
Nucleus
Wealth
THE IRON ORE
CATASTROPHE

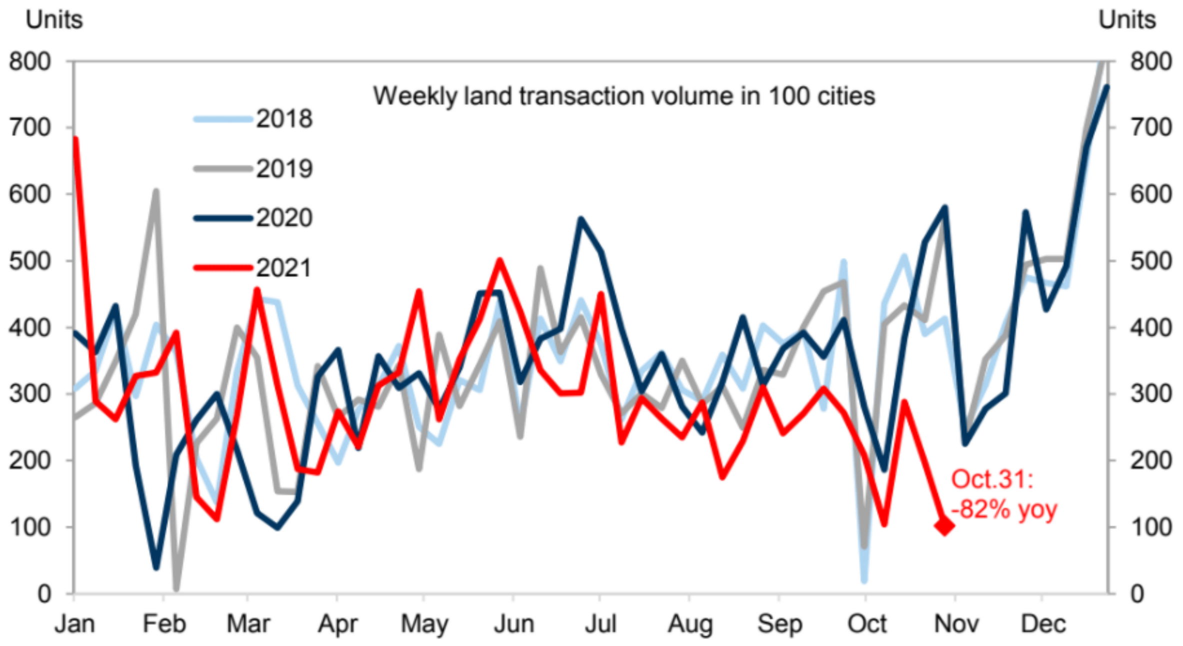
# Agenda: The iron ore catastrophe

- Chinese construction hard landing
- Iron ore incredibly oversupplied short term
- Iron ore ludicrously oversupplied long term
- Other commodities
- Implications for miners
- Implications for Australia

# Chinese construction hard landing

- Fourth time a charm: 2012, 2015, 2019, 2021.
- Three red lines and common prosperity.
- Real strategic and economic reasons this time.
- Property and infrastructure same funding source meaning hard landing for all construction.
- Stimulus likely eventually but only just enough.
- Structural adjustment means China is ex-growth.

