

Pilbara February 2022 Bi-Monthly Economic Report



HIGHLIGHTS

Australian Interest Rates

At its first meeting for 2022 (1 February 2022) the Reserve Bank of Australia (**RBA**) resolved to again keep official interest rates on hold. The official cash rate has been held at 0.1% since November 2020 as the RBA attempted to cushion the economic impact of COVID-19 in Australia. The RBA announced that whilst the Omicron outbreak has affected the Australian economy it remains resilient and spending is expected to pick up as COVID positive case numbers trend lower. The RBA's central forecast is for Australian Gross Domestic Product growth of around 4.25% over 2022 and 2% over 2023. This outlook is supported by household and business balance sheets that are in generally good shape, an upswing in business investment, a large pipeline of construction work and supportive macroeconomic policy settings. The main source of uncertainty continues to be the pandemic.

The RBA advised following its February meeting that *"it will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. While inflation has picked up, it is too early to conclude that it is sustainably within the target band. There are uncertainties about how persistent the pick-up in inflation will be as supply-side problems are resolved. Wages growth also remains modest"*.

Invasion of Ukraine by Russia

On Thursday 24th February 2022, Russia invaded the Ukraine. This military conflict undoubtedly influence various markets and commodities in 2022 (from wheat to energy prices) with investors historically retreating to the traditional safe havens of gold and government bonds in times of major risk events.



HIGHLIGHTS



COVID UPDATES



COST OF LIVING IN THE PILBARA



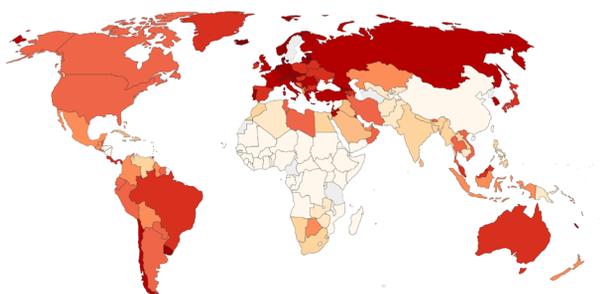
COMMODITIES DATA



OTHER PILBARA NEWS (INVESTMENT LEGISLATION, GOVERNANCE)

Daily new confirmed COVID-19 cases per million people, Feb 14, 2022
7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

Our World
in Data



Source: Johns Hopkins University CSSE COVID-19 Data

CC BY



COVID UPDATES

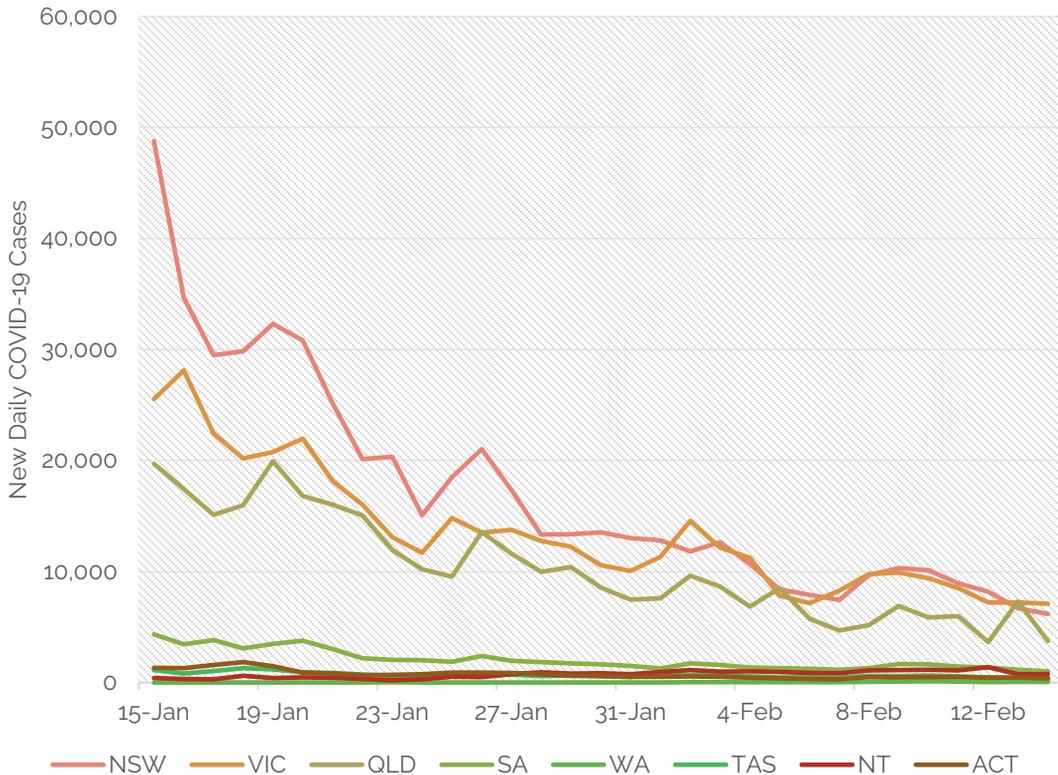
WA & Pilbara

On 20 January 2022, the re-opening of WA's hard border (scheduled for 5 February) was postponed due to escalating risks posed by Omicron. 3 March was subsequently announced as the new date for re-opening WA's hard border.

- During January and February 2022, WA residents were able to travel to other states but on return were subject to 1 week quarantine if vaccinated or 2 weeks if unvaccinated. However, from 3 March 2022 new COVID measures will be introduced into WA with borders now open to interstate and international travel subject to vaccination and testing requirements.

- As of late February, close contact rules have been relaxed for police and health staff in WA in order to keep them at work, as WA reported more than 1,000 new COVID cases for the first time on 25 February 2022.
- International travel has been reinstated for all Australian states (excluding Western Australia who still requires mandatory quarantine and the undertaking of a rapid antigen test on day 1 and 7 after arrival). However, from 3 March 2022, international travel will be possible from WA subject to vaccination and testing requirements.
- First reports of Pilbara based COVID-19 cases at BHP Jumblebar mine site and other cases at the Yandi Iron Ore mine with multiple sites in the Pilbara disclosing positive COVID cases over February.
- On 10 February the WA Government announced a \$77m COVID relief package to WA business (including travel agents and tourism businesses).
- As of 20 February 2022, 59.4% of West Pilbara and 62.3% of East Pilbara residents over 15 had received two doses of a COVID vaccine (Federal Dept of Health).

