



Will the current crisis result in permanent changes to nickel supply and demand patterns?

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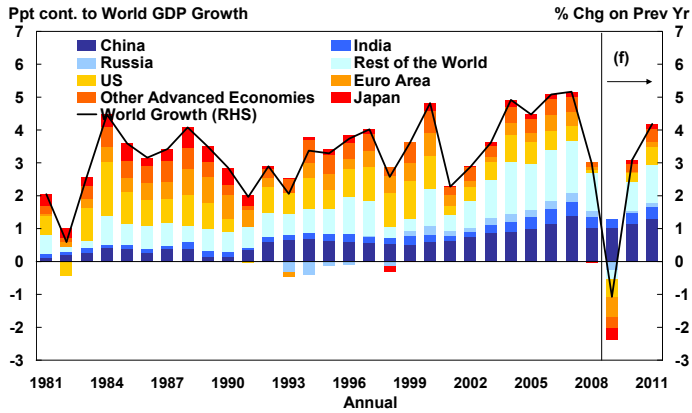


Overview

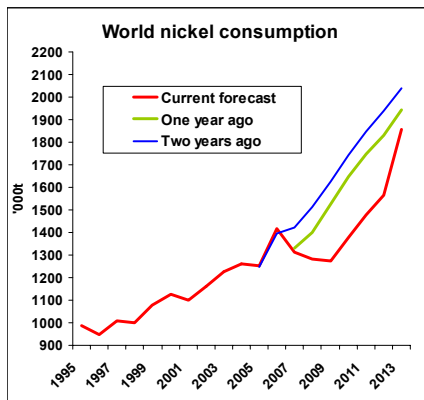
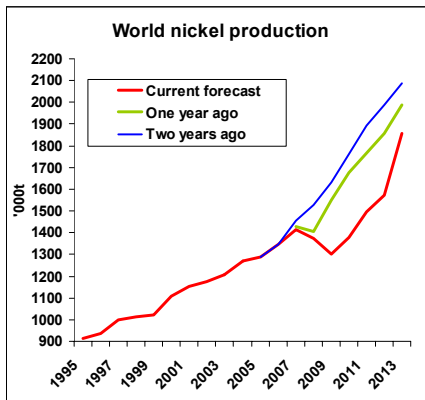
Will the current crisis result in permanent changes to nickel supply and demand patterns?

- Yes!...projects have been delayed, supply closed and demand in the West has been destroyed...but demand in China has been brought forward.
- Patterns of both supply and demand has been altered by “events”...as they always have been and always will be!
- Nickel demand had been under downward pressure since 2007 (pre-crisis) due to the negative effects of the previous price spike and shortages so crisis impact hard to completely disentangle.

A short-lived crisis: developing economies will continue to drive global growth



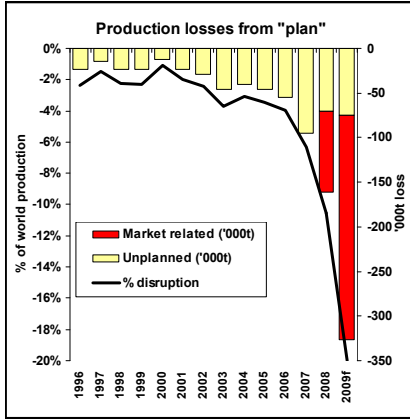
How the crisis (and other "events") have affected Macquarie forecasts



Source: Macquarie Research, October 2009

➔ From two years ago our 2009-12 forecasts are around 350kt lower; for 2013 around 180kt lower. Our supply forecasts have been similarly adjusted downwards.