**Exhibit 7: Land transaction volume in 100 cities was less than half of 2020 levels**

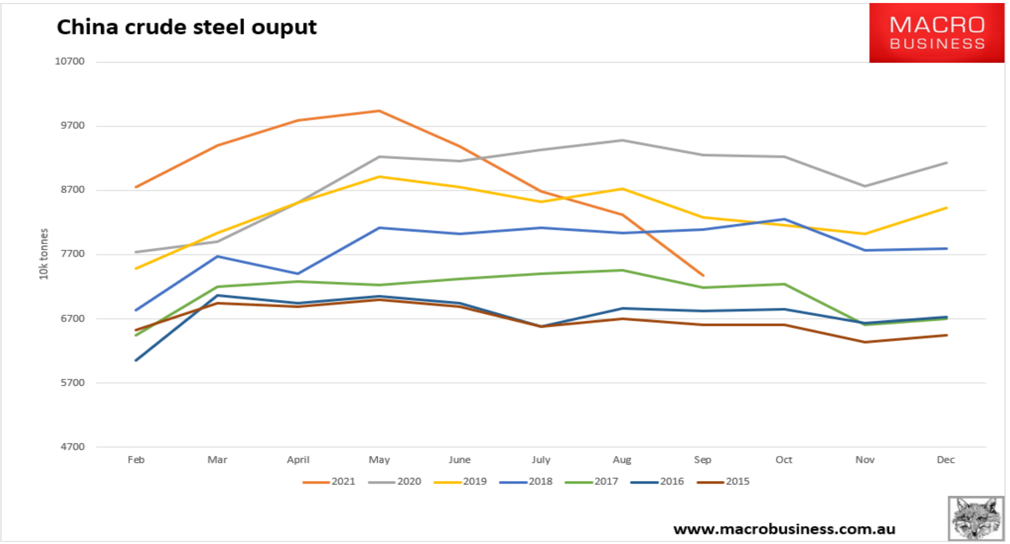


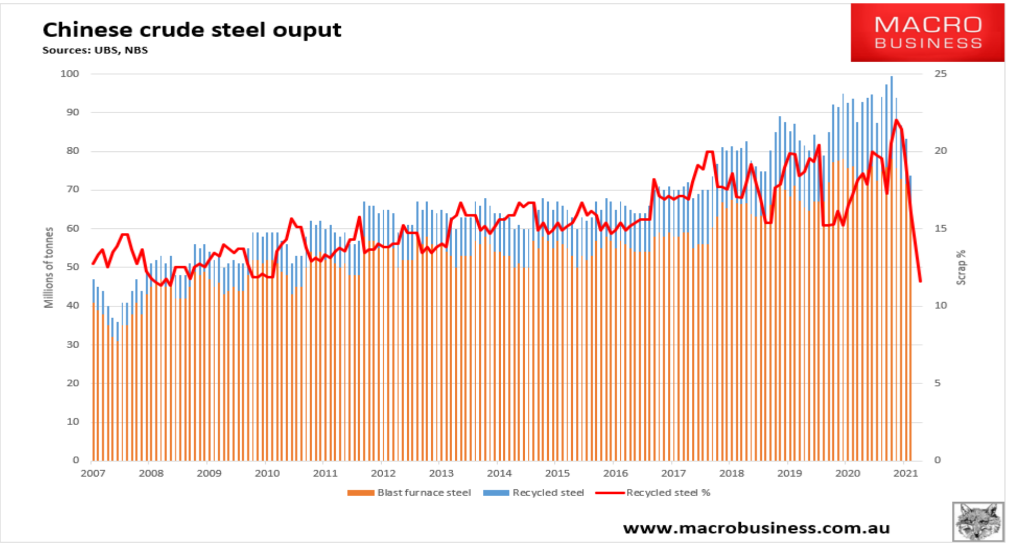

Recent data points are subject to revisions

Source: Wind, Goldman Sachs Global Investment Research

# Iron ore ridiculously oversupplied short term

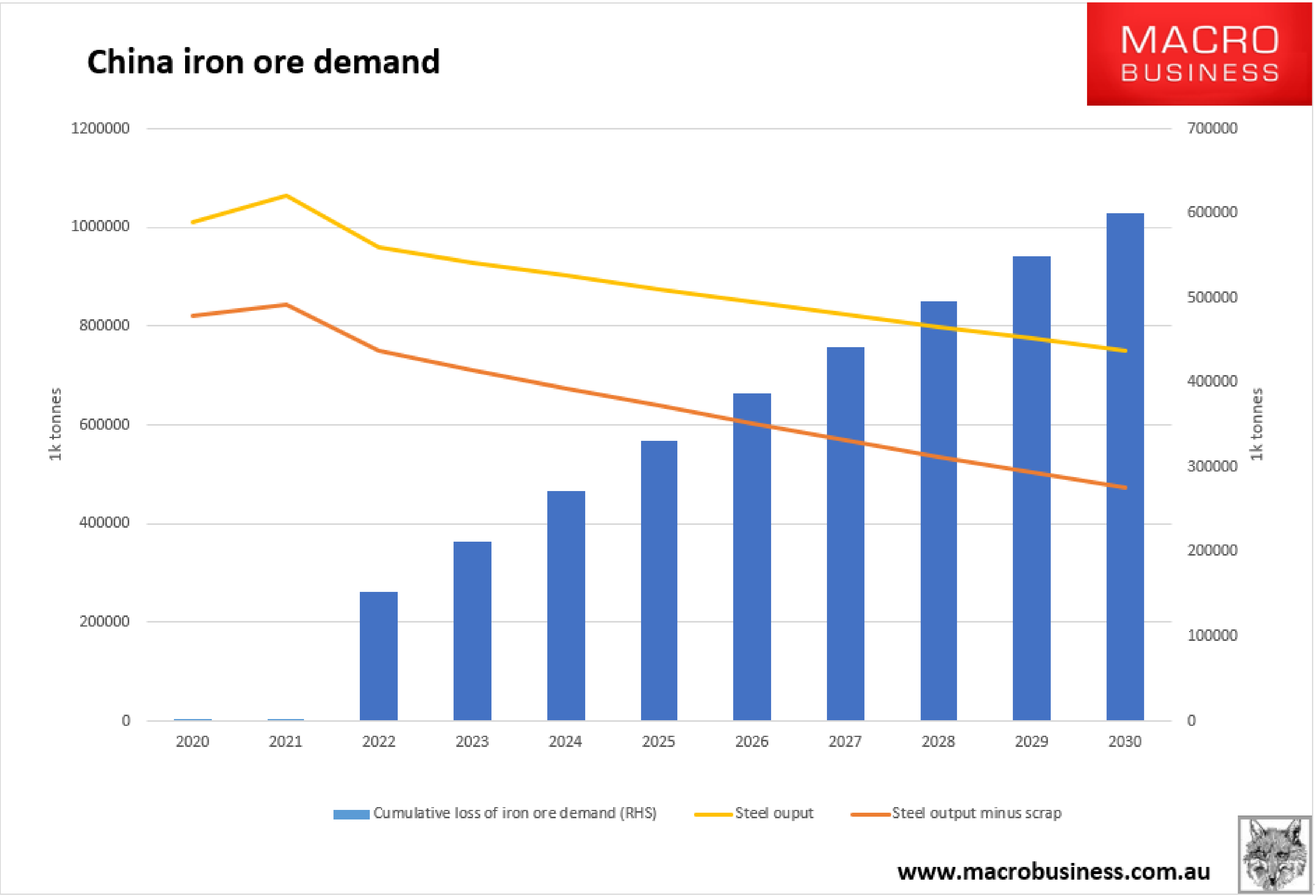
- Chinese steel output down 26% from peak.
- Chinese steel output down 20% year on year.
- 340mt annualised drop in iron ore demand from 2020.
- But 120mt of steel (200mt of iron ore) recycling offline owing to coal shock.
- As it returns the full brunt of adjustment lands on BOF and iron ore, coking coal.
- Price will need to drop below $50.