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





COVID UPDATES

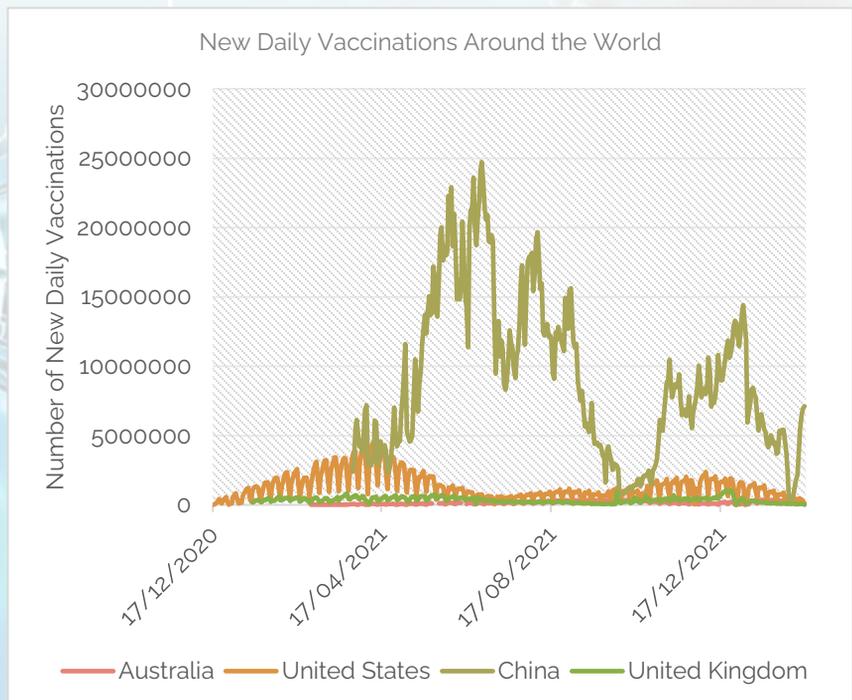
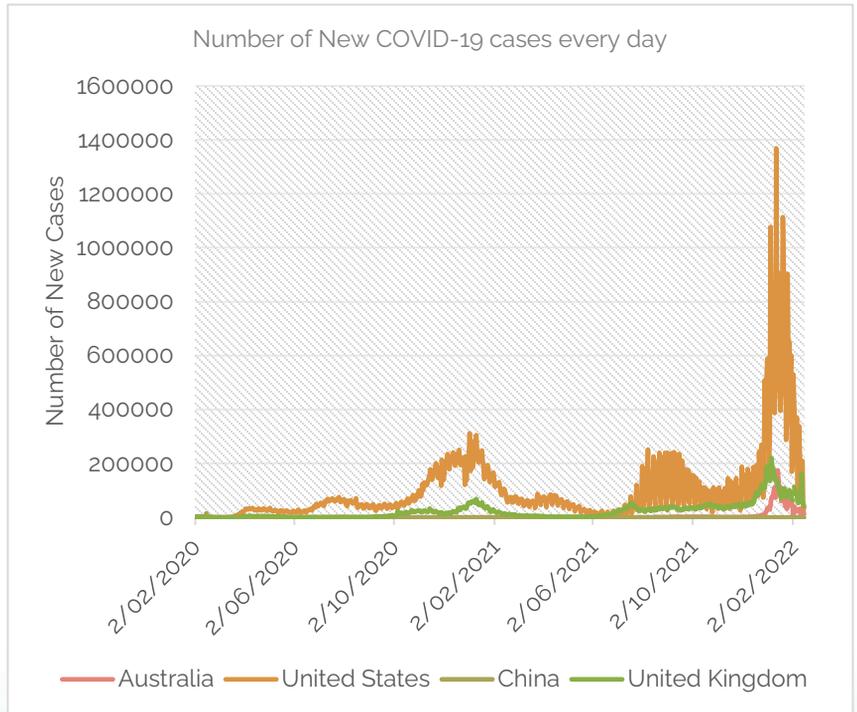
The World

The worldwide rollout of COVID-19 vaccines is seeing a rebound in the world economy's services sector; however, the Omicron strain continues to cause uncertainty and instability in the share market.

Globally, the numbers of weekly COVID-19 cases and deaths have reached 412 million confirmed cases and 5.8 million deaths across 200 countries (*Johns Hopkins University*). Over 10 million vaccine doses have been administered. In the past 14 days from the 16th of February 2022, there has been a 32% decrease in new reported cases in the world. Europe, Malaysia and Australia are now considered hotspots with an average of over 60 cases in 100,000 people.

Australia

Australia has experienced spikes in COVID-19 cases since Christmas 2021 due to community transmissions, the rapid spreading Omicron variant and the opening of Australia to international travel. Since January 2022, overall case numbers have been decreasing Australia-wide with NSW having the largest number of reported cases with the virus being acquired both locally and overseas.





COST OF LIVING IN THE PILBARA

EMPLOYMENT TRENDS

On 20 January 2022, the Australian Bureau of Statistics reported an increase in December 2021 employment figures had resulted in the national unemployment rate decreasing to 4.2%. In its December 2021 Quarterly Report, the National Skills Commission found that the increase in job advertisements were as a result of the easing of lockdowns and restrictions in several jurisdictions. A Deloitte Access Economics study published in February 2022 has found that closed international borders in response to the COVID pandemic and a sharp decrease in skilled migration has resulted in 380,000 fewer people having entered the workforce. Border closures were cited as one of the key barriers of attracting new staff by a quarter of employers surveyed by Deloitte