Nickel supply – major production cuts from previous plans



Source: Macquarie Research, October 2009

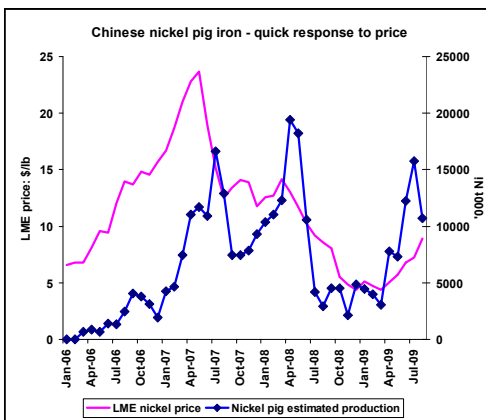
- Production is over 300kt lower than plans a year ago in 2009

- Most of cuts are market-related but Vale Inco strike now a major unplanned cut

- BHP Billiton Ravensthorpe (45ktpa) and Xstrata Falcondo (30ktpa) are (arguably) major casualties of the downturn

- Long list of project delays include Ramu (33tpa), Onca Puma (58ktpa), Barro Alto (43ktpa), Vermelho (46ktpa), Niquelandia (11ktpa), Buruktalski (11ktpa), Ambatovy (60ktpa), Moa (12ktpa), Eagle (16ktpa), Amplats (12ktpa), etc = close to 300ktpa. At least 1 year delays, probably more.

Chinese nickel pig iron – fills the gaps!



Source: LME, Macquarie Research, October 2009

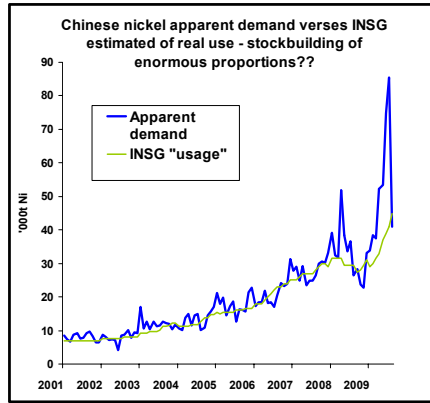
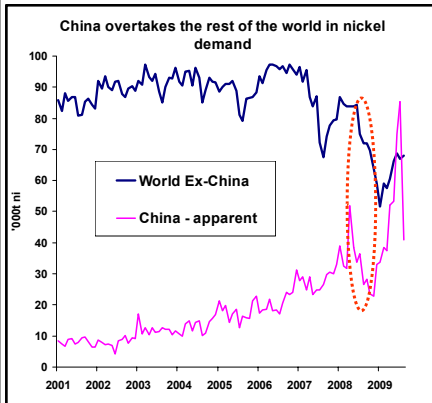
- Flexibility in nickel supply response now with large potential supply response from Chinese nickel pig iron

- Prices in the \$6-8/lb range sufficient to ensure a supply response of 50-100ktpa within six months if the price is right

- Low capex and “flexible” operating characteristics (furnaces can be switched between different alloys)



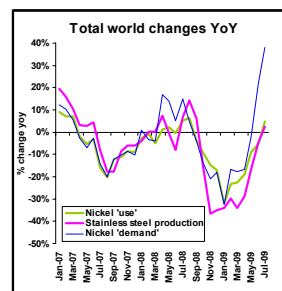
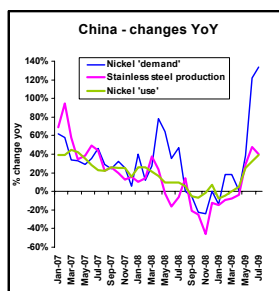
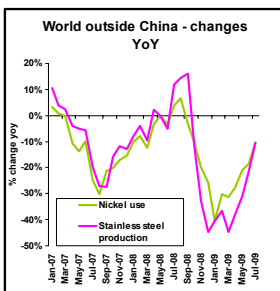
An amazing demand recovery from China in 2009, after late-2008 fall...data through August



Source: INSG, Macquarie, October 2009



How to interpret Chinese nickel numbers?



Source: INSG, Macquarie, October 2009

Nickel use = estimated actual consumption (INSG method) – tallies with stainless

Nickel “demand” = production plus net imports – includes stock building and explains what actually drove nickel prices!



