

Mexico Mining Report 2016

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Abstracts

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BMI View: We maintain a positive outlook for Mexico's mining industry growth, predicated on a strong project pipeline, low operating costs and vast mineral reserves. Nonetheless, elevated cartel violence will remain a key downside risk.

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Mexico's mining industry value will see solid growth, supported by low operating costs and a strong project pipeline, over the next few years. We forecast the country's sector value to increase from USD15.7bn in 2016 to USD17.8bn by 2020, averaging 3.3% annual growth.

Mexico will remain the leading global silver producer, with production growth accelerating over our forecast period to 2020 on the back of a strong project pipeline. We expect the country's silver output to increase from 178 million ounces (moz) in 2016 to 214moz by 2020, averaging 4.5% annual growth.

Mexico's silver industry production growth will be export-driven, as key Asian markets increase silver consumption. For instance, in 2015, Mexico's silver ores and concentrates exports to China nearly doubled to 1.5moz compared to 791koz the previous year. Similarly, in 2015, the country exported 511koz of silver ores and concentrates to South Korea, up from 412koz in 2014.

Mexico's copper sector will continue increase output, due to competitive operating costs and a significant project pipeline over the coming years. Namely, Southern Copper's USD3.5bn expansion at the Buenavista mine will ramp up output to 500 thousand tonnes (kt) by 2017. In light of this, we have revised

Mexico's copper output growth forecast up from 3.0 to 10.0% and 2.5% to 4.0% in 2016 and 2017, respectively. We forecast the country's output to increase from 592 thousand tonnes (kt) in 2016 to 644kt by 2020.

The key downside risk to our upbeat mining production forecasts for Mexico will be elevated violence in northern states, where a number of projects are located. For instance, Fresnillo's USD515mn San Julian silver-gold project, expected to begin production in 2017, sits in Chihuahua. The state of Chihuahua, in which Ciudad Juárez is located, recorded a homicide rate of 46 per 100,000 people in 2014 - the second highest in the country, and well above the national average of 16 per 100,000 people, according to data from the Instituto Nacional de Estadística, Geografía e Informática.

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