

Peru Mining Report Q3 2016

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Abstracts

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BMI View: Peru's mining industry will be a regional growth outperformer, supported by a strong copper project pipeline, low operating costs and a favourable business environment over the coming quarters.

Latest Updates & Structural Trends

Peru's extractive industry will experience significant growth over our forecast period to 2020. We expect the sector's value to climb from USD21.3bn in 2016 to USD27.9bn by 2020, averaging 6.2% annual growth. In particular, we expect copper to outperform in terms of production growth due to a strong project pipeline and continued investment. Silver and gold will also benefit from a number of key projects, while tin and zinc output posts slower growth. The country will remain a top global producer of each of these metals.

Peru's copper sector will see significant growth, as low production costs encourage output and major projects come online. We forecast copper production to increase from 2.0 million tonnes (mnt) in 2016 to 2.6mnt by 2020, averaging 9.2% annual growth. In Q116, the country's copper output increased q-o-q by 52.0%, from 341 thousand tonnes (kt) in Q115 to 514kt. Key projects include MMG's Las Bambas mine, Freeport's expansion at the Cerro Verde mine and Southern Copper's ramp up plan at Toquepala.

We revised upward our 2016 silver production growth forecast for Peru, from 4.0% to 6.0% on the back of a strong project pipeline and stronger than expected Q116 data. For instance, Glencore reported a significant increase in silver output at the Antamina mine, with the company's 34% share reaching

1.9moz in Q116 compared to 969 thousand ounces (koz) in Q115.

Ongoing metal price weakness, anti-mining protests, and illegal mining will remain key challenges to Peru's mining industry. While these factors may result in project delays, Peru's low operating costs, supportive political environment and significant project pipeline will offset any production declines.

Peru's mining sector will be supported by the country's vast mineral reserves, open investment framework, and low operating costs. Peru will remain competitive relative to other Americas mining jurisdictions and we expect mining firms will continue to invest in the country. While the country's overall tax levels are relatively higher than its regional peers, miners in Chile still face elevated labour, electricity and water costs compared to Peru.

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