How we interpret the Chinese nickel market

	'000t 2007	'000t 2008	'000t 2009F	%chg YoY 2008/07	%chg YoY 2009/08
Production					
Jinchuan	106	105	124	-1.4%	18.3%
Other primary	9	20	25	123.1%	26.1%
Nickel pig iron	71	72	89	1.9%	23.7%
Total production	186	197	238	5.9%	21.1%
plus finished nickel imports	165	202	346	22.1%	71.3%
minus finished nickel exports	18	7	26	-59.4%	264.3%
gives					
Apparent finished nickel demand	334	392	558	17.4%	42.5%
Estimated real use	330	361	476	9.4%	32.0%
Apparent stock change	4	31	82		
Chinese stainless production					
Austenitic %	7206	6942	8722	36%	26%
Ni content %	74%	75%	76%		
Primary ni %	6.0%	6.7%	7.2%		
Primary nickel use	71%	73%	76%		
plus non-stainless	229	255	363	26%	42%
gives	101	106	114	8%	7%
total nickel use	330	361	476	20%	32%

We forecast that Chinese nickel stocks will rise by around 80kt in 2009 (others say >150kt)

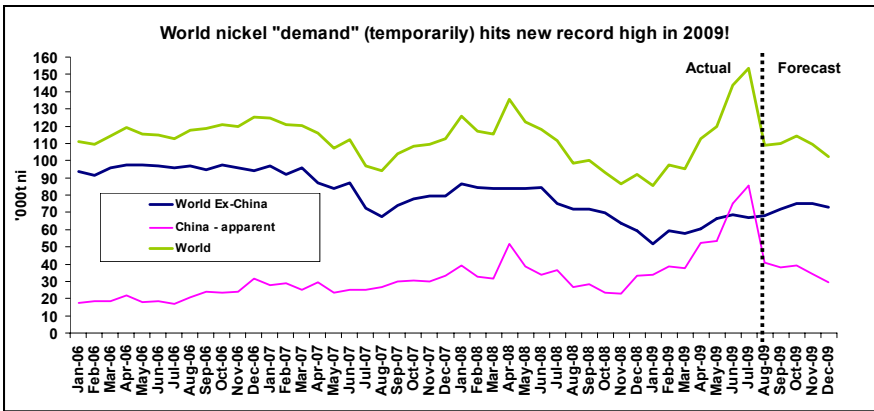
Key to market is what happens to those stocks

Reportedly held by speculators interested in higher prices and not available immediately to the market

Obviously a key uncertainty in the market

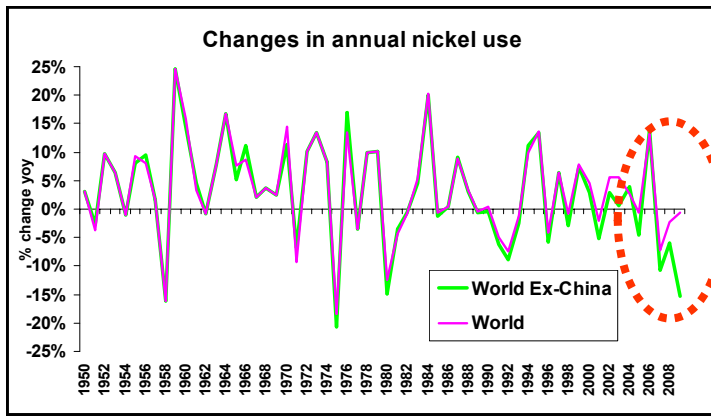


Chinese over-stocking should unwind in rest of 2009





Nevertheless, China has saved the world!