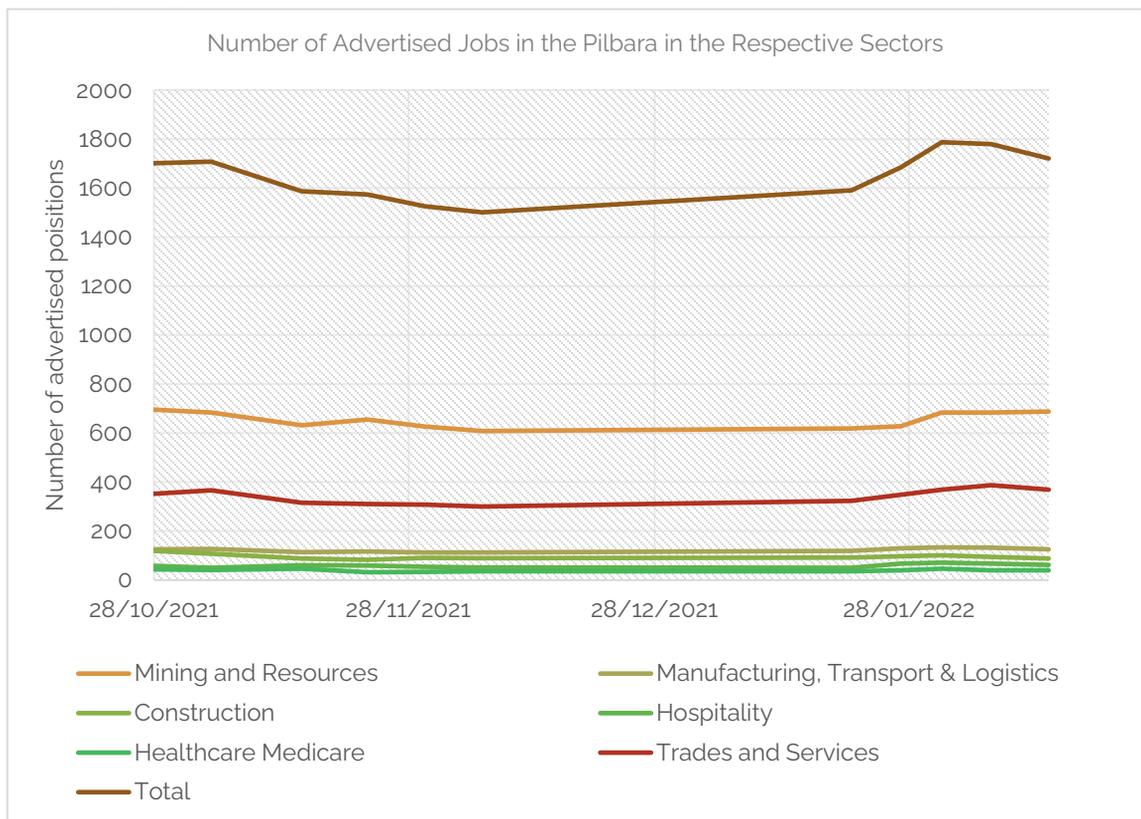
Access Economics.

The National Skills Commission reported (December 2021) that, unemployment in the Pilbara region was at a record low of 1.9%, down from 3.3% in March 2020.

Pilbara job vacancies have begun to steadily decrease after peaking at the end of January 2022 however job vacancies in the Mining & Resources sector (*the largest employment sector in the Pilbara, making up nearly 50% of the job vacancies advertised on Seek.com.*) are steadily increasing.

The Hospitality & Trades and Services sectors have also seen significant growth in the number of advertised job vacancies in the Pilbara. The City of Karratha, Karratha Districts Chamber of Commerce & Industry and the Port

Hedland Chamber of Commerce & Industry are currently undertaking comprehensive surveys into a range of issues including service supply, community concerns, business challenges and the impact of COVID, with indicative results showing that attracting and retaining suitably skilled employees together with the cost of living are the two current key concerns for Pilbara based businesses and communities. These surveys support anecdotal evidence obtained from the Pilbara Monthly Economic Report's author from interviewing a variety of businesses located across the Pilbara who have stated that they are encountering significant challenges in recruiting and engaging employees (with costs of living and access to housing as key related factors).



Data collected from Seek



**COST OF LIVING
IN THE PILBARA**

Food Shortages

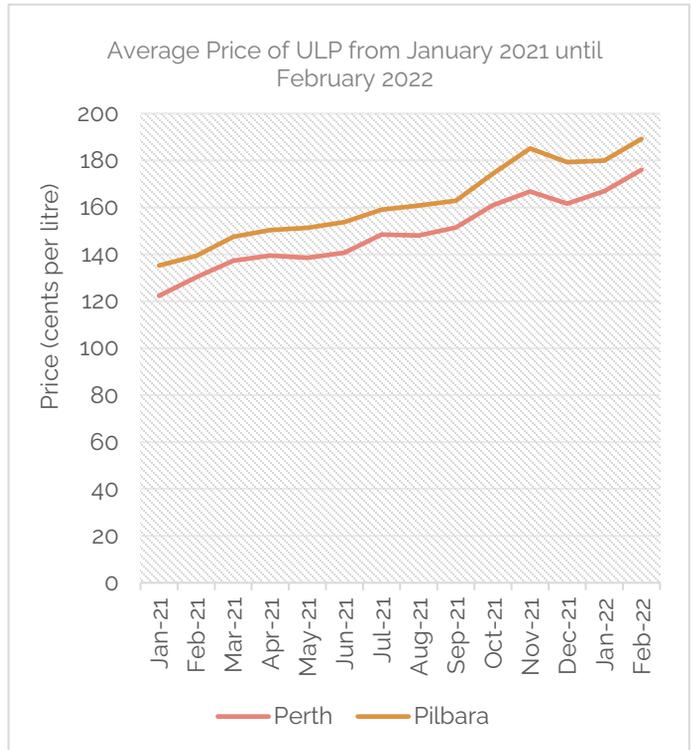
2022 commenced with the whole of Western Australia experiencing supermarket product shortages. The combined pressure of COVID Omicron variant outbreaks and subsequent lockdowns in the Eastern States, together with rail infrastructure damage caused by a once in a 200-year flood resulted in bare supermarket shelves in WA (particularly northern WA) and the NT.

The Trans-Australian railway that links WA to the East Coast via Adelaide was closed for over three weeks in early 2022 following historic rainfall in South Australia causing significant disruptions to the West Australian supply chain. 80% of WA's freight is transported on the Trans-Australian railway line and whilst it was reopened on 15 February, it will take several weeks for Western Australian businesses to restock supplies and supermarket shelves to be stocked, particularly in the remote Pilbara region.

