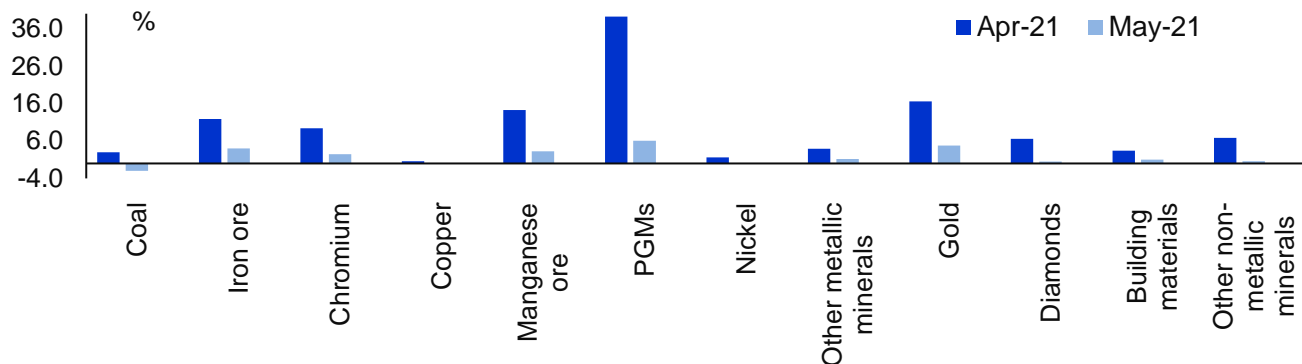




Mining update: Annual mining production buoyed by base effects, supply chain constraints weigh on export potential

Tuesday 13 July 2021

Figure 1: Contributions to mining production growth



Source: Stats SA, Investec

- Mining production rose by a further 21.9% y/y in May, buoyed by base effects. Specifically, production fell by -21.7% y/y in May 2020 when restrictions on production (although to a notably lesser degree than April 2020) were still in place and global growth concerns were heightened. May's outcome was below consensus expectations of 31.5% y/y (Bloomberg).
- The lift in production in May was largely broad based with all minerals and mineral groups, except coal and nickel experiencing some level of growth. The largest positive contributors to May's headline outcome were PGMs, iron ore and gold. The production of PGMs rose by a further 27% y/y in May, adding 6.1% points to the top line reading, on a robust recovery in the automotive market. Similarly iron ore output increased by 48.4% y/y adding a further 4.0% points, supported by the rebound in global trade and growth following the fallout from Covid-19, leading to a sharp increase in industrial demand. Constrained seaborne supply has also aided the iron ore market, with prices up over 26.0% since January 2021.
- Base metals in general are up notably, boosted by the pick-up in global manufacturing activity and new order growth. This is evidenced by the results of JP Morgan's latest global PMI manufacturing survey for June which indicates that "global manufacturing remained in a strong growth phase in June, with output, new orders and employment all rising and business optimism at robust levels", according to Markit.
- Indeed, the World Bank's metals and minerals index is up 21% between January and June 2021.
- SA's mining sector, a key commodity exporter continues to benefit from the strong rise in demand for commodities as global growth rebounds and has played a key role in SA's growth momentum as some other sectors of the economy continue to flounder. Notwithstanding this, the domestic mining sector continues to face numerous challenges hindering its ability to take full advantage of the current surge in demand. Key amongst these are electricity supply limitations, although announcements pertaining to increased generation are positive for the energy intensive sector. Furthermore, logistical constraints, especially rail and port issues continue to impede activity and export potential.
- Further stringent lockdown restrictions (although not our expected case) coupled with the civil unrest currently playing out in the country remain downside risks to the country's growth trajectory.

Figure 2: Key growth rates in the volume of mining production

	April 2021	May 2021
Year on year %	117.4	21.9
Month on month %, seasonally adjusted	0.2	-3.5
3-month %, seasonally adjusted	6.3	5.6

4 Source: Stats SA



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