Source: INSG, WBMS, Macquarie Research, October 2009

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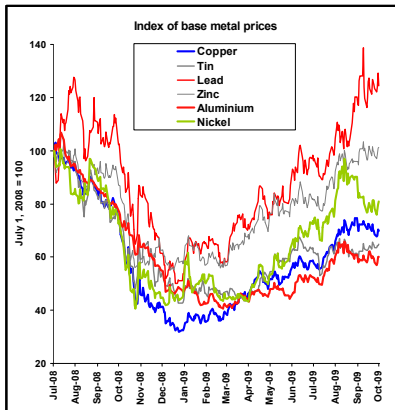
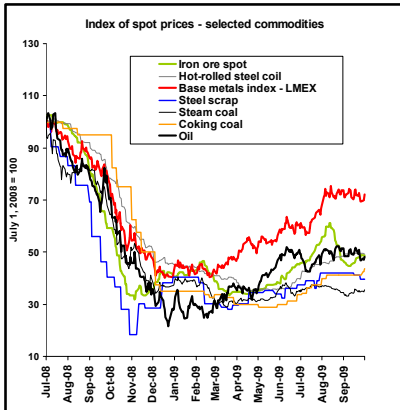


Summary so far: China stabilises the commodity markets

- Collapse in commodity demand and prices after global financial crisis
- In 4Q08, it appeared that China was part of the global synchronised slowdown
- Chinese and global commodity suppliers had slashed production on the basis that global demand would fall together in 2009
- Massive monetary and fiscal stimulus in China led to a major Chinese demand recovery, taking suppliers by surprise, causing prices to recover
- Stocking element of Chinese demand to ease and supply response to gather pace in China and elsewhere
- Key to ongoing recovery is demand revival outside China and we are optimistic over the next six months, but still cautious thereafter

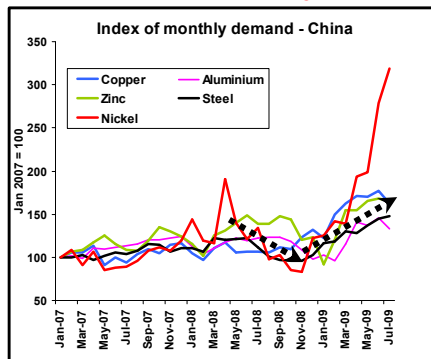
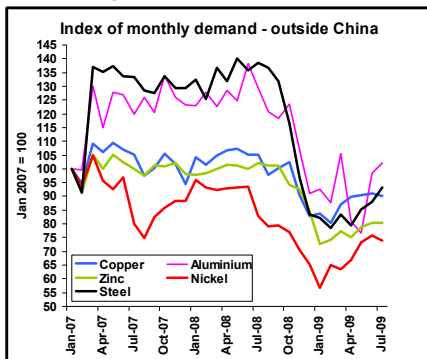
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Commodity prices – recovery, especially for base metals, but still below the highs



Source: LME, Platts, GlobalCoal, Nymex, Macquarie Research October 2009

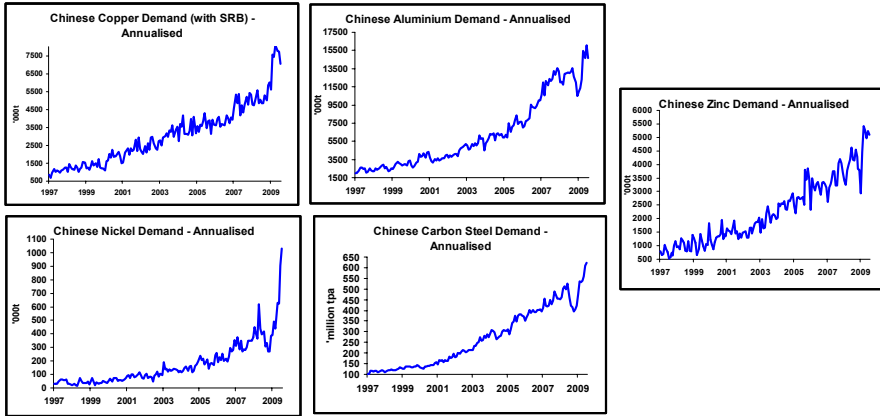
Monthly demand trends – China recovery



Source: Macquarie Research, IAI, ICSG, ILZSG, INSG, worldSteel, China Metals, October 2009



