

Global commodities' position as a bull sector within a bear market represents a unique opportunity for African mining

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The world's mining sectors' performance usually tracks the ups and downs of global GDP. However, this historic correlation has never really been tested against the backdrop of a truly global health and economic crisis - until 2020, that is.



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Apart from its obvious and tragic health impacts, the arrival and rapid spread of Covid-19 created economic challenges unlike any that the world has ever witnessed before. Global markets found themselves battling to contain the damages inflicted by the virus, as negative quarter-on-quarter global GDP growth became the norm.

The mining sector has largely bucked trend of decline that other industries are facing. In fact, mining and resources currently find themselves in what can only be termed a bull market, seemingly immune to the widespread carnage being wreaked in most other sectors by a Covid-19-fuelled global markets bear.

The China factor

While this bull within a bear scenario has most people, including those involved in the mining sector, somewhat perplexed, the primary reason for it is fairly obvious – and it has a lot to do with timing. When Covid-19 first became known in China, the country went into immediate lockdown, well ahead of the rest of the world.

As a result, when most other countries, and entire continents, eventually 'caught up' with the need for strict lockdown responses, China found itself at the tail end of the first wave of the pandemic, and was already working intensively to restart its economy – with a particular focus on manufacturing.

This is clearly evidenced by air quality readings taken in China in the midst of the Covid-19 crisis. While lockdowns in the rest of the world were resulting in clear blue skies, emissions in China in May 2020 were actually higher than those of the same period in 2019 – which points to a very busy manufacturing industry in that country during that time.

So, while most sectors and industries across the world found themselves suffering from a significant decline in demand, commodities were, and continue to be, highly sought after. That continued high demand has served to drive up the prices of most resources in 2020, thereby creating this apparent commodities bull market anomaly.

While the impact on this unique scenario of second and third Covid-19 waves across the world is still to be seen, the demand for commodities was still very evident at the end of 2020. This points to the likelihood that Chinese industry is still working tirelessly to make up for lost production earlier in the last year, and is in all likelihood building significant stockpiles of finished goods to act as a cushion against the economic impact on any possible future Covid-19 lockdowns.

African mining wins

Of course, the benefits of this manufacturing drive are flowing through to mining sectors across the world. And given that it is a leading supplier of many of the currently in-demand commodities, Africa is one of the main beneficiaries. This has a number of positive knock-on effects that Africa's mining sector would do very well to capitalise on.

The first is that there has clearly never been a better time than now to invest in mining stocks. And African mining stocks, in particular, offer a compelling investment proposition.

Secondly, the outperformance of the mining sector on the continent creates a real opportunity for it to realign itself with the role it can, and should, be playing in terms of driving the sustainable wellbeing of Africa and her people. Covid-19 is obviously a massive crisis for what is undeniably a 'poor' continent. While governments across Africa are doing their utmost to fight the pandemic and protect the health of their people, funding is in short supply.

Mines currently have that funding but they need to be willing to apply it beyond merely making the required tax and royalty contributions. If they are also willing to leverage their good financial positions to make strong corporate social investments into Covid-19 relief and support initiatives, these African mines may well emerge from the pandemic with much more than just strong balance sheets; they will also enjoy the immense benefit of positive local and international perceptions that will help to attract the investment needed to grow their operations and profitability into the future.

There is no African mine that can afford to squander this unique opportunity to position themselves for such future growth by leveraging their healthy balance sheets to restore their reputation, enhance their appeal as a good corporate citizen, and return their licence to operate to good standing. And, hopefully, the resulting transformation of mining in Africa will allow the sector finally to realise its vast potential fully to be the engine of sustainable social development and economic growth that it can, and must, be for the continent.

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[\[\[https://www.linkedin.com/in/nivaash-singh-2862561a/?originalSubdomain=za Nivaash Singh\]\]](https://www.linkedin.com/in/nivaash-singh-2862561a/?originalSubdomain=za) is the co-head of mining and resources finances at Nedbank Corporate and Investment Banking.

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