

Anglo late for commodity party

WHEN New York-headquartered investment bank Jefferies & Company reported that it thought Anglo American was through “the worst” and that the “upside potential to the revised \$8.8bn capex budget (for the Minas Rio iron ore project in Brazil) is minimal”, it was frankly taken aback.

This means the project will cost about \$14.3bn after bringing the \$5.5bn purchase price into account. In current rand terms this is R131.6bn, a simply huge sum to be devoted to a single project. No wonder this newspaper reported on Tuesday that Anglo is looking for a partner. More than any other issue, and there were many, this is the project that brought about Cynthia Carroll’s early departure — she handed over the reins at Anglo to Mark Cutifani this week.

What is worrying about Minas Rio is not merely that it is way over budget and horribly late — it won’t now deliver its first shipment until the end of next year instead of this year — it is its timing in the commodity super cycle. That super cycle peaked in 2008, declined precipitously in 2009, recovered marginally until 2011 and is now drifting sideways and downwards. This is clearly demonstrated in the famous Thomson Reuters-Jefferies CRB index, used to measure global commodities markets for 50 years.

The problem for Anglo — and, let it be said, for all companies bringing new iron ore projects on stream over the next few years — is that they face a frankly uncomfortable economic future that lies ahead for their biggest buyer, China.

Economists have been talking for some time now about the urgent need for China to restructure itself and to put much greater emphasis on consumer spending.

It sounds odd to have to record that the country saves too much and concentrates its spending on vast infrastructure projects and the military. But unless its new-order gov-



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ernment achieves this relatively quickly, it is going to have what economists love to call a “hard landing”. I don’t know precisely what that means, other than that it sounds definitely uncomfortable. How China will handle that, with its huge population and the unstoppable drift from its rural regions to the cities, may prove exceptionally difficult.

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While on the subject of iron ore, the argument between ArcelorMittal and Kumba (Anglo American) rumbles on. Previously, the steel maker was able to buy 6.25-million tons of iron ore from Kumba’s Sishen mine at cost plus 3%, a rate that must have made Kumba’s management feel permanently unwell. When ArcelorMittal SA failed to apply in time for a new-order mining right, a battle then opened up involving Kumba, Imperial Crown Trading and ArcelorMittal SA. Kumba has come out of this as the outright winner, and its position as the

100% holder of the new-order mining right has been confirmed by the appeal court.

It also took the opportunity to challenge ArcelorMittal SA’s right to that most-favoured purchase price, put in place by the government when Iscor was privatised. That is now subject to arbitration, which is due to commence shortly.

But the big question that has never properly been answered is why ArcelorMittal SA didn’t apply for the conversion of its 21.4% stake in Sishen to new-order mining rights.

Was this just a mistake? Is it true that CE Nonkululeko Nyembezi-Heita thought that Kumba was handling the matter on its behalf as well as its own? Was ArcelorMittal SA’s legal team asleep on the job?

Whatever, what really takes me aback is that Nyembezi-Heita’s remuneration last year was R8m, apparently nearly double what she earned in 2010. I have great respect for Nyembezi-Heita’s many achievements and for her as an individual, but I cannot think an error of that dimension can or should be rewarded in this manner.

The buck stops with the CE, and if this buck earns double pay there’s something seriously wrong with the company’s remuneration policy.

But are commodities generally in a bear cycle?

Jim Rogers, co-founder with George Soros of the Quantum Fund and permanently resident now in Singapore, doesn’t think so. He reckons it’s just part of a natural correction. The only thing that surprises him is the decline in the gold price, which he thinks should have occurred much sooner.

Asked what could be behind the decline in the gold price coming at a time of general investor fear, especially with the Cyprus banking debacle staring at them, Rogers nevertheless poooh-pooohed the idea of anything, gold included, as a “safe-haven” asset. But he did think that India’s growing current account deficit and the Indian government’s

attempts to correct it, might be a major factor.

Oil and gold are the two biggest items in India’s import agenda — and it can’t do much about oil. But it is trying to curb imports of gold by increasing duty on it (and on platinum) and announced an increase from 4% to 6%. Dealers anticipated this and imported 23% more in January than in January 2011 — and India is a big buyer of the precious metal at 864 tons last year. The government has since announced a further 30% increase in the import duty — but all that will do is encourage smuggling. There is already an

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estimated 20,000 tons of gold lying around Indian households, evidence of the average Indian’s faith in the metal as a hedge against inflation.

But there is always a silver lining. This time it’s about food and, after the devastating drought that hit the US midwest last year, it’s now thought that substantial acreages will be devoted to corn (maize) while those planted to cotton may decline as prices have fallen.

The effect of a lot more American maize available to world markets will be significant and, for the first time in some years, it may actually be possible to see food prices retreat.

Whether the middlemen will pass this on to end consumers is, as ever, another matter but at least the very poor may be spared the perennial anxiety of scabbling for yet more pennies.

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