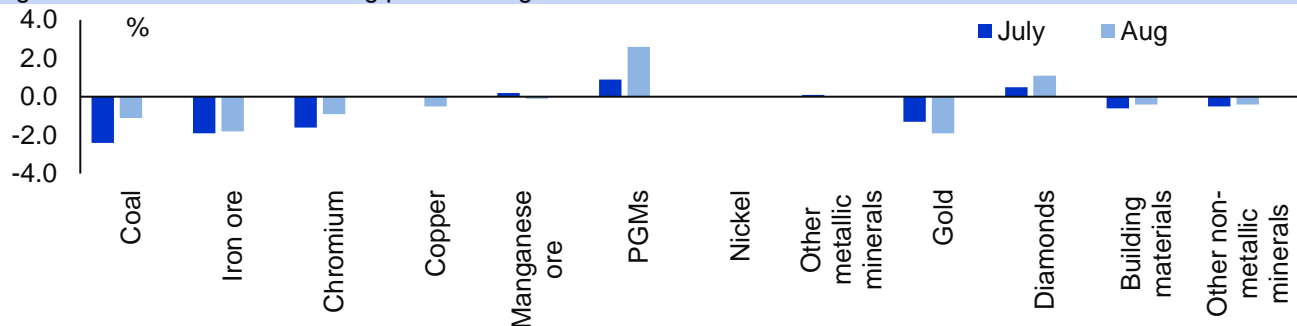




Mining update: The contraction in mining production continued to ease notably in August to -3.3% y/y on improved global demand

Tuesday 13 October 2020

Figure 1: Contributions to mining production growth



Source: Stats SA, Investec

- Mining production moderated to -3.3% y/y in August from -6.5% y/y (revised) in July, reflecting the slowing pace of contraction from levels experienced in the second quarter of the year when covid-19 linked restrictions led to the near shut down of the economy.
- August's reading was notably better than Bloomberg consensus expectations of an -8.8% y/y (median estimate) decline and is underpinned largely by a pick-up in industrial and manufacturing activity globally.
- Indeed, according to JP Morgan's global manufacturing PMI survey results, the "(r)ecovery of the global manufacturing sector gathered pace in August." Specifically, "August saw manufacturing output increase for the second month running, following a five-month sequence of decline."
- Declines of -14.8% y/y and -18.1% y/y in gold and iron ore production respectively, which in turn sliced -3.7% off the headline outcome, was largely responsible for August's contraction. A larger decrease was averted however, by the further pick-up in PGM activity. Specifically, platinum group metals' production grew by a further 12.7% y/y in August, following July's 4.6% y/y lift. Accordingly, the mineral group which has a large weighting in the index (22.43%), added 2.6% to the topline outcome.
- Supply constraints, strong demand from China and demand recovery from the automotive industry has supported PGM prices. Indeed, base and precious metal prices continued to edge up in August, following notable gains in July. Specifically the World Bank's base metals and minerals price index rose by 27% (incl. iron ore) between April and August, while the precious metals index climbed by a notable 24% during the same period.
- Notable spikes in infection rates in certain parts of the world, accompanied by renewed restrictions however, remains a key risk to growth, with heightened global uncertainty set to persist until a viable vaccine or treatment is available and widely distributed.
- Domestically, unreliable and aged infrastructure, leading to intermittent rolling blackouts remains a significant hindrance to the optimal functioning of energy intensive industries, despite the recent government regulations allowing the private sector to produce electricity for the national grid.

Figure 2: Mining production volumes

	July 2020	August 2020
Year on year %	-6.5	-3.3
Month on month %, seasonally adjusted	20.3	6.8
3-month %, seasonally adjusted	6.2	27.5

4 Source: Stats SA, Investec

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