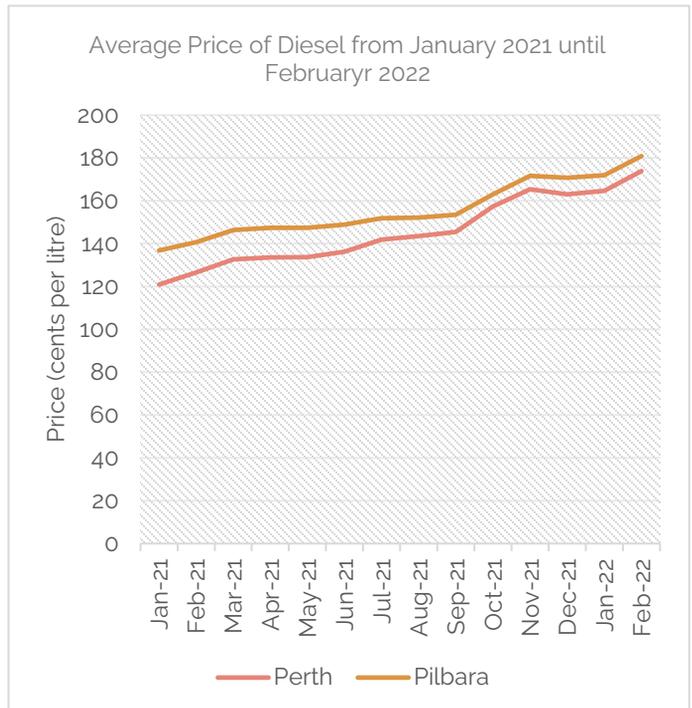
Many supermarket shelves have also been depleted by panicked shoppers due to rising COVID cases and the fear of anticipated lockdowns. In the Eastern States, thousands of workers in food production industries have been forced into isolation contributing to staffing shortages that placed additional constraints on the quantum of products produced and distributed. Supermarket giants Coles and Woolworths have reported staffing shortages of up to 35% as a result of staff illness related to contracting COVID. To combat hoarding and panic buying, many supermarkets have put constraints on key products limiting the product amounts consumers can purchase at any one time.

Fuel Prices in the Pilbara

WA fuel prices have increased steadily since the beginning of 2022 due to underlying increasing oil prices. During 2021, Pilbara fuel prices remained on average 15 cents higher for Unleaded Petrol (ULP) while diesel prices have converged since January 2022. On 22 February, the ULP average Perth fuel price was 195.3 cents per litre (cpl) with fuel prices expected to exceed \$2 by the end of February 2022.



Data from Fuel Watch





**COMMODITIES
SUMMARY**

Summary

Two months into 2022 and there are several notable trends beginning to emerge in the commodities world. As the world's appetite for critical 'green metal' minerals grows (steered by the global desire for decarbonisation) and the desire to replace fossil fuels with batteries, commodities, such as lithium, copper and nickel are experiencing strong growth.

Nickel prices rose to a 10 year high in January 2022, whilst lithium also rose amid a global supply squeeze. Copper has also started strongly in 2022, trading above \$US9,500 per tonne in January and the market is expected to remain competitive as the trend towards electrification continues.

We have also seen iron ore make a recovery from the relative lows of November 2021.

However, with the invasion of the Ukraine by Russia on 24 February 2022, markets are again experiencing instability as countries and consumers react to the threat of war in Europe. Russia is a major supplier of key commodities – from oil and gas (Russia currently provides 25-30% of European energy supplies) to titanium and aluminium.

Widespread sanctions against Russia by the EU and the US may result in a tightening in worldwide supply and subsequent price increases.

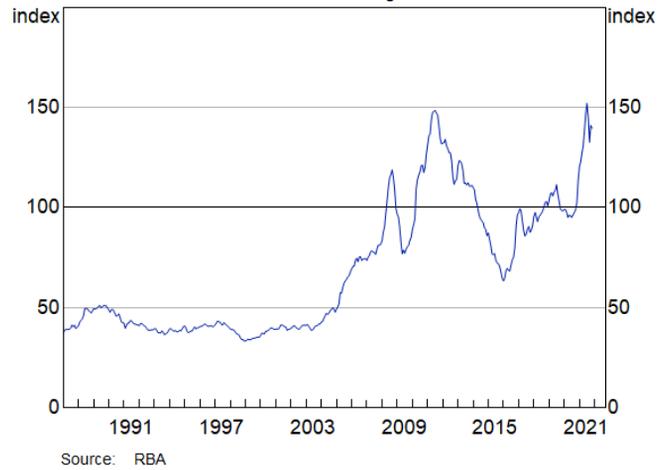
Iron Ore

Seaborne iron ore prices reached three-month highs in January, as 62% of Australian iron ore fines rose to \$US131.5 per dry metric tonne however this price has since come down encapsulating the iron ore market's current tumultuousness. In view of the many considerations at play it is difficult to predict the future for iron ore although it is unlikely that iron ore will see a return to the mismatch between supply and demand which saw record prices of A\$200+/- tonne in mid 2021.

In view of the low-cost nature of their operations in the Pilbara, Australia's major iron ore miners are anticipated to experience healthy profit margins through out 2022.

RBA Index of Commodity Prices

SDR, 2019/20 average = 100



Iron Price from January 2021 to January 2022



Iron ore Price from 2010 to 2022



Data from The World Bank



**COMMODITIES
SUMMARY CONT.**

Gold

The global uncertainty of the COVID-19 pandemic and the ongoing concerns about the impact of the Omicron variant have kept gold prices at a 5-year high.

In January 2022, gold traded above \$US1,800 per ounce, as investors moved towards gold as an inflation hedge amidst volatility in the share market and uncertainty over Omicron's economic impact. Gold's attraction as a traditional commodities 'safe haven' suggests that the outlook for gold in 2022 will remain positive as investors begin seeking conservative investments following the invasion of Ukraine by Russia.

Over \$1b was spent on gold exploration in 2021. A similar exploration programme is anticipated for 2022.





