

Brazilian mining: when will the good news return?

It has been a difficult 12 months for the Brazilian mining sector and current conditions suggest this situation will continue for at least the short term.

BELO HORIZONTE, MINAS GERAIS, BRAZIL, May 21, 2015 /EINPresswire.com/ -- The Brazilian mining sector continues to suffer from not only the tough global situation but also the country's deteriorating economic performance. Analysts have recently forecast a retreat of 1.2% for Brazil's GDP in 2015, the worse result in 25 years if fulfilled, with inflation likely to hit 8.3%. On top of this the massive Petrobras corruption case continues to unfold, affecting the progress of tens if not hundreds of the oil giant's projects, worth billions to the economy and many millions to the suppliers of raw and semi-processed materials used in such projects, much of which stems directly from Brazil's mining sector. General unemployment is rising (officially 6.2% in April 2015)

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but for the resources sector the situation looks worse, with the Petrobras woes alone responsible for tens of thousands of dismissals within the company itself and the construction and engineering groups caught up in the scheme; for the latter, a new report by the National Federation for the Heavy Construction Industry states that over 20,000 jobs directly related to the pre-salt development have already been cut.

For mining and metals the numbers are similar with the union responsible for a large chunk of the sector's workers in Minas Gerais, Brazil's main mining state, predicting in mid-May that in the state alone job losses could reach 25,000, citing that nearly 14,000 positions have already been cut in the first quarter of 2015. The Metabase Inconfidentes Union blamed the low price of iron ore coupled with poor demand for steel products for the wave of dismissals.

Certainly, the market's biggest player and employer, Vale, has been cutting swathes of positions across the country in recent months, numbering at least in the few thousands, while the national engineering and architecture union (SINAENCO) for Minas Gerais reported on May 17 that 1,500 engineers working with mining and metals companies have lost their jobs in the last 12 months. Confronted with the numbers and trends described above it is increasingly difficult to see when and where the scenario will improve for Brazilian mining, yet as the famed saying goes Brazil is the country of the future and, discarding the uncited second half of this pessimistic quote, signs of hope do exist.

Government support

Despite the current mess with literally hundreds of politicians from all parts of the country caught up in corruption cases, Brazil's government is at least taking more interest in mining. After a long stretch simply ignoring the sector, leaving important legislation changes in limbo for over five years, recent calls for the swift passing of a new mining code by mid-2015 may well be met as more and more politicians and governments realise the importance of the sector to their rapidly shrinking budgets. The concept that the new code, once finally in place, should kick start a new wave of interest in

Brazilian mining is finally being understood, it seems.

Chinese support

On the 19th of May the Chinese Premier Li Keqiang visited Brazil and signed 35 bilateral agreements including a new commitment to develop the Transoceanic Railway linking a port in Rio de Janeiro to another in Peru and passing through six Brazilian states, including many mining hot spots. Indeed, mining is a key component in a range of the new accords, together valued at US\$53 billion, and this in turn should encourage additional government interest in the sector.

Rock bottom approaching?

With the country facing up to its ongoing recession and the Petrobras scandal in full swing it is imaginable if not likely that the end of the sharp downturn is now within sight. A package of austerity measures is set to pass and, although Brazilian politics are far from stable, the ongoing clean-up and associated adjustments to come will eventually have a positive effect and help halt the slide.

As shown earlier the Brazilian mining sector itself is also at a low point and some of the shrewder players are already eyeing off cheap opportunities as they speculate on a forthcoming turnaround. The chance of the latter coupled with a Brazilian Real hovering at a lowly US\$0.33 suggest such bets could well increase over the short term.

Pockets of opportunity

Despite the many painful circumstances described above Brazil remains one of the world's top economies and a mining powerhouse and, although the core aspects of mining do not offer great prospects right now, certain areas still offer chances for good business. As with mining projects the world over Brazilian operators are seeking cost reductions wherever feasible and those with proven products and services and the will to spend time and effort to set up properly in the market will have good chances for success.

Specifically, solutions utilizing new technologies should find a welcoming audience with the bigger players and take advantage of Brazil's young population (over 40% under the age of 25) and strong internet, mobile and social media usage, while at the other end of the spectrum many of Brazil's smaller mines are still well behind their global counterparts in terms of safety, equipment and education, a situation that simply has to change over coming years.

Whether interested in Brazil's macro-economic situation or looking for specific opportunities in the mining market, an important period of change is no doubt underway. If and when this will lead to a much needed and anticipated turn for the better is still very much debatable, yet, as often is the case in the country of the future, it's a good sign that the debate is growing louder.

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