THE AUSTRALIAN

SE Business

HD **Bans and soaring prices help BHP to exit nickel**

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WC 876 words

PD 19 May 2014

SN The Australian

SC AUSTLN

ED Australian

PG 18

LA English

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BHP Billiton chief executive Andrew Mackenzie would do well to send Indonesia's political leadership a note of thanks for making BHP's well-baked plans to quit its historic West Australian nickel **operations** (Nickel West) much easier to achieve.

Thanks to Indonesia's doggedness in pursuing a value-add dividend for its 250 **million** people by compelling further processing of nickel ores into higher value products, the nickel price is on fire.

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The price has surged 50 per cent since the start of the year to $US18,750 a tonne, bringing much needed relief to an industry in which nearly all the producers have struggled to make money in recent years, including Nickel West. What is more, there has been a conga line of big name commodity forecasters predicting that nickel prices will move higher still.

Macquarie's commodities desk yesterday predicted that nickel would go from being the worst-performing to the best-performing of the metals. It has raised its price forecast for 2014 by 25 per cent to $US19,911 a tonne — nickel averaged $US15,000 a tonne last year — and tips the price could surge to as much as $US38,000 a tonne in 2019.

Deutsche Bank is also bullish, raising its 2015 price target by 21 per cent to $US20,625 a tonne and its 2017 price forecast by 64 per cent to $US27,000 a tonne. The common theme is the impact of the Indonesian export ban on price expectations.

Indonesia accounts for more than 25 per cent of the world's production of the stainless steel-making ingredient and since January this year the country has banned exports of nickel ores grading less than 4 per cent nickel.

That essentially means the export of unprocessed laterite nickel ores has been stopped in its tracks, much to the surprise of analysts who had assumed the dent it would cause to GDP would see the ban quickly reversed. But Indonesia seems intent on capturing the value-add, job creation, and investment that would come from the creation of a much bigger presence in the downstream nickel processing industry.

Downstream processing takes a low-value product and transforms it into higher value intermediate products, or the finished metal product.

Glencore Xstrata — one of the world's biggest nickel producers and traders, which has previously said it is interested in buying Nickel West — has estimated that in 2012, Indonesia shipped nickel ores with an inherent nickel value of $US9 **billion** but for which the export revenue was only $US1.5bn.

The fact that the Indonesian ban is sticking has thrown the **Chinese** pig **iron** nickel industry — a relatively low-price source of nickel and **iron** for stainless steel mills — into a spin because it was built on the previously abundant supplies of nickel ores from Indonesia.

The upshot is that an explosion in the nickel price is now widely tipped. That in itself is nothing new for a metal which is traditionally the most volatile of the base metals due to global annual demand being small: about two **million** tonnes annually.

When it spikes, it tends to spike hard. Local investors know that all too well, with the Poseidon nickel boom of late 1960s and early 1970s deeply embedded in the psyche of the market.

There have numerous booms and busts for the nickel industry ever since, usually built around supply shortages emerging from under-investment in times of severe price weakness, leading to supply shortages from over-investment during periods of high prices.

This time it's different because of the wildcard played by Indonesia. Without Indonesia sticking to the export ban, there was expected to be an ongoing supply surplus, one caused by investment in new capacity that came from nickel's last price surge to an average of $US37,200 a tonne in 2007.

That broad expectation was reflected in nickel's miserable price performance in recent years. During that downtime, BHP would have dearly loved to have quit its Nickel West investment but there were no buyers.

While Nickel West is Australia's biggest nickel producer at 100,000 tonnes a year and traces its origins to the 1960s, nickel discoveries around Kambalda by Western **Mining** (acquired by BHP in 2005) sit outside CEO Andrew Mackenzie's four "pillars'' strategy of focusing on world-class assets in **iron ore**, **copper**, petroleum and **coal**.

The reversal of nickel's outlook, courtesy of the Indonesian ban, makes the trade **sale** of Nickel West much easier. To that end, BHP put its 1800 Nickel West workers on notice this week that a bunch of potential buyers would soon be seen visiting the mines, smelters and refineries with a view to lobbing a bid.

BHP would have struggled to give the business away a couple of years ago due to nickel's weakness, Nickel West's loss-making status, and the legacy environmental issues that come with ageing smelters and refineries.

But now Nickel West is variously valued at $500m-$2bn.The lower price reflects doubts about Indonesia's ban sticking while the higher price reflects the expectation that it will, carrying nickel prices sharply higher in the process.

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AN Document AUSTLN0020140518ea5j0004f

