

Operating environment

Macro environment

The Covid-19 pandemic continues to have pronounced economic, health and societal impacts, which are expected to remain for some time.



According to the World Bank, although the global economy is recording a strong but uneven recovery, many emerging-market and developing economies face obstacles with vaccination programmes and the impact of virus mutations.

As a result, the World Bank believes that the global economic outlook remains uncertain, with major risks around the path of the pandemic and the possibility of financial stress amid large debt loads. This presents a difficult balancing act for policy makers between nurturing the recovery while safeguarding fiscal sustainability.

In April 2021, the International Monetary Fund (IMF) projected global growth at 6.0% for the 2021 calendar year, moderating to 4.4% in 2022. The caveat remained: a highly uncertain outlook, due to the path of the pandemic, effectiveness of policy support to provide a bridge to vaccine-powered normalisation and the evolution of financial conditions.

Implications for ARM

Pandemic-related impacts on our group are evident in three of our top ten risks featuring Covid-19:

- Uncontrolled spread of Covid-19 at one or more operations
- Above-inflation cost escalation exacerbated by Covid-19
- Unknown impact of Covid-19 on business.

South African operating environment

The pandemic had a devastating impact in South Africa, with economic activity decreasing by 7.0% for the 2020 calendar year, the biggest annual fall since at least 1946.

The South African economy grew by 1.1% in the first quarter of 2021 (January-March). Despite this being the third consecutive quarter of positive growth, the domestic economy is 2.7% smaller than it was in the first quarter of 2020.

Economic forecasts were revised after rioting in July which caused damage estimated at R50 billion, with subsequent job losses of 1.4 million. The riots were a major setback for the country politically, socially and economically, with the South African Reserve Bank estimating it could cut up to 0.9% off the 4.2% GDP growth forecast for 2021.

Current projections for GDP growth are 3.9% in 2021. Risks to this outlook include delays in vaccinating the population and infrastructure constraints; particularly inland rail, power and water security and supply. These risks pose a potential hindrance to growth.

The mining sector demonstrated its resilience in the past year. It was key in providing support through the initial stages of the pandemic and continues to be an essential part of the strategy to rebuild South Africa.

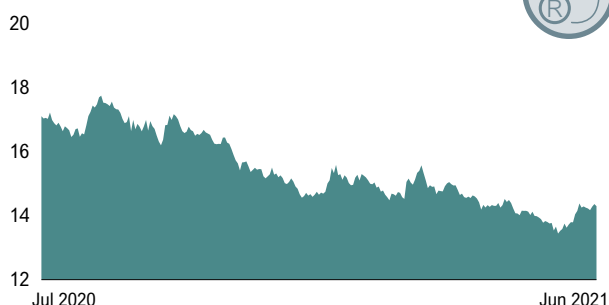
Implications for ARM

- Heightened social unrest
- Increased community expectations
- Operational impacts of infrastructure constraints.



Exchange rate

Exchange rate (R/US\$)



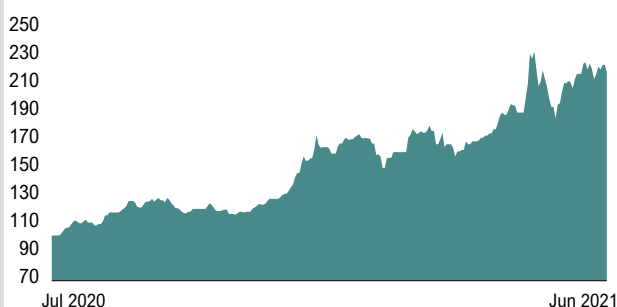
Summary of key commodity markets

Our diverse products are sold into different markets, which spreads the risk of selling a single commodity to a single market, but exposes us to multiple market and commodity dynamics. We monitor these closely to anticipate and respond effectively.

Iron ore (ARM Ferrous)

Iron ore was one of the best-performing commodities in F2021, averaging US\$184/tonne for the first half of the 2021 calendar year. Demand was being driven by strong global crude steel production, challenges at major producers, increased freight rates and global logistics bottlenecks.

