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South Africa Mining Report Q3 2016

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Abstracts

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BMI View: South Africa's mining sector will face persistent headwinds due to labour unrest, mineral price weakness, further divestments and retrenchment.

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> Coal: As Anglo American is keen to offload the majority of its South-African assets, this could result in a significant decline in the country's coal production growth. As such, we revised down our 2016 and 2017 coal production forecast from 1.3% to -4.0% and 1.0% to -1.5%, respectively. Despite this, South Africa, which is Sub-Saharan Africa (SSA)'s largest coal producer, with a 94.6% share of regional coal production in 2015, will remain the region's largest coal producer. We forecast South Africa's coal production to grow from 252million tonnes (mnt) in 2016 to 264mnt in 2020. This would represent average annual growth of 0.1% during 2016-2020, slightly higher than the average 0.9% decline during 2010-2014.

> Gold: Although the DRC, Zambia and Mozambique will be the region's growth bright spots, South Africa will remain SSA's largest mining country in terms of MIV. For instance, South Africa's MIV will total USD26.7bn in 2016, whereas DRC, Zambia and Mozambique's MIV will total just USD4.3bn, USD1.3bn and USD0.7bn, respectively. However, South Africa's mining sector will continue to face a myriad of challenges from a combination of low mineral prices, elevated production costs and growing regulatory risks. Both low gold prices and ongoing wage negotiations will continue to hurt the sector's growth output. Beyond 2016, we forecast output to average annual growth of 0.2% during 2016-2020, with output totalling 4.53moz by 2020.

Iron Ore: We have revised up our iron ore forecasts to 2020. We expect iron ore prices to average USD48.0/tonne during 2016 and USD43.0/tonne in 2017, up from our previous forecasts of USD38.0/ tonne and USD40.0/tonne, respectively (see: 'Iron Ore: Chinese Stimulus Only Short-Term Boost To Prices', May 5). Our upwards revision is predicated on the strong H116 iron ore price rally due to increasing demand from Chinese steel mills. As stated above, we expect prices to fall in the latter half of 2016 as Chinese ore demand will weaken due to declining demand from steel producers (see: 'Renewed China Weakness Will Limit Price Gains', April 26). We expect prices to head lower in 2017 as the H116 rally will result in high-cost iron ore producers coming offline at a slower pace than we initially expected. In addition, the global iron ore market is going to continue to see strong supply from low-cost producing countries Australia and Brazil, the world's second and third largest producers, respectively, which will partially offset the slowdown in Chinese iron ore production.

The country's Iron ore exports to China will slow on the back of the country's slowdown in steel production over the coming quarters. In the first four months of 2016, ore exports to China fell by 3.0% y-o-y, following 6.2% growth in 2015.

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