

Economic Commentary

Mining production

Mining activity remains under pressure

- Activity in the mining sector remained under pressure during July, with total output increasing by a seasonally adjusted 0,1% m-o-m, but contracting by 1,0% on a year-on-year basis.
- Gold output fell by 3,4% y-o-y, while non-gold output contracted by 0,6% y-o-y.
- Short-term prospects for the mining sector are bleak. The strong rand, labour action and rapidly rising costs point towards activity in this sector remaining under pressure in the next few months.
- The data will have little influence on today's monetary policy decision and we still expect the Reserve Bank's Monetary Policy Committee to reduce the repo rate by 50 basis points to 6,0%.

Table 1 :Mining production

	July 2010		June 2010	Forecasts	
	Y-o-y%	M-o-m% (SA)	Y-o-y%	Nedbank Y-o-y%	Market Y-o-y%
Total mining production	-1,0	0.1	0.4	n/a	n/a

Source Statistics South Africa

Comment

Overall output in the domestic mining sector remained under pressure during July, suggesting that the weakness recorded in the second quarter of this year could spill over into the third quarter. Statistics South Africa reported that the value of mining production fell by a seasonally adjusted and annualised 20,8% in the second quarter of this year.

Most of the key mining categories have shown reduced output in recent months although output has risen slightly since the beginning of this year:

- Platinum output has remained weak, declining by 0,7% y-o-y in July, the fourth consecutive monthly decline.
- Output of chrome has been strong this year, averaging 76% y-o-y since the beginning of 2010, but this partly reflected the recovery from the sharp slump experienced during 2009.
- Iron ore production was down by 4,5% y-o-y in July, its first decline in more than a year.
- Copper production continued to contract sharply and was down by 31,5% y-o-y in July. The contraction in copper production has averaged 28% y-o-y since the beginning of this year.

Group Economic Unit

Isaac Matshego

+27 11 295 6451

IsaacMat@nedbank.co.za

Dennis Dykes

+27 11 295 6435

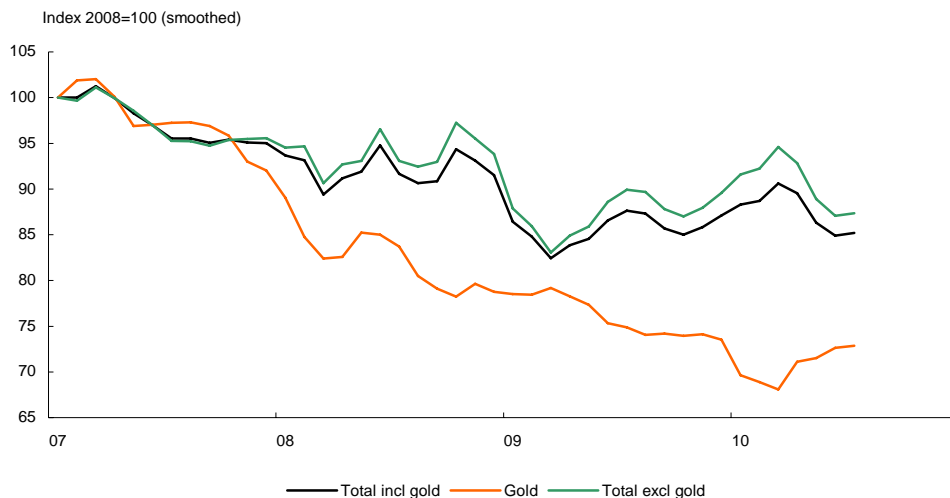
DennisD@nedbank.co.za

Corporate Place, 135 Rivonia Road,
Sandown, 2196, South Africa

<http://nedbankgroup.co.za>

In the three months to July, mining production contracted by 2,8% y-o-y after declining by 2,1% y-o-y in the three months to June, confirming that the underlying trend in mining activity remains weak.

Chart 1 : Total mining production



Source: Statistics South Africa

Outlook

Prospects for the mining industry look bleak in the short term and output is likely to remain low. Factors impacting negatively on mining activity are the strong rand, which offsets the benefit of stronger international commodity prices, rising production costs and labour action. The platinum mining sector, which contributes around 27% of total output, has seen increased labour action in recent weeks.

On a longer-term basis South Africa's gold mining sector, which accounts for around 17% of total mining output, is in decline. Domestic gold output has shrunk by about 60% since 1999, with the country dropping to the fourth largest gold producer in the world. Gold output remains under pressure this year, with volumes down by 3,4% since the beginning of this year. South Africa will thus not benefit fully from increased world demand for gold. The World Gold Council forecasts demand for gold to remain strong this year, boosted by accelerating demand from India and China. The uncertainty related to the outlook for the global economic recovery will support global investment demand. Total gold demand rose by 36% y-o-y to 1 050 tonnes in the second quarter of this year, driven mainly by strong investment demand, which in turn reflected strong demand from Exchange-Traded Funds.

Implication

The latest mining data, combined with yesterday's slower manufacturing output figures, suggest that the domestic economy is likely to grow at a slower pace in the second half of the year as the slower global recovery impacts negatively on export-oriented sectors.

We still expect the Reserve Bank's Monetary Policy Committee (MPC) to cut interest rates by 50 basis points for one last time in this cycle today, reducing the repo rate to 6,0%.

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