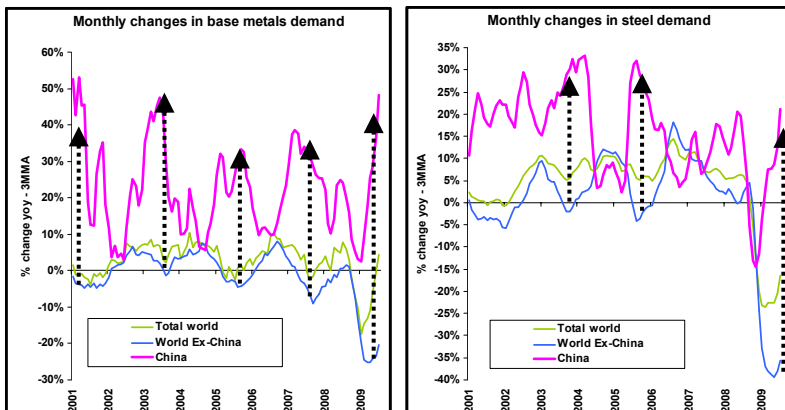
Turnaround and subsequent boom in Chinese apparent demand (nickel stands out)



Source: Macquarie Research, China Metals, October 2009



China always recovers as rest of world sinks!

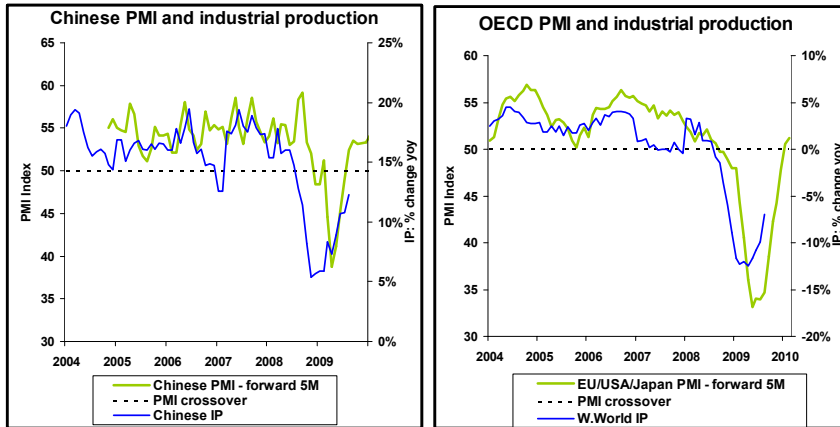


Source: Macquarie Research, China Metals, October 2009

Note: inverse relationship between China and ROW growth



Chinese and major OECD country PMI indices point to ongoing recovery



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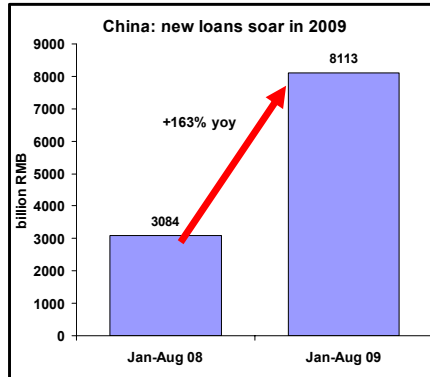
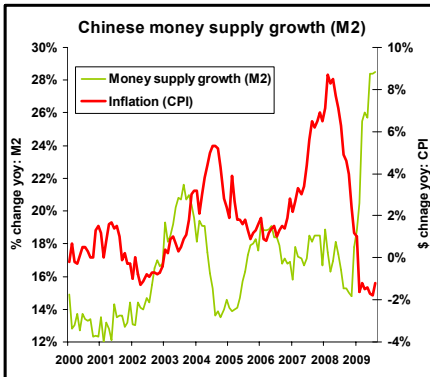


Why is Chinese demand better?