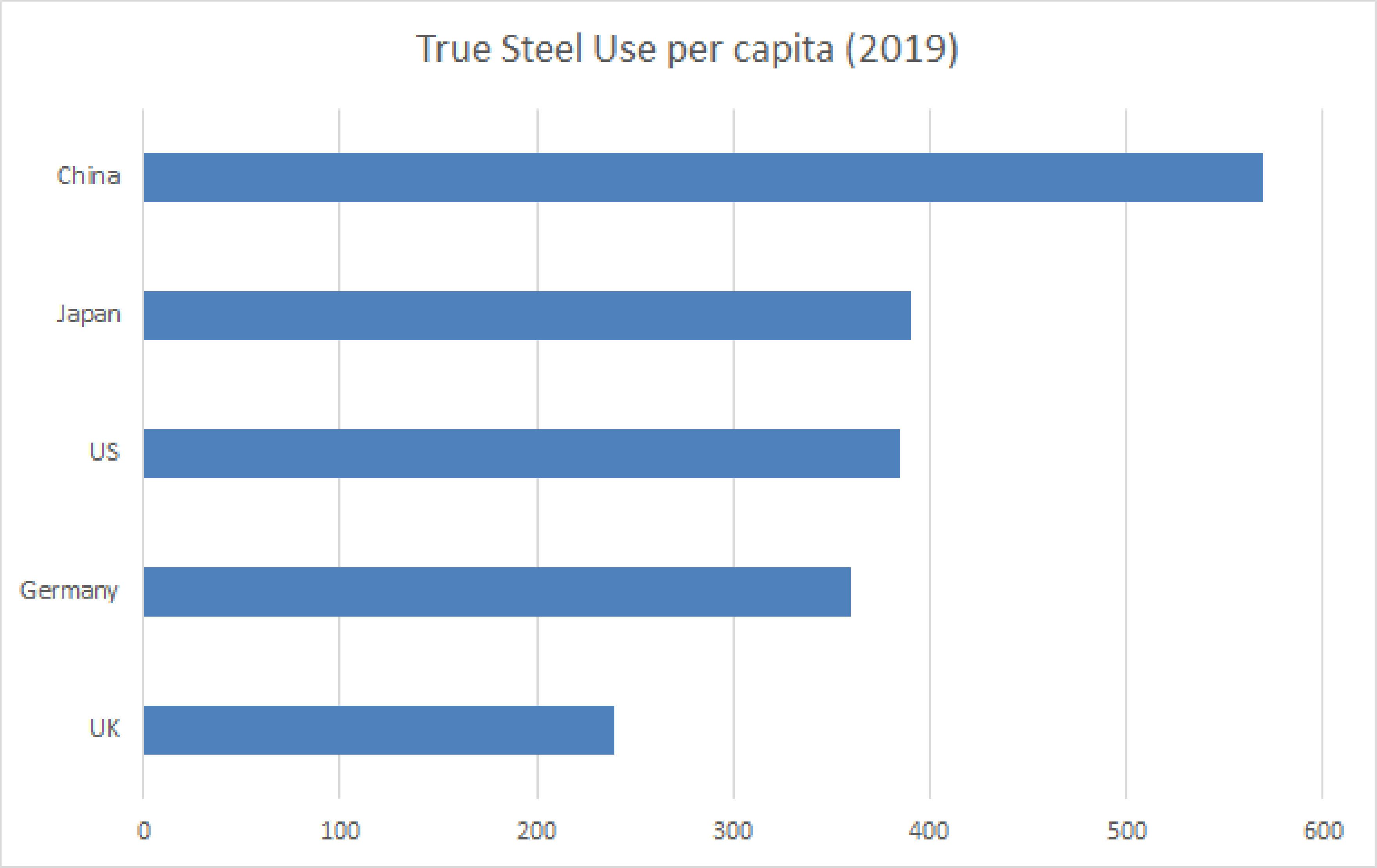



# Iron ore ludicrously oversupplied longer term

- Supply still rising.
- New mines in Australia, Brazil add 100mt over next 3 years.
- Simandou could be another 200mt.
- Demand to keep falling away as China goes ex-growth.
- Rise of scrap continues.
- Price will need to fall to effective zero.



