21 January 2025

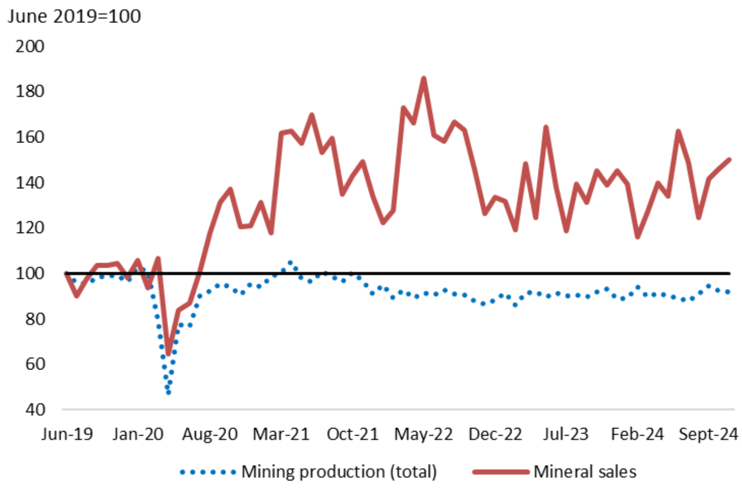
Mining production declined by 0.2% in November 2024

Seasonally adjusted real mining production declined by 0.2% month-on-month (m-o-m) in November. This follows a drop in production of 2.8% (m-o-m) recorded in October. In November, production dropped by 0.9% on an annual basis ((i.e. comparing November 2024 to November 2023). Despite these poor numbers, the year-to-date figures were more positive. In the first eleven months of 2024, mining production increased by 0.6% year-to-year (y-o-y). This sets up 2024 as the first time since 2021 that real mining production will show an increase for an entire calendar year, albeit only a modest gain.

Contributing to the decline in total mining production were **gold** (-9.2% m-o-m), **copper** (-20%), and **diamonds** (-24.1%). Structural factors such as high production costs and aging mines remain the main reason for the decline in gold production despite relatively higher prices. The gold price averaged $2,364/oz between January and November 2024 compared to $1,935/oz in the same period in 2023. Under normal circumstances, the higher prices should have resulted in higher gold output. While the decline in diamond production has previously been explained by Venetia mine changing to an underground operation, the global diamond industry in general is facing serious headwinds. Consumer finances are under strain as inflation, although declining, remained relatively high in key markets. This forced consumers to reallocate discretionary spending which negatively affected the demand for natural diamond-inspired jewellery. Lab-grown diamonds are also a major threat.

In the positive column, significant m-o-m increases in production were recorded for **iron ore** (+10%) and nickel (+7.5%), while **chromium** (+2%) and **coal** (+2.2%) recorded modest growth.

Figure 1: Mining production and sales up in November



Source: Stats SA, Minerals Council

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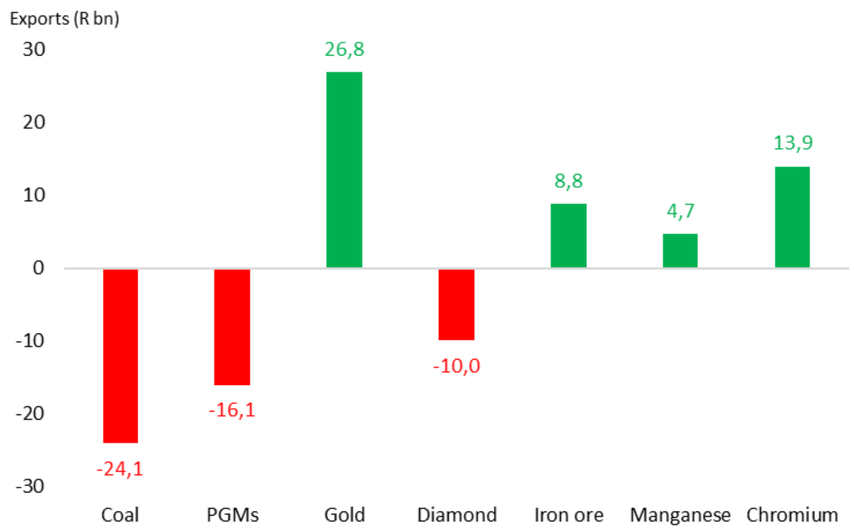
Earnings from minerals sales continue to outperform production as depicted in Figure 1 where the red line was consistently above the black (reference) line. A snapshot comparing the performance of export earnings in 2023 and 2024 (January to November) is shown in Figure 2. In 2024, coal export earnings were down by R24.1 billion compared to the same period in 2023 while PGMs were down by R16.1 billion. Even though gold production continues to decline, the higher price meant that gold export earnings were R26.8 billion higher compared to 2023 (January to November).

Figure 2: Difference in export earnings between 2023 and 2024 (Jan-Nov)



Source: South African Revenue Service (SARS)

Bottom line: With the data available for the year to November, growth in total mining production in 2024 will be between 0.5% and 1%. Looking at the top four commodities in terms of their contribution to mining production, namely the PGMs (30.2%), coal (21.8%), iron ore (15%), and gold (13.7%), which collectively contribute more 80% to total production, the following should be noted for 2025:

- While the ultimate net effect remains uncertain, **PGM** prices and production look positive in the short term on account of US President Donald Trump's likely economic policies. Trump is expected to do away, or at least significantly reduce, funding for environmental policies. This is expected to boost the production of vehicles that use internal combustion engines (ICE) which need PGMs for catalytic converters.
- **Gold**. Although Trump asserts that he will get rid of inflation in the US, history and economic theory and practice suggest otherwise. His trade policies are set to be inflationary and as such are likely to result in a higher-for-longer interest rate regime. This should weigh on non-interest-bearing assets such as gold. That does not mean, though, that the gold price is about to decline materially. Central banks look set to continue accumulating gold reserves which will support the gold price.
- **Coal**. All else equal and depending on the timelines of implementation, the possible slowdown in renewable projects – inspired by the Trump presidency - is likely to

support the coal price. Domestically, the delay in the decommissioning of coal power plants should support coal production.

- **Iron ore**. The fortunes of the Chinese economy will remain a crucial price driver. If economic growth in China cools further, demand for iron ore is expected to subside. Besides the ongoing property market slump in China and general subdued consumer demand, possible US tariffs on Chinese goods is another headwind for the Chinese economy. As a result, iron ore demand might not be as buoyant as it has been post-COVID-19.

On the domestic front, the significant progress on curtailing load-shedding in 2024 needs to be followed up by more progress on fixing poor-performing rail and port infrastructure. In addition, we await a more conducive environment for mining exploration when the online cadastre system (hopefully) comes online later this year. These are some of the steps required to sustainably lift domestic mining investment and production.

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