Weekly Mining Watch

Mining Intelligence – Today

Monday 13 July 2020

This is your daily dose of information on mineral prices, mineral commodity markets and mining company performance.

Quote of the Day: 'Record-highs in sight': Gold on path north of USD$1 800 -analysts

MINERAL PRICES

Precious Metals

Table 1: Precious Metal Prices -USD/oz

Metal	Current Week Close	Previous Week Close	+/- (%)
Gold	1,799	1,774	+1%
Silver	18.69	18.02	+4%
Platinum	815	800	+2%
Palladium	1,910	1,852	+3%
Rhodium	6,200	5,900	+5%

In Focus: Platinum

Platinum prices are at levels akin to those in late 2008 during the global financial crisis and recovery will predominantly depend on jewellery and autocatalysis demand. As has been the historical case, autocatalysis demand will be driven by the substitution of the more expensive palladium by platinum, tight emission regulations, a slowdown in battery electric vehicle rollout and uptake of hybrid diesel vehicles. The substitution of palladium by platinum seems to be taking longer than expected as palladium has had a higher price since late 2017 and part of the reason is that palladium is superior to platinum in gasoline catalysts (Figure 1). In addition, the market-share of diesel vehicles in Europe that has largely driven Platinum autocatalysis demand has been on a decline since 2011 and with the global drive towards zero emissions, recovery seems unlikely.

Top gains

Zinc	7.0%
Copper	6.0%

Top losses

Lithium	-1.0%

Covid-19 Count

Zimbabwe

Screened	88 984
Tested positive	985
Recovered	328
Deaths	18

Global

Tested positive	13.0M
Recovered	7.5M
Deaths	571K

The Daily Mining Watch is a product of chaminestoday.com, the online digital platform for the Chamber of Mines for all its members and stakeholders. The Daily Mining Watch is produced by the Chamber of Mines in Association with Wealthtalk Media.

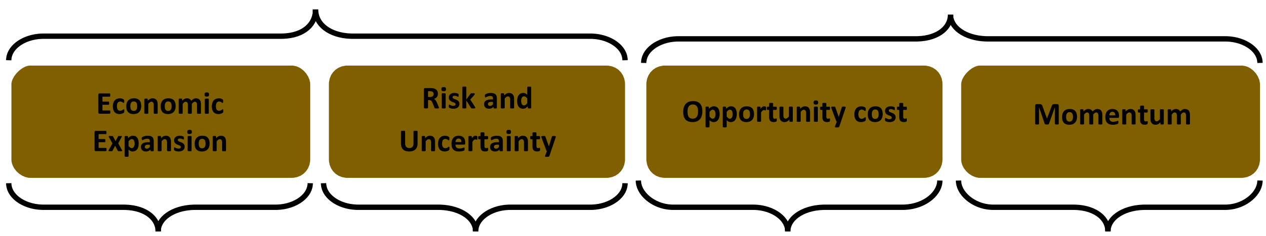
To subscribe to this daily report or to advertise contact us on:
Email:info@wealthtalk.co.zw ; caroline@wealthtalk.co.zw ; judith@wealthtalk.co.zw
Call us on: (0242) 480 219/08644219610
Address: Shop 6 Highlands Green Shopping Centre, Greendale Harare.

Figure 1: Adapted from Johnson Matthey

In the Jewellery sector, the World Platinum Investment Council and Platinum Guild International's Platinum Business Review asserted that the prevailing low platinum price relative to other precious metals will likely strengthen the Platinum Jewellery demand post- COVID 19. In addition to low prices having created an entry point for bar and coin investors, Chinese jewellery manufacturers also took an opportunity to build their stocks eyeing growth prospects and new product development post COVID 19. Although the low price and preference towards platinum will strengthen consumer demand, jewellery has only accounted for around 30 – 40% of platinum demand and this will limit its influence on overall demand growth. However, if there is a turnaround in the automotive sector influenced by price induced substitution of Palladium by Platinum as has historically been the case, tighter emission regulations in China and India and a slowdown in EV adoption influenced by the absence of stimulus packages, then a significant growth in demand and price recovery will be likely . Disruption of supply from major producers such as South Africa that continue to experience rising COVID 19 cases will likely support price recovery as well.