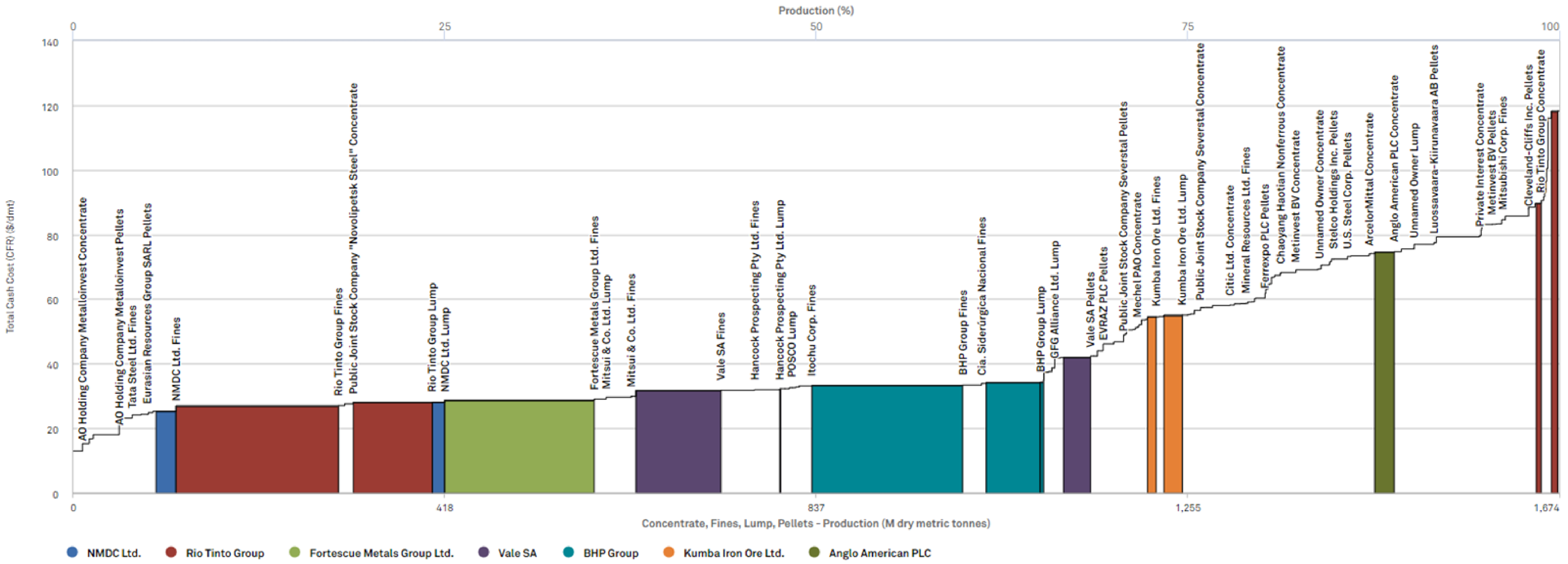
# China could use 30% less and still be the largest per capita