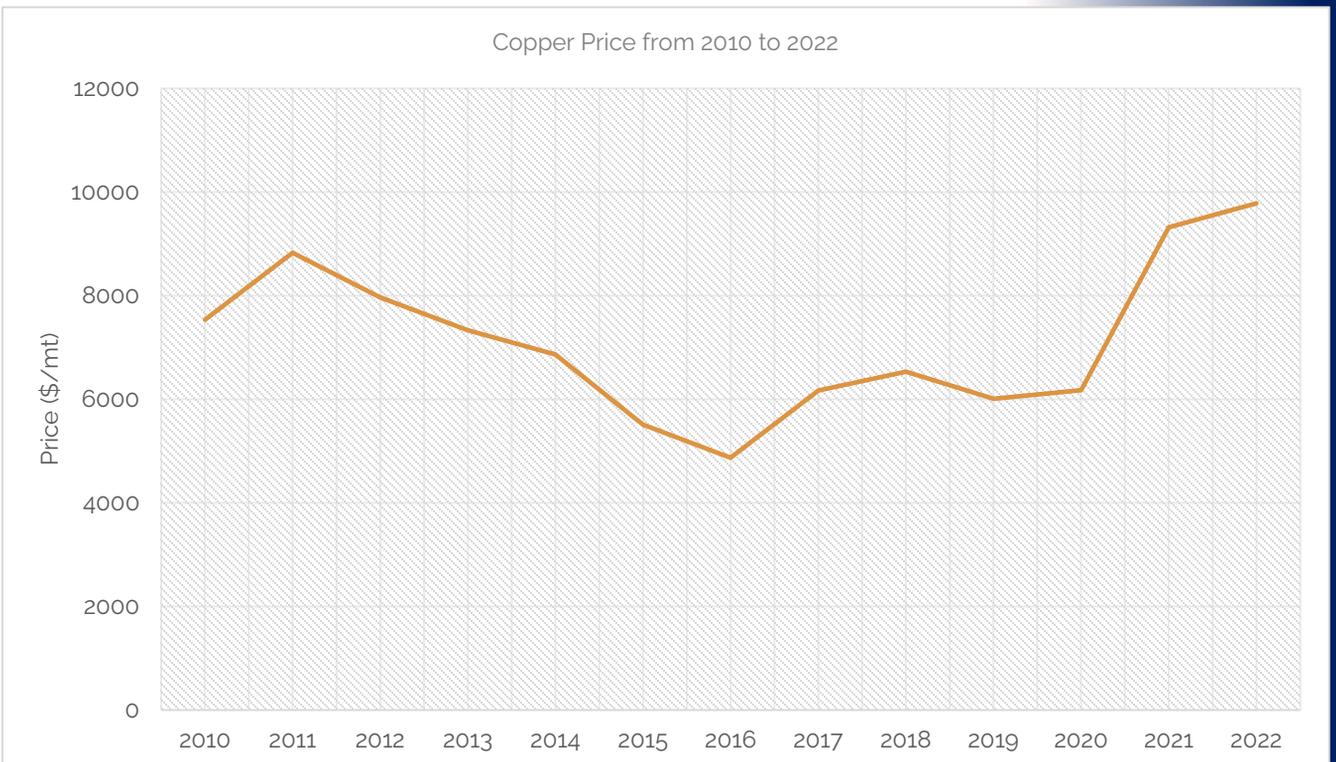
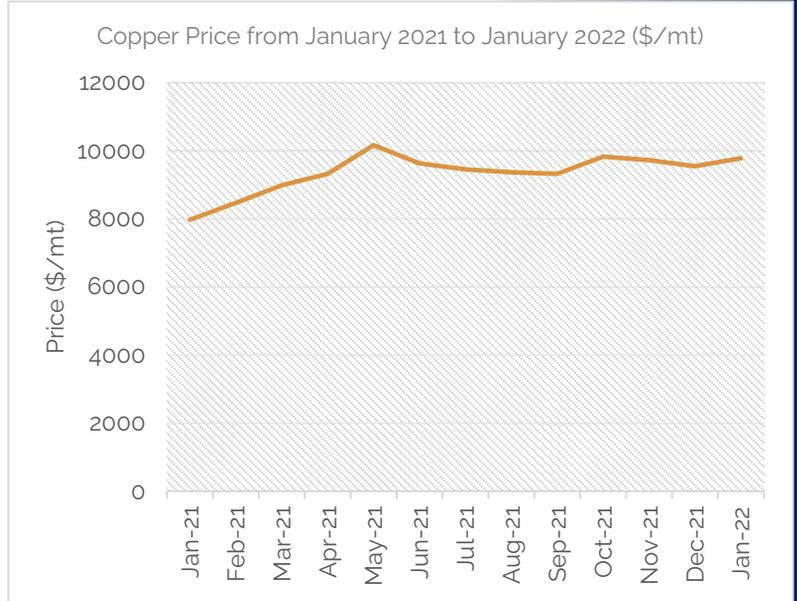
COMMODITIES
SUMMARY CONT.

Copper

Copper prices are anticipated to soften in 2022 influenced by weaker demand as rising global interest rates curb economic growth while mines increase supply (particularly in South America). However, the first few months of 2022 have seen copper prices remain relatively static despite recent volatility arising from Russia's military activities in the Ukraine.

Copper markets have become increasingly concerned over the effects of the Omicron variant on economic growth, power supply restrictions in China reducing production and gradual relaxing of monetary policies in the US which may start to see increasing instability over the upcoming months.

Copper is often regarded as a barometer of economic activity because of its wide-ranging uses in industries such as power generation and transmission, telecoms and car manufacturing.





COMMODITIES
SUMMARY CONT.

Lithium

Lithium prices have continued to increase dramatically with a 35% growth in February and 531% on the year from 2021. The price uptrend is expected to continue in the coming months due to supply tightness and surging demands.

Demand for lithium chemicals for electric vehicle batteries (as electric vehicle sales) is expected to reach 5 million units in China in 2022. This demand surpasses the growth in both US and EU markets.

In Australia, the primary lithium resource is spodumene concentrate that international customers convert into lithium carbonate at a grade for batteries.

Nickel

Nickel sulphate continues to rise to its highest level since 2011 due to high demand from the stainless steel and battery sectors against dwindling manufacturing and supply.

The high energy costs during 2021 forced smelters to limit output reducing supply in a tight market.

The high nickel prices together with soaring lithium prices are starting to feed through into prices of electric vehicles with battery producers increase lithium-ion cell prices.

Passing on lithium and nickel price increases to the automotive original equipment manufacturers (OEMs) and other downstream customers could see a major impact on electric vehicles coming to market between 2022 and 2024.

Lithium Carbonate Prices
from 18 January to 15 February



Lithium carbonate min 99.5% cif China prices USD/kg

New and expanded projects featuring cathode materials are expected to emerge in 2022 that will act as strong support for domestic lithium carbonate supply. It is expected that the growth of lithium carbonate production will lag behind the demand in 2022.

Nickel Price from January 2021 to January 2022



Data from Argusmedia

Cattle Prices

With above average rainfall fuelled by a weakening negative Indian Ocean Dipole and La Niña, in New South Wales and parts of Queensland, the national cattle herd rebuild is set to continue according to Meat & Livestock Australia's (MLA) first Cattle Industry Projections update for 2022. The forecast is for the national herd to grow by 1.1 million with slaughter numbers increasing 11% due to strong supply. The Eastern Young Cattle Indicator (EYCI) has reached a new record high in January of 1,191 cents per kilogram carcass weight (**kcv**) with price dropping in the following month.





