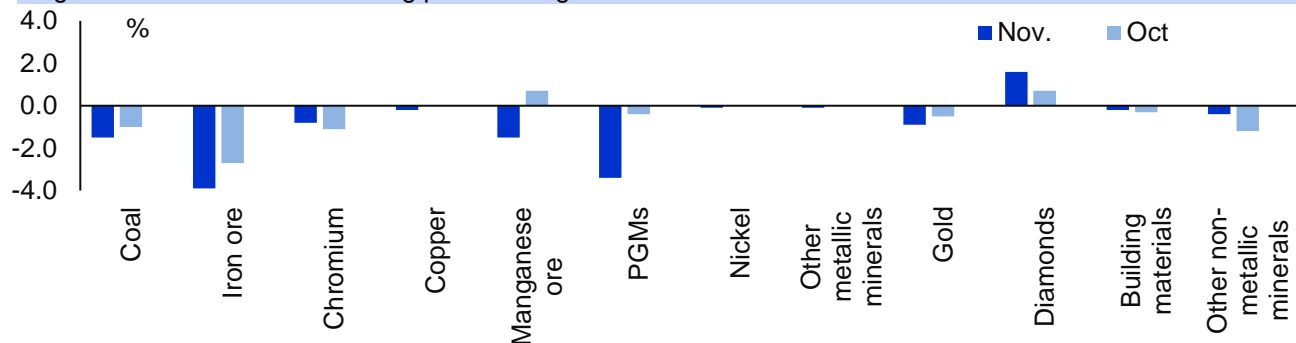




Mining update: Mining production declined by a marked -11.6% y/y, underpinned largely by a fall in iron ore and PGM output

Tuesday 19 January 2021

Figure 1: Contributions to mining production growth



Source: Stats SA, Investec

- Mining production contracted by a marked -11.6% y/y in November, following October's -5.9% y/y (revised) decline and was notably weaker than Bloomberg's consensus estimate of -5.0% y/y.
- The sharp fall was broad based with output of all minerals and mineral groups, except diamonds decreasing on a year-on-year basis. Iron ore was the largest negative contributor, detracting -3.9% from the headline reading on the back of a decline in production of -35.5%. A drawdown of inventories, due in part to logistical constraints caused by the pandemic and the maintenance of ports and railroads, impacted output levels. Going forward however, SA's iron ore market should benefit from the increase in industrial demand from particularly China.
- Production of PGMs, which constitutes 22.43% of the mining basket also slid markedly on a year-on-year basis, detracting a further 3.4% points. Operational challenges and declines in productivity as a result of Covid-19 continue to weigh on domestic mining activity.
- Diamond output grew by a further robust 56.0% y/y, following gains of 22.6% y/y 45.6% y/y in September and October respectively and accordingly added 1.6% to the headline outcome, preventing an even more pronounced decline in production. Rough diamond sales improved ahead of the holiday season, a key period for diamond jewelry sales.
- Global commodity demand has picked up notably since Q2.20, supported in part by the increase in manufacturing activity, however supply chain hindrances remain. Indeed, according to JP Morgan's global manufacturing PMI survey results, global manufacturing output continued to recover in November as indicated by the JP Morgan's global manufacturing PMI index. December's reading saw output rise at a slower pace however, with global supply chains under pressure leading to "(m)arked delays and disruption to raw material deliveries, production schedules and distribution timetables, according to Markit."
- The rise in market expectations of a global economic recovery over 2021 as vaccination rollouts progress is positive for commodities. Domestically however, the mining sector continues to face a multitude of challenges, which have been exacerbated by covid-19. Specifically, continued, intermittent load shedding remains a key risk for the energy intensive mining sector.

Figure 2: Mining production volumes

	October 2020	November 2020
Year on year %	-5.9	-11.6
Month on month %, seasonally adjusted	-0.7	-5.7
3-month %, seasonally adjusted	17.4	6.3

4 Source: Stats SA, Investec

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