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HD **Mine laggards tempt investors with recovery**

BY Peter Ker
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Poor performers nickel and aluminium are back on the radar, writes Peter Ker.

They've been the dregs at the bottom of the diversified miners' bottle for years, but nickel and aluminium are starting to show signs of life.

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The two commodities have been bywords for poor performance over recent years, having dealt financial losses and multibillion-dollar impairments on their hapless owners at the big end of the **mining** industry.

But evolving attitudes in the developing world seem to be changing the rules of engagement in both industries, and tempting investors to think again.

The nickel resurgence is more advanced and better understood.

Prices for the metal - used to create stainless steel - soared 56 per cent after January 10 when the Indonesian government placed a ban on certain raw metal exports.

The decision was designed to create jobs by forcing exporters to build processing plants on Indonesian soil, rather than exporting their raw ores overseas.

As the world's biggest nickel exporter, Indonesia's removal from global trade has led to expectations of a shortage and price rises.

Local nickel miners such as Western Areas have seen their share price almost double since January, while aspirants who could barely raise a cent in 2013, such as Poseidon Nickel, have seized on the mood to raise **millions**.

The rapid price rise was only halted this week, when the achievement of a new 27-month high convinced some investors it was time for some profit taking.

Nickel prices fell 10 per cent in recent days, but so long as the Indonesian ban remains in place, there is reason for optimism.

The same ban is tempting investors to think a renaissance in the aluminium industry is imminent, too. Exports of bauxite - the main ingredient for making **alumina**, which is then smelted into aluminium - from Indonesia have halted in the same way nickel has.

Bauxite prices have not responded in kind, but only because the **Chinese alumina** refineries prepared well and bought almost double their annual supply of bauxite in 2013.

Nor is bauxite an exchange-traded commodity, meaning it doesn't attract speculators in the way nickel and **gold** do.

But Alan Clark, who runs the world's top bauxite price index, said price rises might not be far away. "If the Indonesian ban remains in place a year from now, stockpiles in **China** will be largely depleted, and that could have big ramifications for the 30 per cent of **Chinese alumina** refineries that currently use imported bauxite," he said.

It's a view that one of the world's biggest aluminium producers, Alcoa, and its local joint venture partner **Alumina** Limited share enthusiastically.

The two companies share an aluminium business that mines bauxite, refines **alumina** and smelts aluminium, and believe their integrated model will soon enjoy a cost advantage over rivals who have to buy ingredients externally.

Not surprisingly, Rio Tinto has named a large bauxite project near Weipa - the South of Embley project - as one of the best three development options on its books.

But bauxite prices are not the only thing threatening to change the competitive forces in the aluminium industry. Demand for aluminium has never been short; the problem has been too many producers in **China**, who have forced aluminium prices lower to the point where ageing smelters in the developed world have been forced to shut.

But there are signs that Beijing is starting to tire of the losses and pollution problems caused by over-production in several of its industries, including aluminium.

"There's a couple of things the central government is doing to try to stem the over-investment in aluminium capacity in **China**. They are encouraging banks not to lend to the aluminum sector, and one of the other ways they're trying to control rampant capacity build is to not allow them access to land," said UBS analyst Glyn Lawcock.

Huge amounts of electricity are required to make aluminium and Rio chief Sam Walsh believes the **Chinese** public will soon demand that **energy** be redirected towards the appliances in their homes.

"I believe there will be a transition from using stranded power in **China** to power aluminium smelters to actually using that power to provide power for middle-class houses and for small and medium enterprises," Mr Walsh said earlier this month.

Mr Walsh, of course, has good reason to talk up aluminium, with Rio still owning 21 assets around the world from its disastrous $US38 **billion**Alcan**acquisition** in 2007.

That **acquisition** has proved painful, with close to $US30 **billion** of the value being written down within six years.

But after pulling significant costs out of the business, Mr Walsh is confident the wheel will soon turn.

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