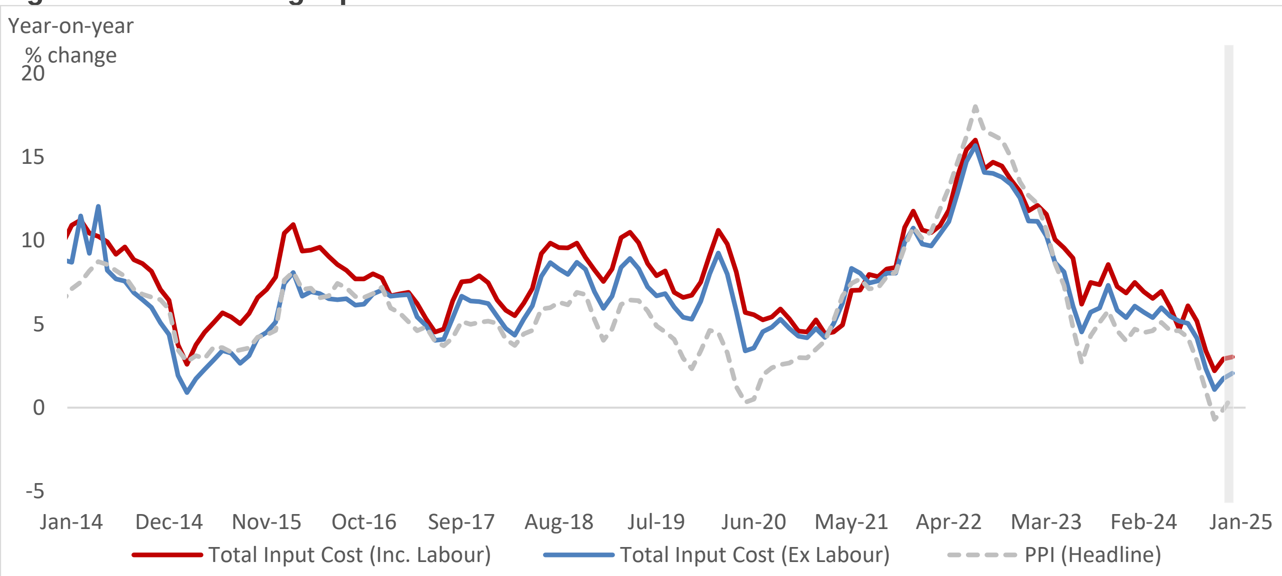
Mining Input Costs increased by 3.8% year-on-year in January 2025

In January, the Minerals Council's mining input cost index saw a moderate increase, with annual growth accelerating to 3.8% year-on-year (y-o-y), up from a revised 3.0% in December 2024. This aligns with the overall trend in Stats SA's Producer Price Index (PPI) for January, which recorded a 1.1% y-o-y increase, though the levels differ.

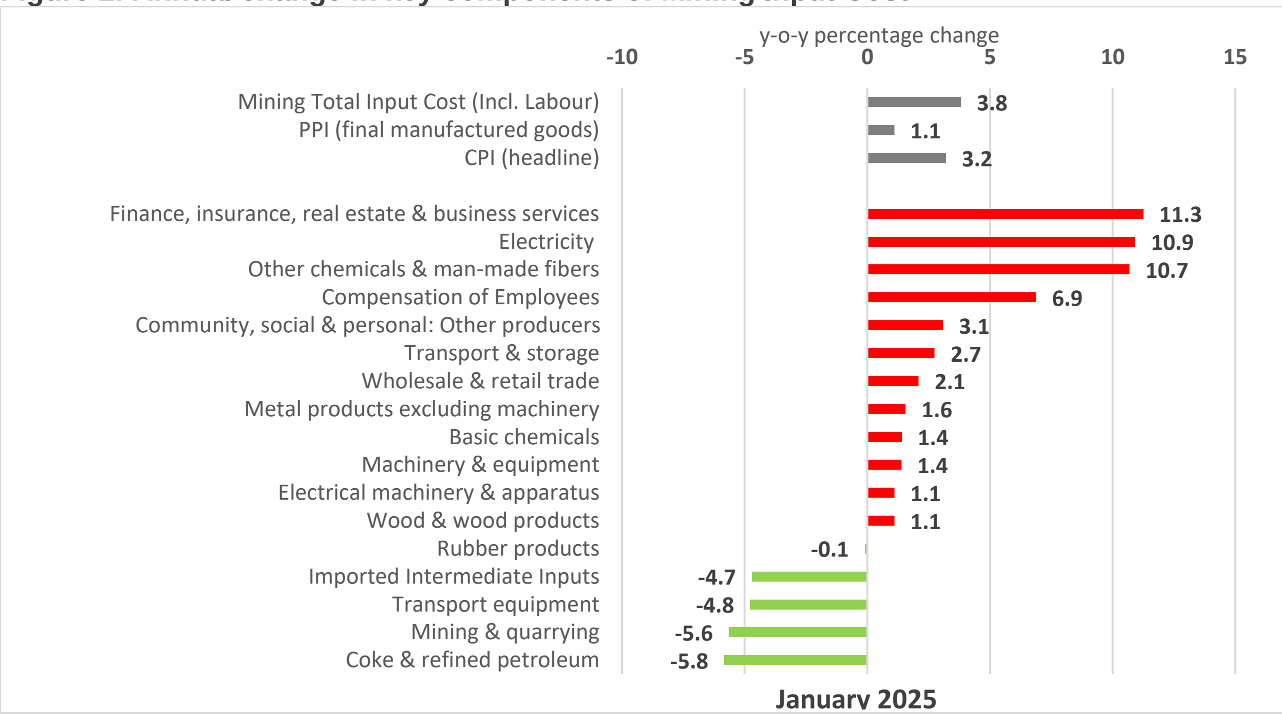
Figure 1: Total Mining Input Cost Inflation



