

Kazakhstan Mining Report Q3 2016

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Abstracts

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BMI View: Kazakhstan's mining sector remains well placed for long-term expansion over the next few years, with the country taking advantage of its geographical location to position itself as an important supplier of commodities to the Asian and European markets. While we forecast the prices of key mined commodities such as coal, copper and iron ore to remain weak through to 2020, the sector is well placed to take advantage of the upside and, in particular, renewed demand from the likes of China and India. Strengthening trade links with these markets appear to support his strategy.

Latest Updates And Structural Trends

Despite ongoing weakness in global commodity prices we anticipate positive growth in Kazakhstan's coal and iron ore production in 2016 and through the remaining forecast period. We forecast coal output to grow by 1.9% a year on average over 2016-2020 to reach 143mn tonnes (mnt), while iron ore output will increase by 1.2% to 28.1mnt.

Prices of both commodities will contract in 2016, with iron ore prices averaging USD48/tonne compared with USD55.5/tonne last year and thermal coal slipping by 1.7% to USD51/tonne. The price of copper will also fall, averaging USD4,900/tonne compared with USD5,493/tonne in 2015.

The long-term growth of the mining sector will be supported by increased overseas demand as well as the growing needs of the domestic energy sector. The country's mining and energy sectors are attracting the attention of China and India and the Kazakhstani and Chinese governments recently signed agreements worth USD5.1bn in the field of transport, energy, nuclear,

metallurgical and chemical industries. This includes the construction of a mining and metallurgical complex in Kazakhstan's Akmola region.

In fact, Chinese investment in Kazakhstan's mining sector will rise in the coming years. Chinese miners may be interested in acquiring Glencore's Vasilkovskoye gold mine, according to FT sources. Glencore said it is considering selling this mine which has more than 5m oz of proven and probable gold reserves in order to cut its debt.

Furthermore, multinational steelmaker ArcelorMittal announced the divestment of its Kuzbass coal mines in Siberia to Russia's National Fuel Company in January 2016. The move will allow the company to focus on its Kazakh mining operations, which has recently undergone a USD430mn expansion.

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