- Decoupling IS alive and well
- Massive Chinese monetary and fiscal stimulus
- Domestic growth drivers of urbanisation and building infrastructure remain entrenched
- China restocked, while rest of world destocked and the government is directly funding stocking
- Chinese growth has **always** been limited when rest of world was strong and stronger when rest of world was weak – inflationary fears always cause Chinese authorities to tighten

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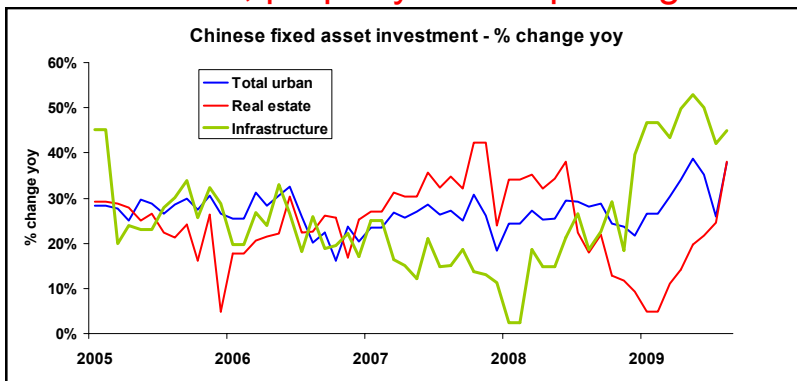
Massive monetary stimulus and no inflation!



Source: NBS, Macquarie Research, October 2009

As soon as inflation reappears, the Chinese authorities will slow the economy...but not before

Monetary/fiscal stimulus resulting in strong growth in construction, property now improving

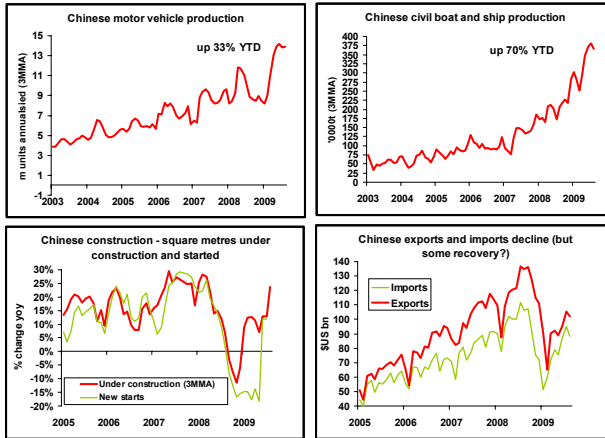


Source: NBS, Dragonomics, October 2009

Chinese authorities have accelerated the build out of the interior (rural) areas – bringing forward necessary investment



Chinese main end-use commodity markets strong; exports recovering?



Source: Dragonomics, China Metals, Macquarie Research, October 2009

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Conclusions

- China has played a critical role in stabilising global demand after the crisis
- Supply has adjusted quickly and many projects are on hold or else delayed
- Lower rest of world growth has *allowed* China to grow faster! – China is growing at the expense of the rest of the world
- China will slow only when rest of world accelerates and creates inflationary pressures/bottlenecks, that is, when commodity prices rise too much – we are not there yet – watch the monthly inflation numbers
- We appear to be over the worst but over-capacity will dampen the recovery prospects from some time yet – no early return to the bull times in nickel

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Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return > 5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return +10%
Neutral – expected return from -10% to +10%
Underperform – expected < -10%

Macquarie First South - South Africa

Outperform – return > 10% in excess of benchmark return
Neutral – return within 10% of benchmark return
Underperform – return > 10% below benchmark return

Macquarie - Canada

Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return > 5% below benchmark return

Macquarie - USA

Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return > 5% below benchmark return

Recommendation – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high-highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30-40% in a year.

Low-medium – stock should be expected to move up or down at least 25-30% in a year.

Low – stock should be expected to move up or down at least 15-25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit /efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit /average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation definitions – For quarter ending 30 June 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	40.20%
Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.21%
Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	20.59%



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