Source: Statistics SA & Minerals Council SA

Figure 2 below provides a breakdown of the factors contributing to total mining input cost inflation in January.

Figure 2: Annual change in key components of Mining Input Cost



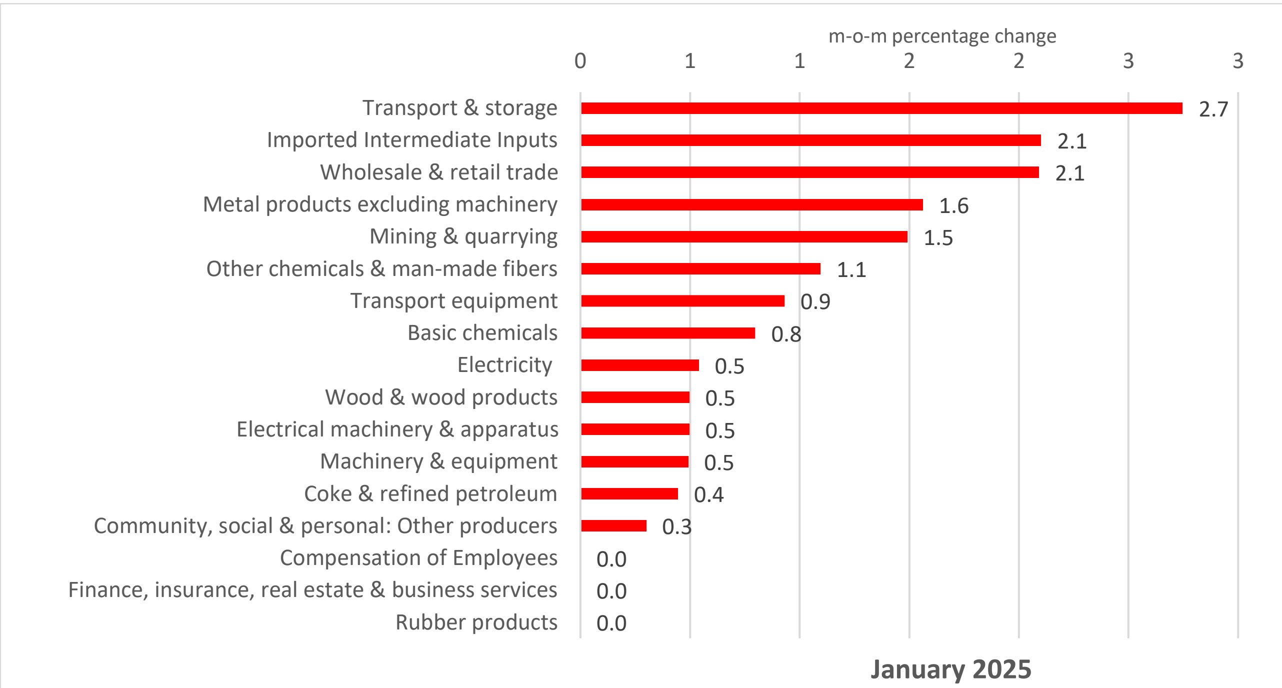
Source: Statistics SA & Minerals Council SA

Excluding financing costs - given that the prime lending rate was reduced to 11% at the end of January (with the full impact expected in February's data) - electricity prices remained a key driver of mining input cost inflation, rising by 10.9% year-on-year (y-o-y) in January. The cost of other chemicals and synthetic fibers also remained elevated, increasing by 10.7% y-o-y. This was driven by higher prices for mining chemicals such as hydrochloric and sulfuric acid, prepared explosives, and chemical catalysts.

NERSA's approved electricity tariff increase of 12.72% for 2025/26 will take effect later this year. For direct Eskom customers, the increase will apply from April 1, 2025, while mines receiving electricity through local municipalities will see their rates rise from July 1, 2025. This increase, combined with the annual winter tariffs set to begin in June, will once again exert pressure on mining input costs. However, we expect inflation to ease or stabilise this year, allowing for a more favorable prime lending rate environment and providing some relief from high financing costs. As outlined in our monthly CPI commentary, assuming the SARB continues adjusting rates in 25-basis-point increments, consensus expectations point to two additional rate cuts in 2025. That said, this outlook faces two key risks. **Domestically**, a potential VAT hike and other tax increases could push inflation higher while weighing on economic growth. **Globally**, supply chains and commodity prices remain vulnerable to geopolitical developments. These include global tariff wars, the ongoing conflict in Ukraine, and tensions in the Middle East.

