Zimbabwe Mining Report Q3 2012

https://marketpublishers.com/r/Z29BF2904BBEN.html
Date: August 2012
Pages: 55
Price: US$ 1,175.00 (Single User License)
ID: Z29BF2904BBEN

Abstracts

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Zimbabwe's mining sector is set for rapid development as the country dramatically recovers from two decades of declining output. Zimbabwe is richly endowed with deposits of chrome, gold, nickel and platinum, among other minerals. Its gold reserves are among the largest in Africa, while it hosts the second largest platinum reserves in the world. Another segment that has caught the attention of miners in Zimbabwe is diamonds, following the discovery of a number of significant kimberlites.

Forecasting growth rates for the Zimbabwean mining sector is a highly uncertain process at present, with so much of the sector's direction governed by political events. At base, we believe the scene is set for a period of strong growth, as the industry recovers from a disastrous period during the mid-2000s. The gold sector looks well placed for growth, following its liberalisation in 2009, and thus we forecasting a doubling in gold output from 2010 levels, reaching 560koz in 2016. We forecast similar rates of growth in platinum output. However, it is in diamond production that the country holds the most promise, having the potential to match the largest producers over the long term.

Over the short term, there could be renewed weakness in mining sector output, as the country looks to introduce its indigenisation policy, which could see companies scaling down their projects or leaving the country. However, for the most part we maintain that despite this policy investment will continue to flow in, given Zimbabwe's colossal mineral reserves. Taking the above into account, we expect the value of the mining sector to double from 2010 levels of US$281mn to US$535mn in 2016. There are substantial risks to this view, both to the upside and downside, depending on the political situation.

BMI believes that issues regarding the majority local ownership of mining assets remain

the key challenge facing foreign mining companies operating in Zimbabwe. In March 2011, the government committed to the continuation of its controversial Indigenization and Empowerment Act, which calls for a 51% stake in all mining companies (with assets over US$500,000) to be divested to indigenous Zimbabwean groups, with this new ownership structure to have been agreed upon by September 2011. Reaction from foreign miners operating in Zimbabwe has been negative, with Canadian miner Caledonia Mining stating that it will limit its spending in the country until there is further clarification about how indigenisation will be introduced.

In the longer term, if Western companies do decide to end their Zimbabwean operations as a result of indigenisation, then China is eager to enter the country. Such an arrangement could well be preferable for Robert Mugabe, who might prefer to deal with Chinese investors willing to take a minority stake in Zimbabwean mining operations, and who would bring significant amounts of funding to the sector.

Moreover, China has not imposed sanctions or withheld budgetary aid to Harare in recent years, unlike Western powers. This would again appear to give Beijing the edge over Western interests.

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