



in our view, and with the hard work done, the profits from the group's high margin assets can be funnelled back to investors in the meantime."

Russ Mould, investment director at AJ Bell, felt BHP's dividend was more generous than might have been expected given the economic backdrop.

He noted, however, that the US\$8bn capex plans were considerably less than the \$20bn-plus it used to spend in the previous commodities boom, while the more streamlined and lower-cost business should be in a stronger position should there be another commodities downturn.

"However, the current negative backdrop would suggest BHP may find it hard to keep growing earnings at the current rate, particularly in the short term," he said.

#### Outlook for metals prices

BHP noted as part of its results statement that iron ore prices have been elevated since the Brumadinho tailings dam tragedy in Brazil first disrupted the market in January, also supported by stronger than expected Chinese pig iron production and cyclone disruptions to Australian supply.

"We expect supply conditions will return to a more normal path on a one to three year timeframe, and prices are likely to be volatile as that adjustment plays out."

In the longer term, BHP, which plans to spend around \$8bn a year on capital and exploration, sees the marginal price setting tonne being provided by a higher-cost, lower value-in-use exporter from Australia or Brazil.

While copper prices having been heavily influenced by swings in global trade uncertainty in the second half of the BHP's financial year, directors believe underlying fundamentals remain sound.

Demand for copper "should grow steadily," the company said, as a decline in mined grades, rising input costs, water constraints and what is seen as a scarcity of high-quality future development opportunities are predicted to constrain the industry's ability to meet this growing demand at low cost.

BHP shares dropped 2% in early trading on Tuesday and while they erased some of their worst losses were still down 1% at 1,766.8p by mid-morning.

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