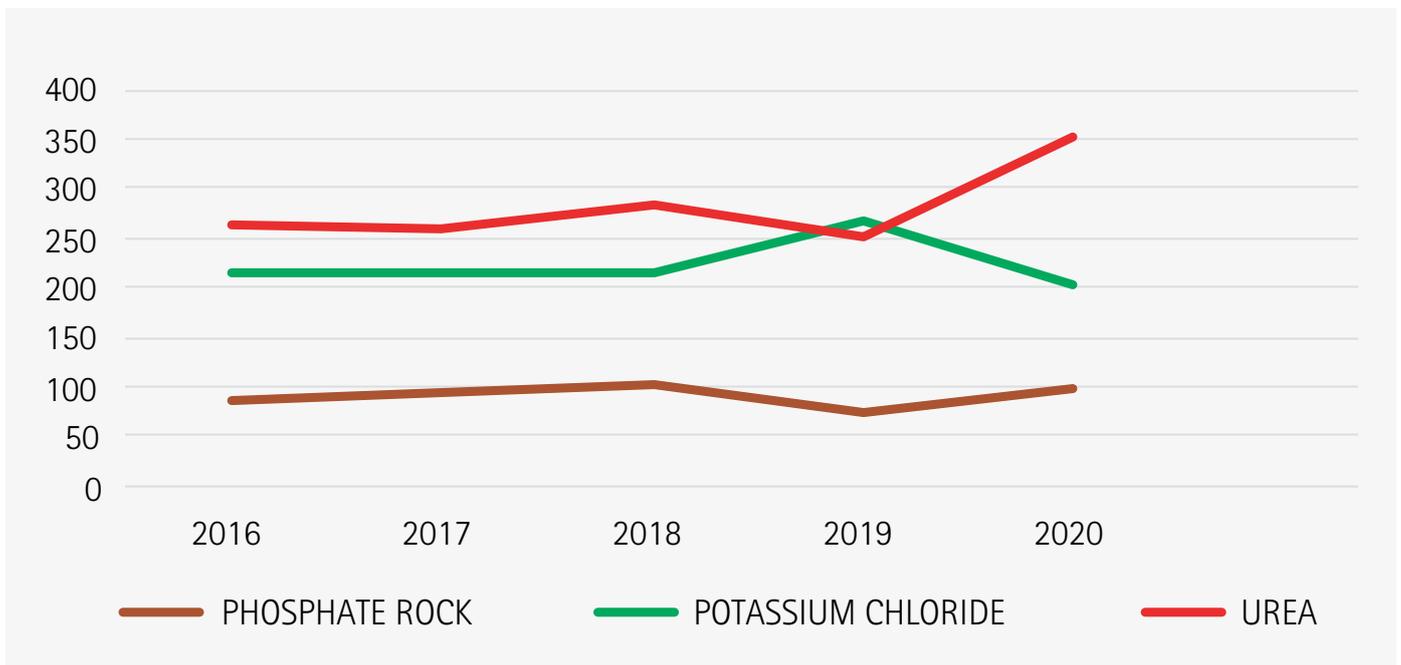
- Manganese prices have been flat over the March quarter, however there is no change to market sentiment, which is positive over the medium term.
- In the Pilbara, with a large manganese resource of 263 million tonnes sitting at the surface, Element 25 will soon be in production at its Butcher Bird project about 130 kilometres

south of Newman. A binding take-or-pay offtake agreement has been signed with OM Materials covering the first five years of projected manganese ore production. The foundation for a “stage two” development has been laid with a capital raise worth \$35.5 million for the planned expansion of manganese concentrate output from about 365,000 tonnes to more than one million tonnes a year.



Fertiliser and Ammonia

FERTILISER PRICES: 2016 TO MARCH 2021 (US\$/MT B)



SOURCE: WORLD BANK

Urea prices increase, large-scale investments are taking place in the short to medium-term

- **In the Pilbara:**
 - **Perdaman** plans to begin construction of its \$4.5 billion fertiliser plant in Karratha this year, having appointing local engineering firm Clough as the lead contractor on the project and is targeting 2025 for first production.
 - The State Government has given Norwegian group **Yara's WA green ammonia project** a \$2 million grant from its WA Renewable Hydrogen Fund, as part of its bid to build a renewable hydrogen industry.
 - **Kalium Lakes** has upgraded the capacity of the Beyondie sulphate of potash project to produce 100,000 tonnes per annum, with potential for further increases.



Beef

BEEF PRICE: 2016 TO MARCH 2021 (US\$/KG)



Global Prices fluctuating at high levels, very high cattle prices throughout Australia

- **Soaring cattle prices in Australia** are underpinning the beef industry and indications are that high prices may remain elevated, because of restocking demand from the east coast. Moreover, the west Pilbara and upper Gascoyne have received significant amounts of rain in the past few months which should benefit the herds.
- Two of WA's biggest and most highly regarded cattle stations (Balfour Downs and Wandaya Stations) covering vast tracts of the East Pilbara are being sold by its Chinese owner, who will refocus efforts on building its Great Southern wine business.

Approvals and Legislation

- The Australian Parliament has passed the *Native Title Legislation Amendment Act 2020*, which

allows a native title to impose conditions for land use agreements. A section 31 agreement concerns the grant of mining and exploration rights over land that may be subject to native title. The Minerals Council of Australia (MCA) stated that the mining industry acknowledged the approach taken by the Australian Government's Attorney-General Department.

- BHP's environmental licenses at two of its Pilbara mine sites are under review by the Department of Water and Environmental Regulation over concerns about rising dust levels coating the town of Newman. BHP said it is committed to identify new air quality opportunities and implement dust mitigation work and projects at BHP's Newman West and Newman East mine sites.
- The WA Government has announced that it would invest an additional \$1.6 million to fund specialist short-term processing roles to work through the current high volumes of mining approval applications.

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