In Focus: Gold

The fundamental factors that have driven gold's price rally since 2018 continue to push the price upwards and the yellow metal surpassed the US$1800/oz mark for the first time since 2011 on Tuesday afternoon this week. Driven by strong Exchange Traded Funds (ETF) flows and Central bank demand, the metal had its best performance since 2012 in 2019 when its price rose by 18.4% and now the its up 19% year-to-date surpassing this record. In 2019, ETF flows and Central Bank Demand were influenced by geopolitical uncertainty especially the US-Iran confrontation, low interest rates and negative real yield for debt instruments, factors that are still in place. The COVID – 19 pandemic has dampened prospects for global economic growth forecast at -4.9%, which will likely depress consumer spending and jewellery demand. However, this will be offset by central bank purchases investment demand as investors seek safe haven assets in the form of gold backed ETFs. Continued assessment of the above factors will give miners a better perspective of the gold market trends since, according to the World Gold Council (WGC), the price of gold largely depends on interplay of Supply and Demand factors. The factors are influenced by four main components that are strategic and tactical in nature as shown in Fig 2.



The strategic factors apply to both consumers and investors focused on the long term protection of their savings and investments. Periods of economic growth enhance jewellery and technology demand while high levels of risk and uncertainty drive ETF flows and central bank demand. Tactical factors apply to the attractiveness of gold relative to fiat currencies and assets such as bonds as well as investor sentiment which drives price volatility. The current global context is characterised by poor growth prospects, low interest rates and deteriorating credit conditions meaning that the gold price will continue to be driven by risk and opportunity cost based factors as consumer demand softens. With the current environment where the developed market's sovereign debt is trading with negative real rates, the opportunity cost of holding gold disappears, thus the positive correlation between negative yielding debt and gold price over the past four years shown in Figure 3.

Correlation of the Gold price and Negative Yielding Debt

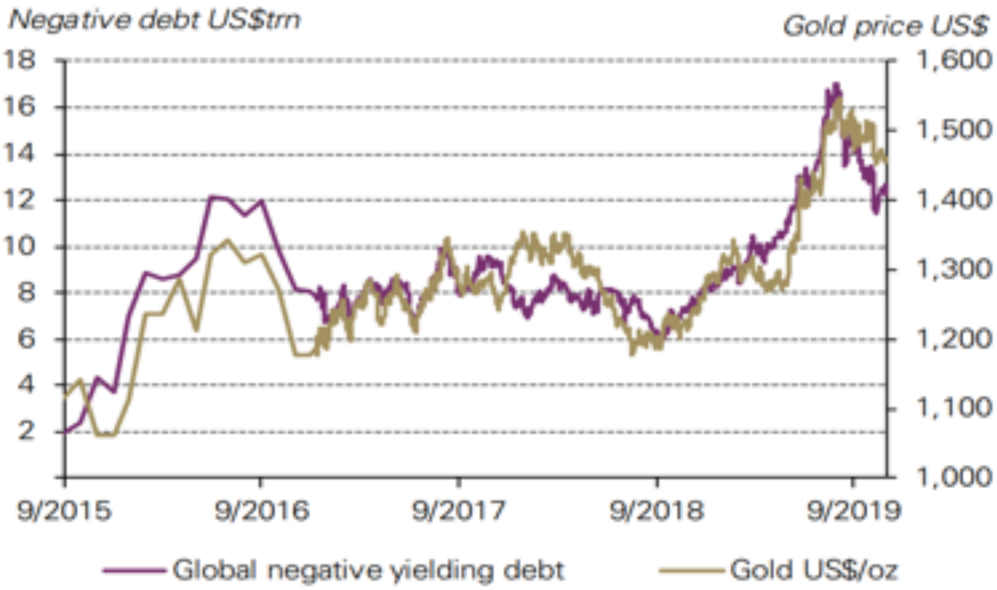


Figure 3: Adapted from the World Gold Council's Outlook 2020

In this period, miners should focus on short term expansion projects to increase output thereby taking advantage of the upside. Mergers and acquisitions are one of the effective strategies that mining majors employed during the commodity super cycle in the first decade of the new millennium. In addition, the current price levels support lower cut off grades, thus previously uneconomic brown field projects are a potential source of quick wins.

Base Metals

Table 2: Base Metal Prices - USD

Metal	Current Week Close	Previous Week Close	+/- (%)
Chrome/ton	439.66	436.32	+1%
Nickel/lb	6.09	5.81	+5%
Copper/lb	2.86	2.71	+6%
Cobalt/ton	427.97	424.71	+1%
Aluminium/lb	0.75	0.72	+5%
Lead/lb	0.84	0.80	+4%
Tin/ton	17.200	16.800	+2%
Zinc /lb	0.98	0.91	+7%

In Focus: Chrome

Since March 2020, anticipation of COVID 19 induced production supply disruptions in South Africa, the major global chrome ore producer, resulted in supply fears and stock building by Ferro alloy producers. Sentiments over supply side constraints resulted in a 29% increase in price from early to late April 2020 and another 15% increases from early to late May. However, in the past week, chrome ore prices fell in china as demand from ferro-alloy producers was depressed by ample inventories on their part as well as low offer prices by suppliers. The ferrochrome prices also fell in Europe over concerns of weak demand prevailing before the usual summer consumption slowdown. However, there is strong market sentiment that chrome will be in short supply for the 2020-21 period which will likely drive the price upwards.