62% iron ore fines (CIF China) (US\$/t)



Outlook

The strong momentum in global crude steel production in China is slowing in the second half of the 2021 calendar year which has placed significant pressure on iron ore fines and lump iron ore prices. Since the beginning of F2022 the 62% Fe fines iron ore index has dropped to lows of US\$93/t before rebounding. Iron ore prices are expected to remain under pressure from F2022 onwards. Logistics challenges at Transnet Freight Rail continue to pose a serious risk to South African supply in F2022.

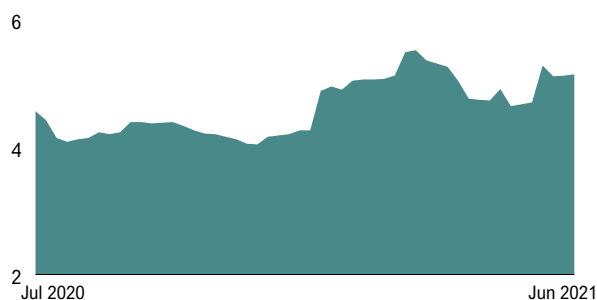
Manganese ore (ARM Ferrous)

The short-lived rally in early 2021 was driven mainly by supply decreases, particularly in South Africa where above-average rainfall reduced mining activity and damaged the rail line to Gqeberha (formerly Port Elizabeth). This was exacerbated by global logistics bottlenecks, a shortage of shipping containers and strengthening in the rand. The rally was curtailed by subsequent supply increases.

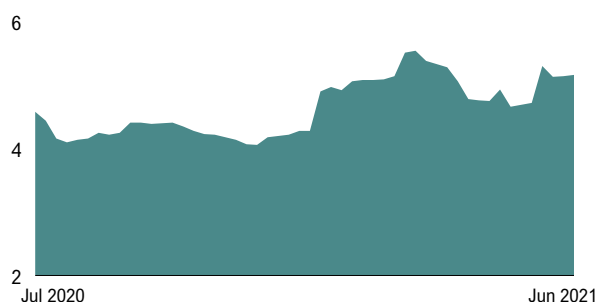
Outlook

Manganese ore prices remain under immense pressure given increased exports to China from South Africa, Australia, Gabon and Brazil, together with elevated inventory levels in China. Adding further downside pressure to manganese ore prices is a pull back in Chinese crude steel production in the second half of the 2021 calendar year.

37% manganese ore (FOB¹ Port Elizabeth) (US\$/MTU)



44% manganese ore (CIF² Tianjin) (US\$/MTU)



¹ FOB = Free-on-board.

² CIF = Cost, insurance, and freight.

Operating environment continued

PGMs (ARM Platinum)

Given the numerous end uses for PGMs, price movements correlate to global manufacturing activity, which in turn shapes the dynamics of supply and demand. Covid-19 has had a profound impact on supply and demand, with the PGM basket price surging to historical highs, spurred by rhodium prices which gained some 180% in F2021. Average US dollar palladium prices were up 28% and platinum up 20% in F2021.

Platinum has outperformed palladium since late last year, reflecting higher investment demand given its greater application in fuel cells in a greener world. Record rhodium prices were partly due to supply disruptions at Anglo American Platinum and Norilsk Nickel, suggesting an extremely tight physical rhodium market as auto manufacturers stockpile in anticipation of a supply crunch.

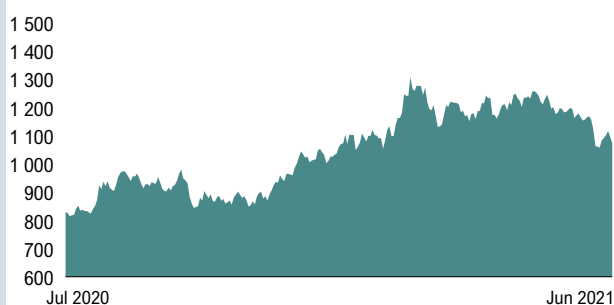
On the demand side, while global auto production and sales recovered strongly from 2020 lows, global auto demand could be constrained for some time. The impact of lower auto production and sales on PGM demand has been somewhat cushioned by a rapid increase in PGM loadings to meet tighter emission standards.