**COMMODITIES
SUMMARY CONT.**

Oil & Gas

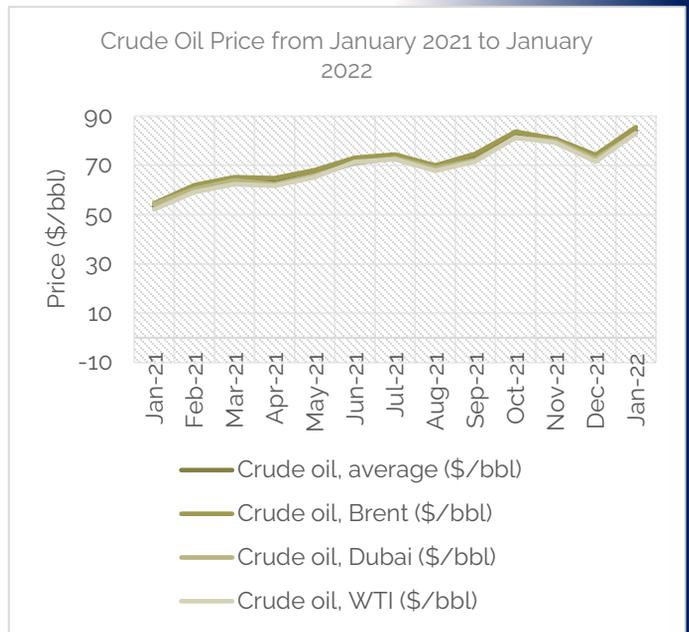
2022 is looking to be a positive year for global and Australian oil and gas producers with oil and gas prices continuing to increase in January and February 2022 amongst strong global demand for oil and gas.

The European Union currently receives approximately one third of its energy resources from Russia. To date the US and Europe have announced relatively modest sanctions.

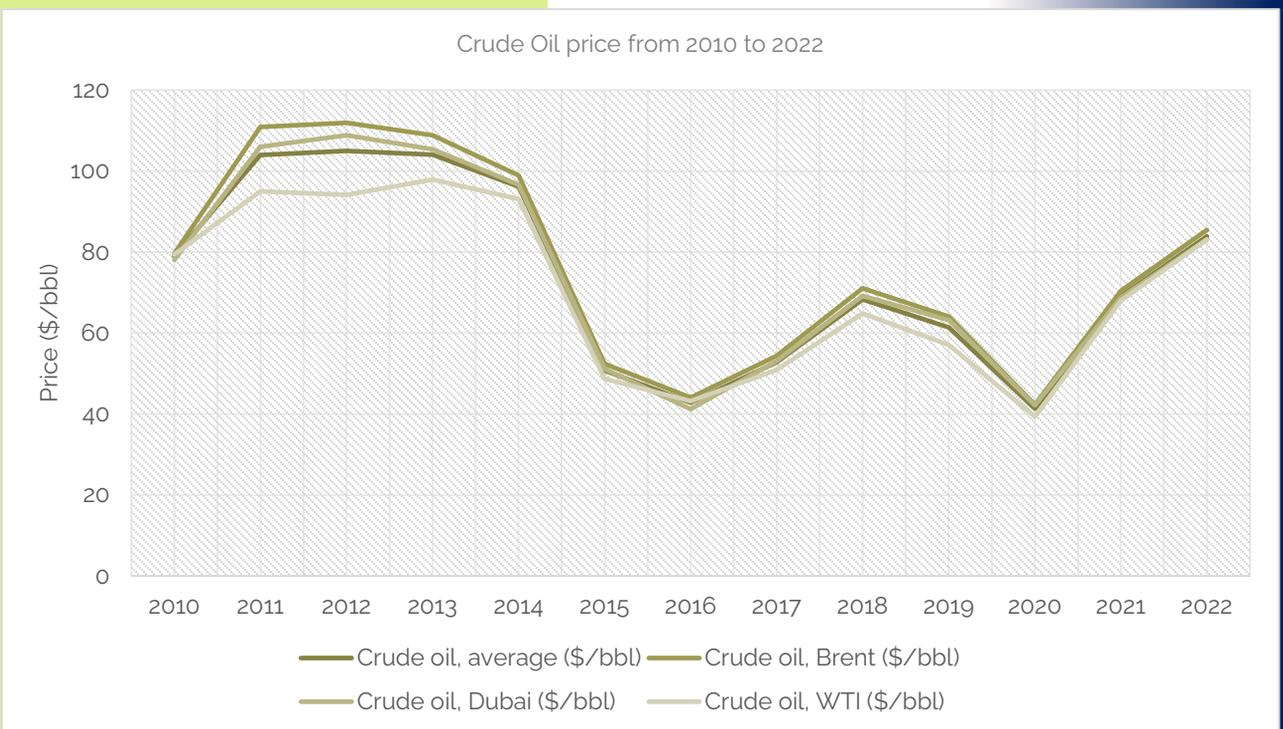
In the last week of February 2022, the German Chancellor agreed to halt the administrative approval process for the \$11bn Kremlin backed NordStream 2 gas pipeline – a move that will put the pipeline development on hold and deny Moscow increased energy sales to Europe. However, Germany did not impose sanctions on the pipeline itself nor its sister pipeline, NordStream 1, which is currently supplying gas to Germany under the Baltic Sea.

Effectively, Germany has sent a signal to Russia, however without affecting Germany's current natural gas supply (Australian Financial Review).