In Focus: Copper

Copper prices have surged by 45% since mid-March despite the International Monetary Fund downgrading its global forecast and a resurgence of Covid-19 infections, forcing governments around the world to re-impose business-crippling lockdowns. Copper’s gain has been driven chiefly by concerns over strains on supply from key producers South America. Nearly 3,000 copper workers have contracted the virus in Chile, which is by far the world’s largest producer of the metal, accounting for more than a quarter of global supply. Infections are also slowing the mining recovery in Peru, which is the second-largest producer.

Energy Materials

Table 3: Energy Material Prices -USD

Metal	Current Week Close	Previous Week Close	+/- (%)
Coal/ton	40	40	-
Uranium/ton	32.80	32.60	+1%

In Focus: Coal

Coal prices remained flat amid a muted spot market while buyers and sellers are in a stalemate. Some coal consuming markets - such as the European Union, India and Japan have shut down so much that recovery is realistically the only option while industrial activity resumes.

Battery Materials

Table 4: Battery Materials Prices -USD

Metal	Current Week Close	Previous Week Close	+/- (%)
Lithium/ton	4.443	4.502	-1%
Vanadium/lb	6.20	6.20	-
Graphite/ton	1.800	1.800	-

In Focus: Lithium

Lithium demand has been weak since the beginning of July amid consumption slowdown in China, Asia, Europe and the United States. The slowdown in demand continues to put pressure on the price and with the major lithium miners having continued to operate amid rising COVID-19 cases, a constrained supply to stimulate price recovery in the short term is unlikely. Battery grade lithium carbonate spot price ranged from 6.5 – 8 per kg (cif China, Japan and Korea)and 8 – 9.50 per kg (cif Europe and US).In the long term, the announcement British Prime Minister Boris Johnson to invest 1 billion in battery manufacturing will likely have a positive impact on the lithium market.

MINING INSIGHTS

Investors Are Sensitive to ESG Events but Focus on Long-Term Risks

The 2020 Metals and Mining Survey obtained responses from more than 100 corporate issuers and investors active in the sector across diverse geographies and activities. The findings suggest interesting trends in the diverse perception of ESG risks.

More than half of respondents agreed that there has been a substantial increase in the past three years in risks to metals and mining operations from carbon emissions, followed closely by other emissions to the atmosphere. Some other ESG risks are also increasing, particularly those related to fuel and energy use, mine tailings and associated waste management, community engagement, labour relations and impacts on human health.

When respondents were asked to identify the most material ESG risks in the coming five years, stark differences emerged between corporate and investor respondents. Corporates believe carbon, air and water emissions are key risks, while investors identify water scarcity, labour relations and human-health concerns as the risks that are most likely to increase or substantially increase in the coming five years.

The difference perceptions of risks between corporates and investors may be attributable to differing levels of geographical and investment exposure. Many of the risks identified by corporates as highly material (such as climate regulations that permit emissions to air and water) tend to be more regional in character, while the risks identified by investors tend to be more macro-level, long-term systemic risks across the industry as a whole.

When we asked respondents to rank the most material ESG issues by activity, interesting trends emerged between different elements of the metals and mining value chain. For respondents with interests in the mining sector, community engagement and licence to operate emerged as the most material issue for the largest number of respondents, followed by local habitat and biodiversity impacts.

Atmosphere and water pollution levels from mines tend to be the most common areas of focus for local regulation in the US and some other countries, so their citation here is unsurprising. The presence of trace metals in industrial effluents is a growing issue for producers and regulators alike. When asked to provide examples of why they expected ESG issues to change in importance in the coming five years, a large number of respondents said they anticipate new regulation in these areas, albeit regulation that is often linked to rising media coverage and public awareness of ESG controversies such as labour disputes, industrial pollution or hazardous waste management across the sector.

Survey respondents across the corporate and investor base of the metals and mining sector point to a greater focus on ESG in the investment process as a key driver of risk to a "high impact" sector. Our survey reveals that ESG controversies and media coverage influence investment policies. Nonetheless, physical climate risks (such as droughts, floods and other natural disasters) are identified as the top ESG risk across all sectors and regions in our survey. - Emerging ESG Risks in the Metals Emerging in the Metals and Mining Value Chain Fitch Solutions.

UPCOMING EVENTS

Gold Watch: Effects of the Gold Price Rally In Africa
Time: 1300 GMT
Date: 28 July 2020

DIGITALIZATION IN MINING CONFERENCE 2020

14 July 2020 - 30 July 2020
Online conference