Production disruptions in South Africa (which accounts for over 80% of global rhodium supply) tightened the PGM market, although record margins prompted some producers to raise output from brownfield projects.

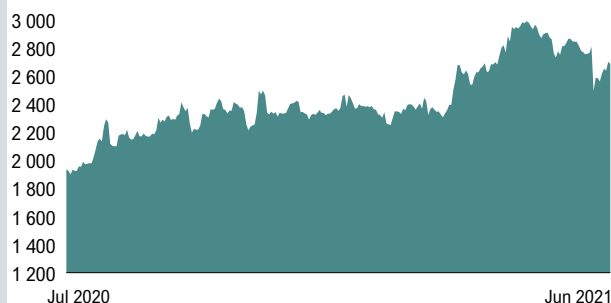
Outlook

With limited increases in platinum production expected, a recovery in auto-catalyst demand boosted by substitution and an increase in hydrogen-related demand, the platinum market is expected to reach even wider deficits in the medium to long term. Platinum prices are therefore expected to be very well supported in the medium to long term.

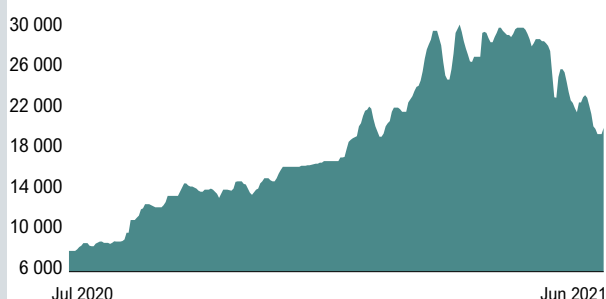
Platinum spot price (US\$/oz)



Palladium spot price (US\$/oz)



Rhodium spot price (US\$/oz)



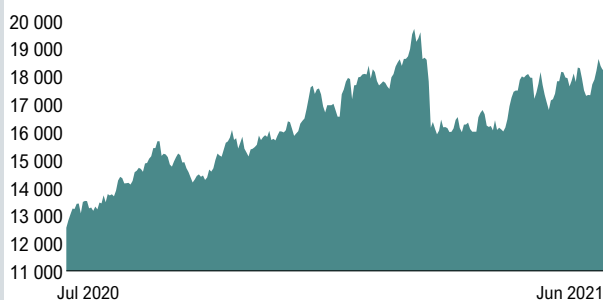
Nickel (ARM Platinum)

A strong rebound in stainless steel output (particularly in China) has kept nickel demand high, aided by medium-term concerns of looming nickel shortage from the electric vehicle sector.

Outlook

There is limited new nickel supply coming on stream before 2022. Globally, the strong stainless recovery is expected to keep the market in balance in 2021, supporting higher nickel prices.

Nickel spot price (US\$/t)



Thermal coal (ARM Coal)

Thermal coal prices continued to rally into 2021. Demand outside of China remained robust and logistical challenges in Australia and South Africa caused supply disruptions. In addition, higher freight rates and lower availability of seaborne supply have contributed to currently elevated prices.

Outlook

An economic recovery in countries where coal has a material share in the power mix, such as the United States, Europe, India and the south-east Asia regions is expected to lift coal-fired power generation from 2020 lows. Post 2021, the growth rate is expected to decline much faster. In China, over 50% of the power-generation growth is expected to be met through renewables, with only 12% to be met through coal.

Over the medium term, declining demand across major coal-consuming countries is expected to reflect in a gradual price decline.

API 4 thermal coal prices for Richards Bay (US\$/t)