NATURAL GAS & CRUDE OIL



Data from The World Bank



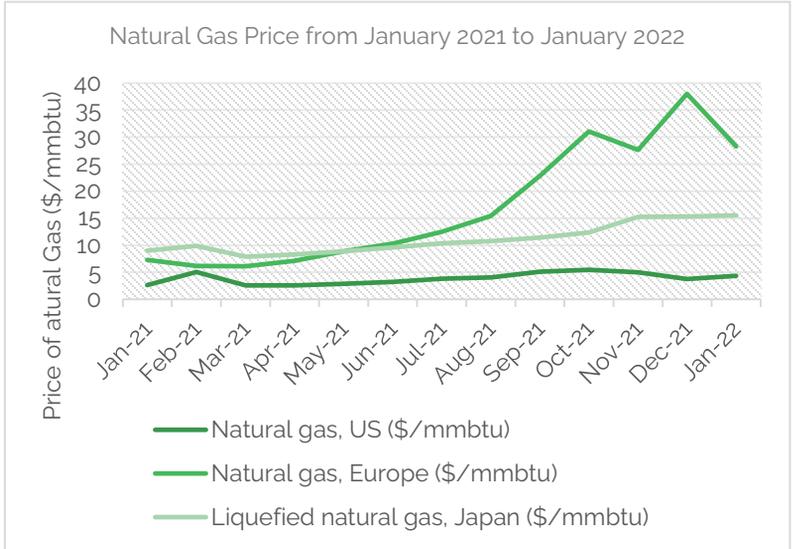


**COMMODITIES
SUMMARY CONT.**

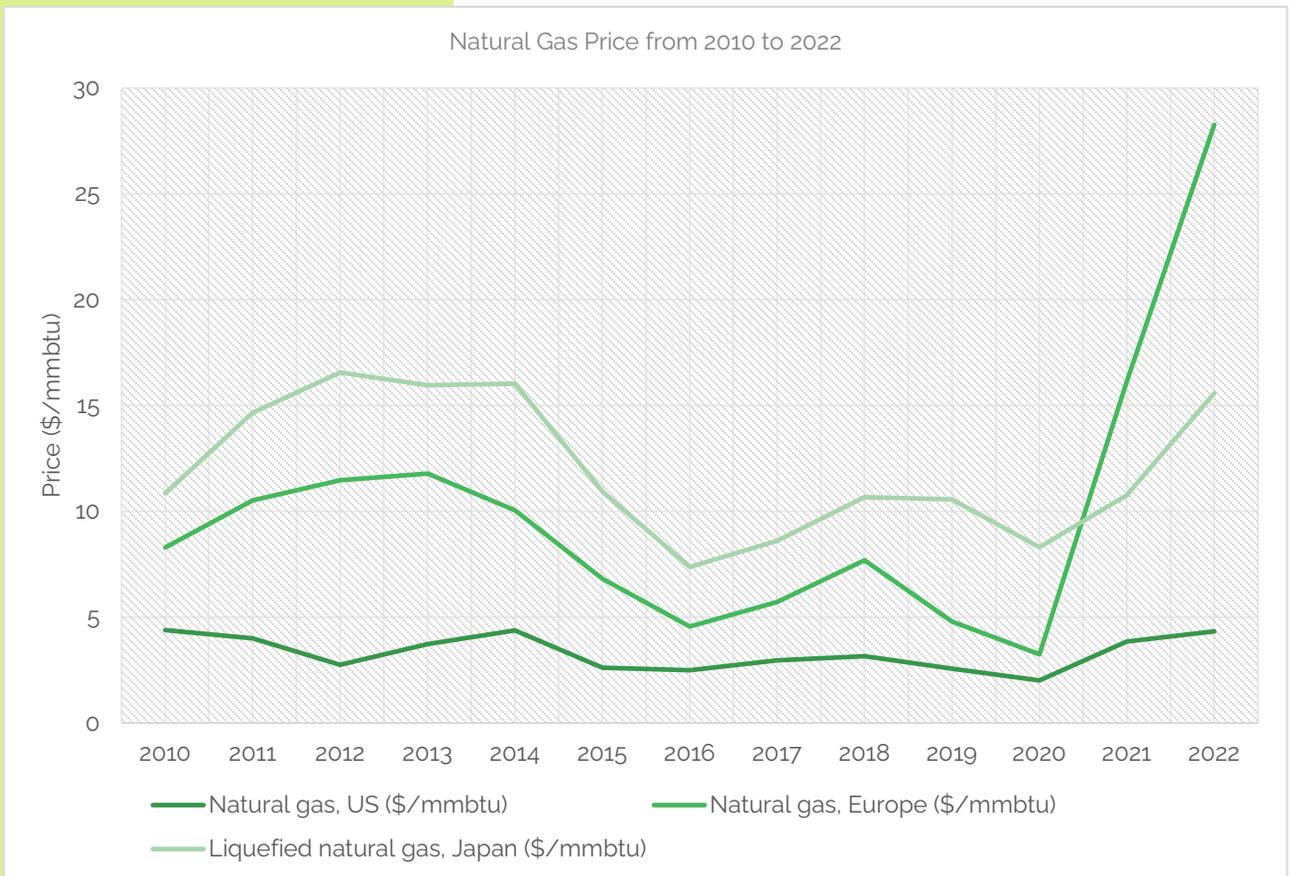
Oil & Gas Cont'.

Just prior to Russia escalating its military offensive in Ukraine the EU, and the UK purchased a combined 3.5 million barrels of Russian oil and refined products, worth more than US\$350 million. In addition, these nations purchased around US\$250m of Russian gas.

Without these Russian crucial energy resources, blackouts could be triggered in Europe again, an unlikely situation allowed by European governments looking to get through the European 2021/22 winter without any further energy crises.



Data from The World Bank





**COMMODITIES
SUMMARY CONT.**

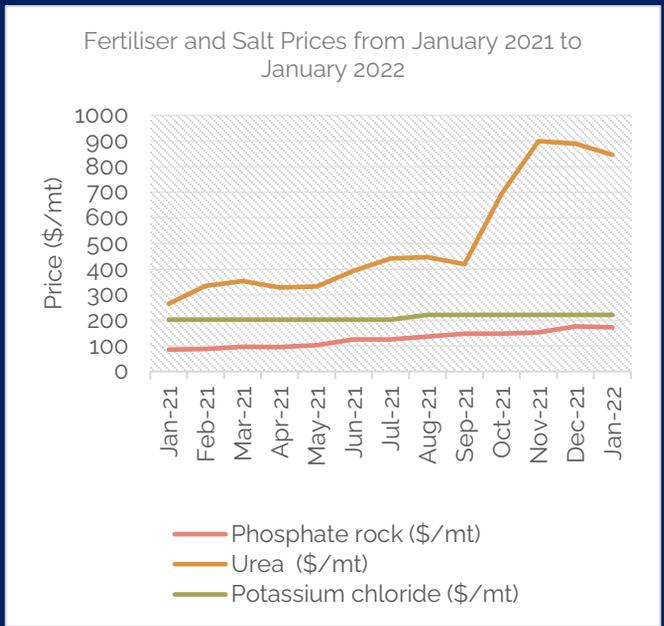
Fertiliser and Salt

Surging energy costs and export restrictions from overseas suppliers are maintaining record high fertiliser prices in Australia, with analysts predicting farmers could be forced to ration its use, potentially disrupting global food supply.