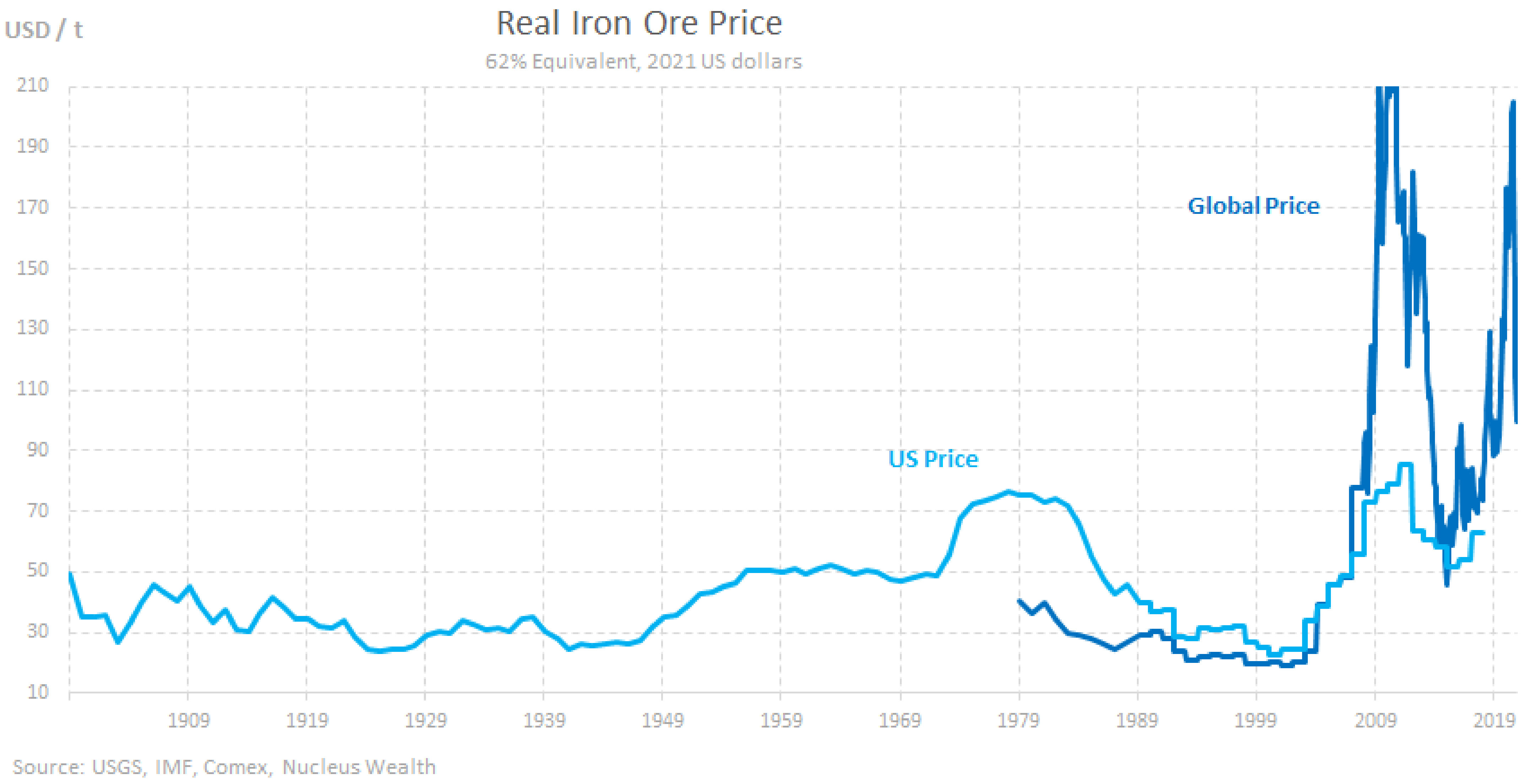
# Cost Curve

2021 Iron Ore Production Ranked on Total Cash Cost (CFR) Grouped by Equity Owner*

Scenario: Market Intelligence 2020 Constant USD

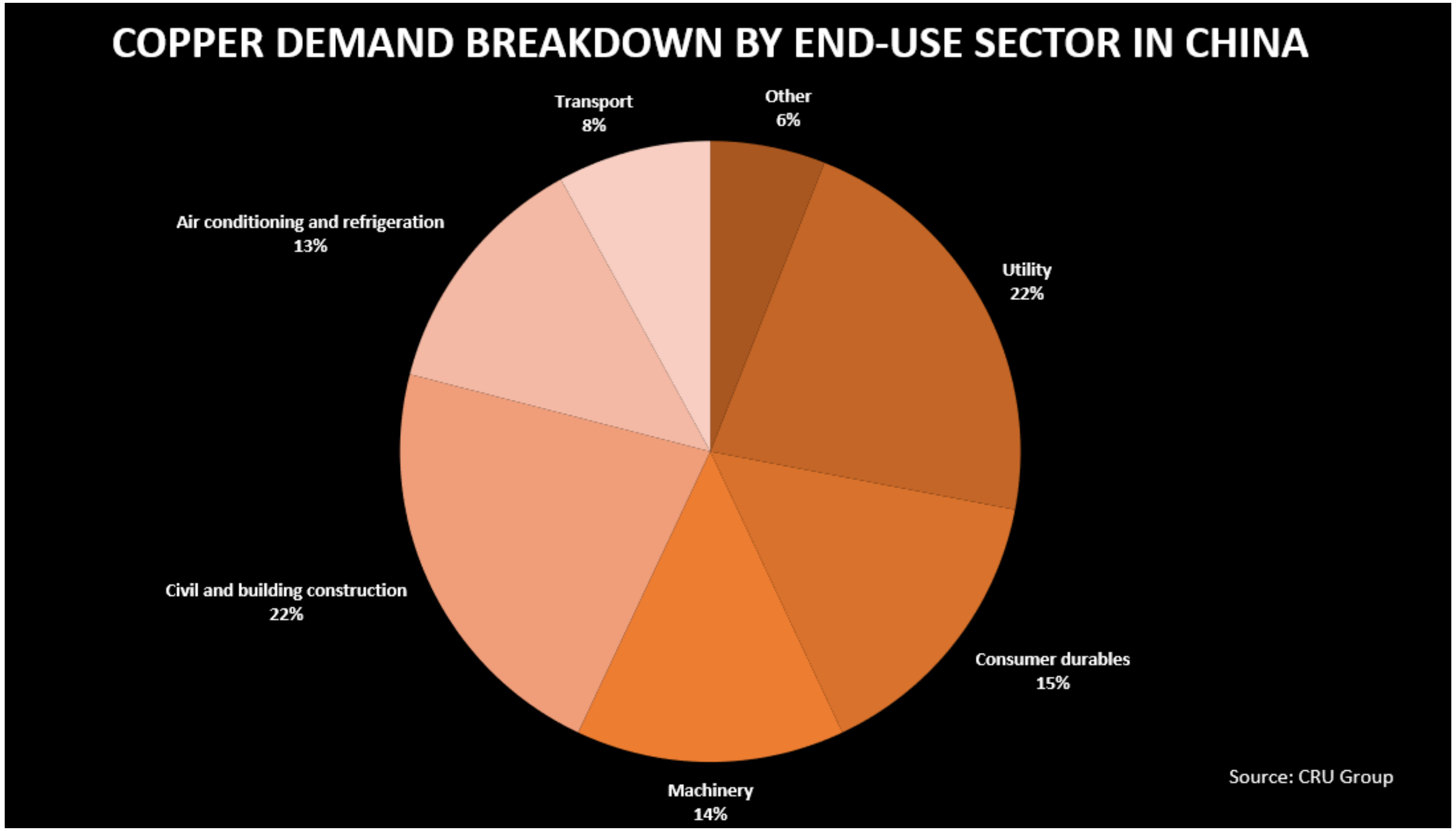


# 100 years of inflation adjusted iron ore prices



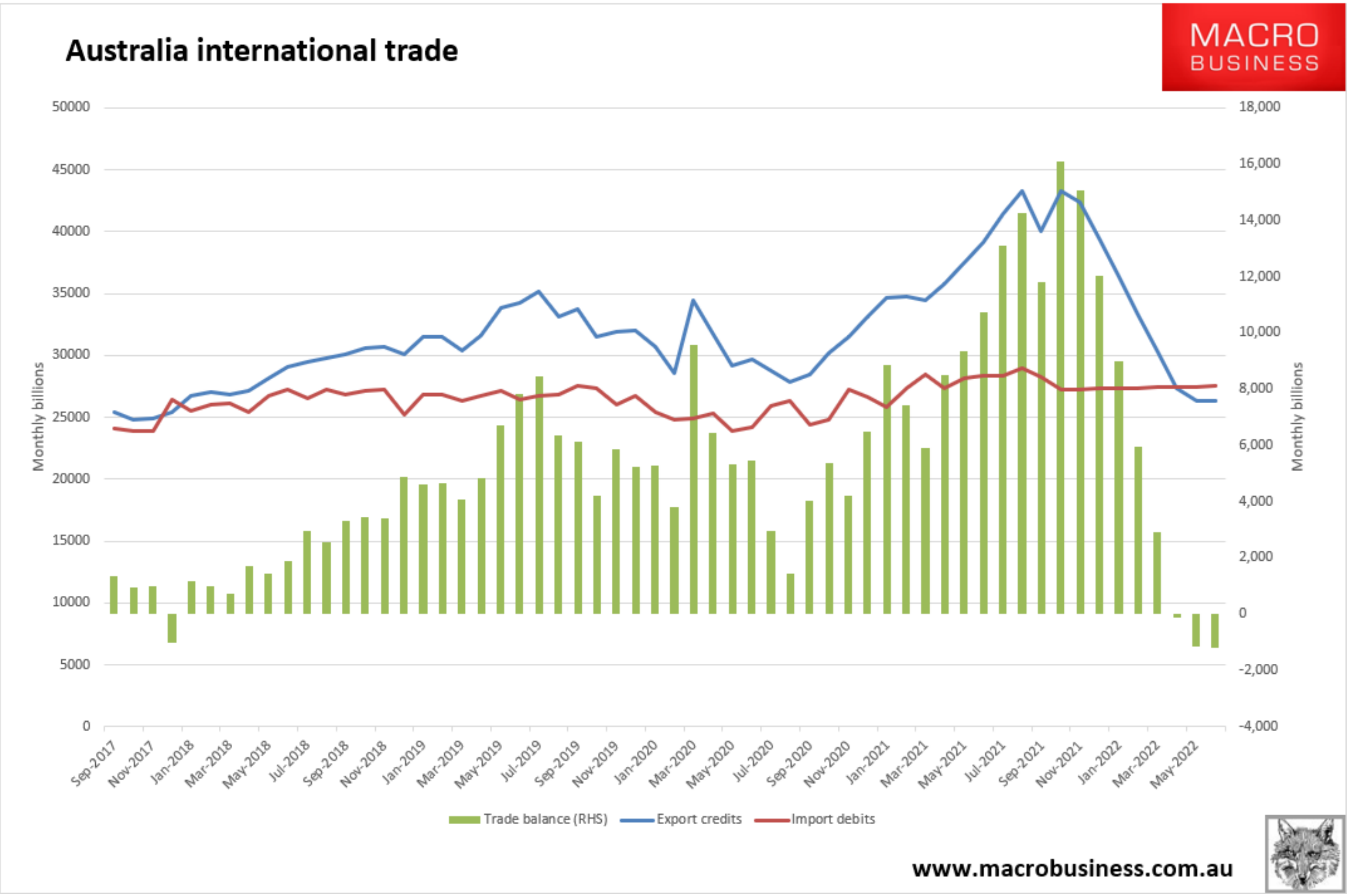
# Other commodities

- Coking coal OMG. As 120mt of EAF returns, 100mt of coking coal no longer needed, one third of seaborne market.
- Thermal coal glut on new mines and easing power usage.
- Chinese copper demand to crater. 20% of demand.



# Implications for Australia

- Trade surplus collapse over 2022.
- Smashed nominal growth.
- Wages squashed on income shock.
- Budget crisis in Canberra, Perth, Brisbane.
- No rate hikes and possible QE.
- Plunging Australian dollar.
- Avoid miners & services, banks on collapsing yield curve.



## Viewer question of the week:

**Will iron ore go negative?**

Drop your answers in the comments

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