Indaba Insights: The Mining Outlook in 2024

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The theme of 2024's Mining Indaba was "Embracing the power of positive disruption: A bold new future for African mining". The three key, "positive disruptors" discussed were environmental initiatives, potential mergers and acquisitions, and technology. Mainly, this focused on green mining finance and how companies might leverage AI technologies for production.

Perhaps more interesting were the conversations on the sidelines around some "negative disruptors": the effects of the ongoing energy and logistics crises in South Africa. The sector, heavily dependent on energy for its operations, has slowly been forced to find alternatives to state produced energy that it cannot rely on. Profits have declined as work has been interrupted in this transition away from grid reliance. Compounding this, the logistics crisis has contributed to a shrinking South African mining sector as producers are forced to reduce their output given failing rail and port services. The National Treasury approximates that in 2023, the cost of rail inefficiency is approximately 5.5% of GDP. The mining sector has shrunk from 8% of GDP in 2017 to 7% of GDP, shedding approximately 40 000 jobs during this period.

Despite the scarcity of new investors, the conference took a somewhat more optimistic view than in the previous year. This was attributed to the recent effort by government to turn around the logistics sector, which has been noted by producers. But producers are under no illusion that these initiatives will be a silver bullet for the industry. Industry representatives recognised that while government has put forward plans and tools to improve business conditions; implementation is generally the government's weak point. This was specifically raised with regards to the new cadastre of available mining rights and licenses, which has been touted as the remedy to the licensing backlog. The backlog has been detrimental to prospects of attracting new investment projects as investors' hands have been tied by the opaque and bureaucratic process of waiting for licenses. Not a single one of the 2,525 mining license applications filed in 2023 were approved.

Commodity Trends: Platinum and Coal Out; Lithium, Copper and Iron Ore In

South Africa produces 91% of the world's platinum and 80% of the world's manganese. Platinum group metals (PGM) is currently experiencing its worst performance in 35 years as prices dive. Demand for these goods has become uncertain as global demand shifts to focus on materials needed for the production of electric vehicles, such as copper and lithium. Platinum products have been traditionally used in combustion vehicles as part of the exhaust control components.

In response to this market slump, last year, Anglo-American announced that the company would be cutting back to the tune of 1.8 billion US dollars unless market conditions improved. To date, there has been little evidence of a recovery, or recovery prospects in the near future. While diamond prices are making a comeback, the prices of rhodium and palladium remain low and have led to a reduced profits for Anglo-American. The logistics crisis further contributed to the damage that low prices have done. The withdrawal of investment in the PGM industry could lead to as many as 7000 jobs lost.

Anglo-American plans to capitalise on the rush for copper (prices have been sky-rocketing) by exploring opportunities in the Democratic Republic of Congo (DRC), which has bountiful copper deposits but its own unique set of challenges for investors (including ongoing conflict, poor governance, and competition from other interested parties). Electric vehicles have up to four times more copper than combustion engine vehicles. DRC ranks third for copper production globally, and first for the production of cobalt, which is used to make crucial components found in computer chips and cell phones. Another mineral that has seen its demand jump is lithium, which is a crucial component in rechargeable batteries. Zambia, Zimbabwe, and DRC all have large lithium deposits that are attracting investors.

Along with platinum producers, the coal industry finds itself on the backfoot this year. This stands in contrast to the previous recovery of coal following the global energy shortage as a result of the Russia-Ukraine war. Prices have since dropped once more. South Africa's primary coal terminal, the Richards Bay Coal Terminal (RBCT) experienced a further 3-million tonne decrease in coal exports in 2023, attributed to a persistent and significant decline in rail-delivered coal volumes as infrastructure collapse has accelerated. The terminal had already reached a 30-year low in 2022. RBCT's CEO, Alan Waller, says that the projection is to export 50 million tonnes of coal in 2024. This figure represents a decline from 50.35 million tonnes in 2022 and a significant drop from the peak of 76.47 million tonnes in 2017.

The Iron ore sector, despite faring well as prices remain high, has faced challenges related to the logistics crisis. In the first half of 2023, Anglo American's Kumba Iron Ore unit, suffered a 17% profit decline due to rail issues and operational challenges. Disruptions along the 861-kilometer rail line from Sishen mine to Saldanha port, operated by Transnet, impacted Kumba's operations and other mining companies, affecting profitability for bulk shippers. Increased stockpiles resulted in Kumba announcing that it would be reducing its production targets over the next three years. This reduction in activity will no doubt cost the economy precious jobs.

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