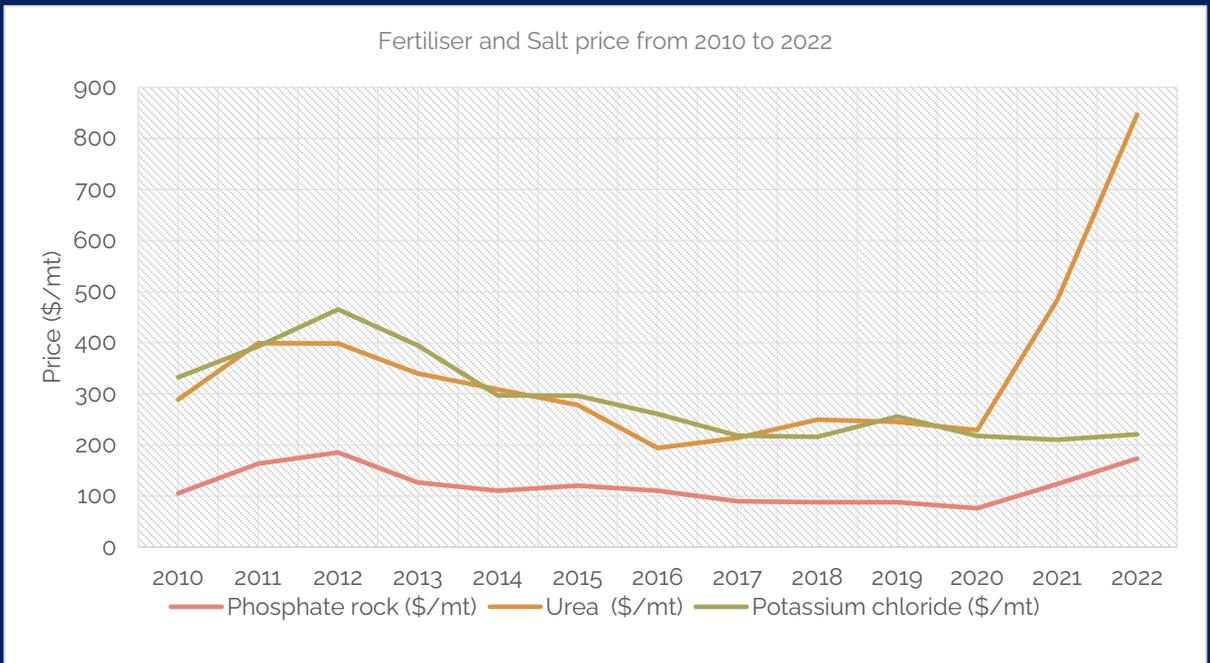
Nitrogen fertilisers are made by using energy. The rising cost of the two prime energy sources, natural gas and coal, for nitrogen fertiliser is reflected in the cost of urea. The continued rising input prices for fertiliser production are causing prices to remain at record highs ahead of the 2022 planting season.

High energy prices have impacted on international fertiliser suppliers who have consequently acted to safeguard supplies for their own domestic market.

Potash prices-- a key soil nutrient rich in potassium -- continue to increase driven by record global food demand and strong grower margins.



Data from The World Bank





OTHER PILBARA NEWS (INVESTMENT, LEGISLATION, GOVERNANCE)

Grant of Mardie Salt Mining Lease

On 9 February 2022 BCI Minerals Ltd announced that Mining Leases M08/525, M08/526 and M08/527 had been granted by the Department of Mines, Industry, Regulation and Safety (DMIRS) for its 100% owned Mardie Salt & Potash Project on the Pilbara coast of Western Australia. These Mining Leases are valid for an initial term of 21 years to 2 February 2043, with further extensions of term available subject to Ministerial approval.

The grant of Mining Leases followed the successful completion of land access agreements with gas pipeline easement holders, pastoral lease holders and native title parties. With all Mining Act tenure and primary environmental approvals in place for the Definitive Feasibility Study (DFS) development footprint, secondary approvals allowing construction are now being facilitated for the Mardie Salt Project.

The Mardie Salt Project has been designed to produce 5.35Mtpa of high-purity salt (>99.5% NaCl) and 140ktpa of Sulphate of Potash (SOP) (>52% K₂O) via solar evaporation of seawater

NAIF \$255m Investment in Pilbara Common User Infrastructure.

On 3 February 2022, the Federal Government's Northern Australia Infrastructure Fund (NAIF) committed \$255 million to invest in upgrades to common-user infrastructure that will support the proposed \$4.3 billion Perdaman Urea Project.

The Perdaman Urea Project, located 20 kilometres north-west of Karratha, will convert Western Australian liquefied natural gas into about two million tonnes of urea per year. Urea is a widely used form of fertiliser for food production.

It is estimated the Perdaman Urea Project will create around 2,500 jobs during construction and 200 operational jobs.

The \$255 million will be invested via two loans into WA Government entities and include:

- \$160 million to the Pilbara Ports Authority for a new multi-user wharf and facilities at the Port of Dampier; and
- \$95 million to the Water Corporation for the expansion of the Burrup seawater supply and brine disposal scheme that will connect to the Perdaman Urea Plant once constructed.

The NAIF loans build on WA Government support for the Perdaman Urea Project, which has provided \$47.6 million for road relocation costs, the detailed design of a new Dampier Cargo Wharf and upgrades to seawater supply infrastructure.

Reinsurance Pool for Cyclone & Related Flood Damage

On 7 February 2022, the Federal Government announced that it had finalised the design of the reinsurance pool for cyclone and related flood damage, following consultation on the draft legislation. The reinsurance pool will be backed by a \$10 billion annually reinstated Commonwealth guarantee and be administered by the Australian Reinsurance Pool Corporation from 1 July 2022.

Over 880,000 residential, strata and small business property insurance policies in Northern Australia are expected to be eligible to be covered by the reinsurance pool for the risk of cyclone and related flood damage.

The pool is expected to reduce insurance premiums by up to \$2.9 billion for eligible household, strata and small business insurance policies over 10 years. Homeowners in Northern Australia with the most acute cost pressures are expected to benefit from up to 46 per cent premium discounts, strata properties up to a 58 per cent discount and SMEs up to a 34 per cent discount.

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