On a positive note, the mining sector benefited from a stronger nominal exchange rate compared to the previous year, with the nominal effective exchange rate appreciating by 4.7% y-o-y. This improvement helped reduce the cost of imported intermediate inputs. However, as seen in recent month-on-month movements, the rand's gains have largely reversed, and its current weak level is adding short-term pressure to imported input costs. Additionally, the annual cost of coke and refined petroleum products dropped by 5.8%, providing some relief from inflationary pressures. Intermediate mining and quarrying inputs also declined, by 5.6% y-o-y, further easing cost pressures in the sector.

Figure 3: Monthly Mining Input Cost Changes

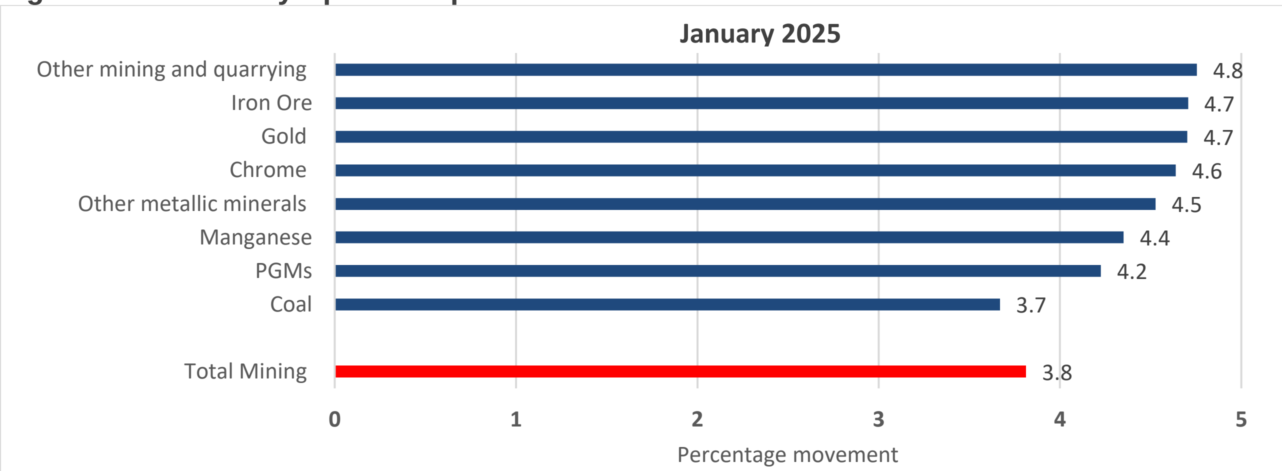


Source: Statistics SA & Minerals Council SA

January was a particularly challenging month, with prices rising across the board and recording month-on-month increases. The top three components that saw the highest increases were transport and storage costs, driven in part by higher road transportation expenses; the depreciation of the nominal effective exchange rate by 2.1% m-o-m, which added to cost pressures; and wholesale and retail trade subcomponents, which also recorded significant price increases.

Figure 4 below illustrates the y-o-y increase in mining input costs per commodity subsector. The difference in input cost inflation levels is attributed to the weighting of individual components based on the economic structure of the commodities.

Figure 4: Commodity-Specific Input Cost Inflation



Source: Statistics SA & Minerals Council SA

At the start of 2025, the *other mining and quarrying* sector recorded the highest average increase in input cost inflation. This category includes a range of mining operations, from phosphate to slate extraction. Following this, the iron ore, gold, and chrome sectors saw the next fastest rise in input costs.

Conclusion:

Global macroeconomic and geopolitical developments are set to significantly impact South Africa's mining sector in 2025. The U.S. Energy Information Administration (EIA) forecasts Brent crude oil prices to average $74 per barrel, down from $81 in 2024, driven by increased global oil production and slower demand growth. While oil prices may stabilise, geopolitical tensions - such as ongoing conflicts in Ukraine and trade disputes between major economies like the U.S. and China - pose risks of disrupting supply chains and impacting commodity prices.

Domestically, the National Energy Regulator of South Africa (NERSA) approved a 12.72% electricity tariff hike, effective from April and July for different customer categories. This is expected to drive up operational costs for mining companies. However, there is some potential relief, as the consensus view is that the South African Reserve Bank (SARB) will reduce the prime interest rate by 50 basis points this year. In our opinion, while we believe only a 25 basis point cut is likely this year, we still hope to be proven wrong and see a larger, 50 basis point reduction, as that would provide greater relief to financing costs.

Overall, while stable oil prices may provide some respite, the mining sector will need to navigate uncertainties in both global and domestic markets. Escalating geopolitical tensions, domestic policy changes, and currency fluctuations all remain significant risks.

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