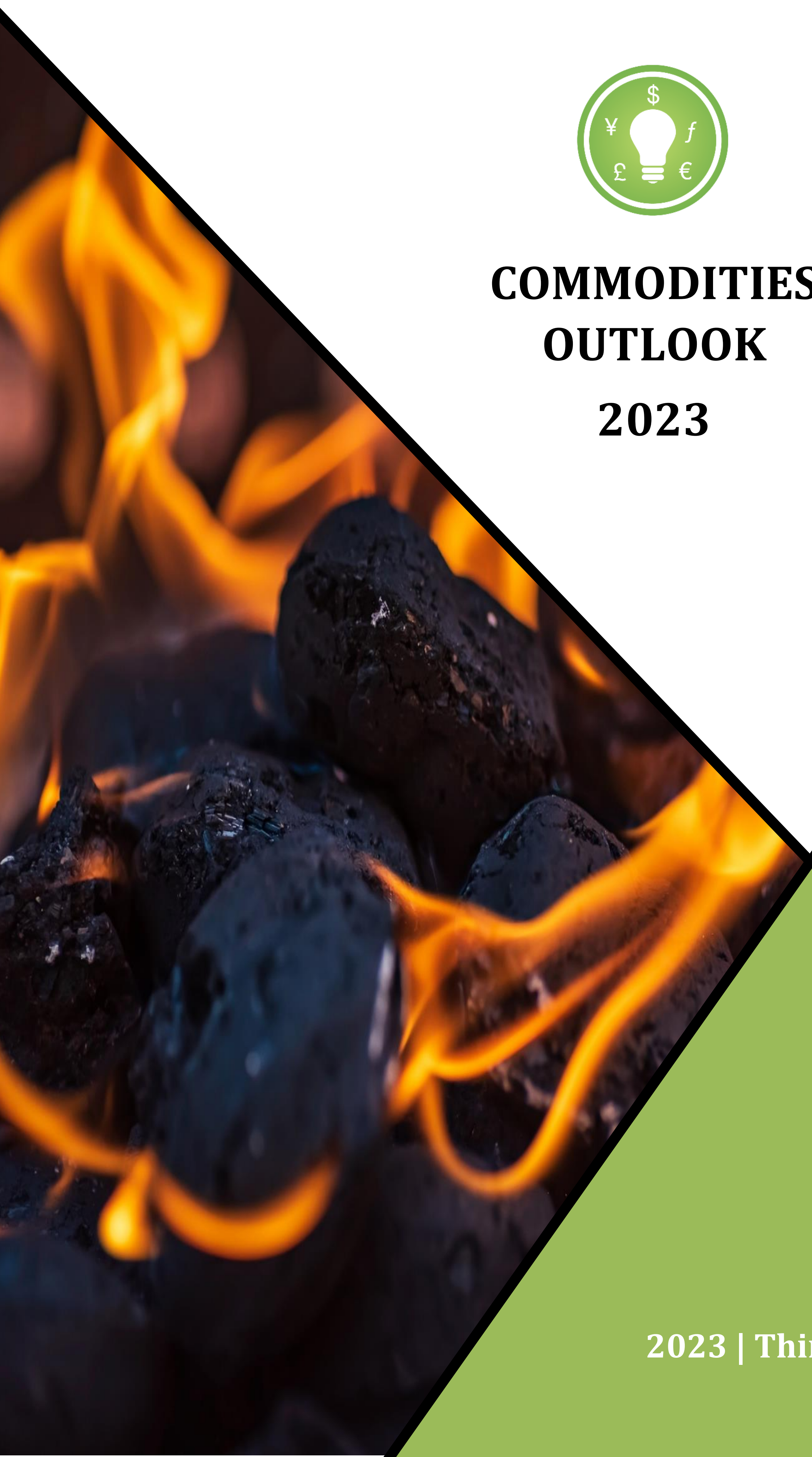


COMMODITIES OUTLOOK 2023

2023 | ThinkMarkets

Commodity markets overall had a volatile 2022, on the back of pent-up demand as COVID-19 lockdowns were lifted across the globe (except in China). The Russian invasion of Ukraine in February 2022 bolstered prices already on an upward trend, as market participants across the globe worried sanctions against commodity powerhouse Russia, would reduce supplies.

By the second quarter of the year, prices started to contract due to several factors including restrictive monetary policies implemented by developed nations to combat soaring inflation, a slowing Chinese economy in the throttlehold of a zero-COVID policy which raised concerns over demand, and a stronger United States dollar, bolstered by their central bank's hawkish interest rate hiking cycle, which made commodities expensive in local currencies. By the end of the year, most commodities had fallen from their March highs but still traded above long-term averages.

This year, central banks are largely expected to continue with their restrictive monetary policies for the first half to combat inflation, which is likely to result in a slowdown in the global economy over the first half which could curb demand for major commodities.

Optimistically, the Chinese economy started the year fully reopened which can boost the country's economic growth and increase commodity demand by the second quarter of the year, particularly oil and industrial metals. Additionally, an end to the US dollar rally, which surged to a twenty-year high in 2022, could also be supportive of commodity prices.

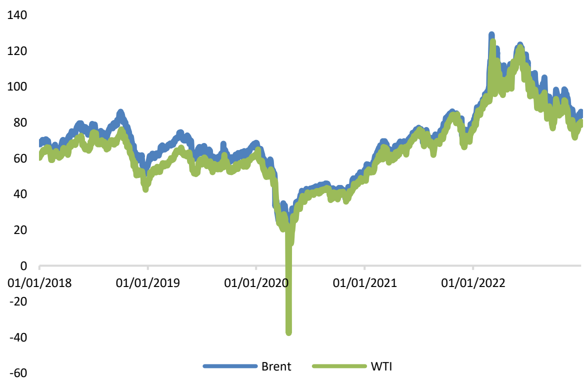
We look at the fundamentals driving the demand and supply of major commodities, and the South African listed mining companies that can provide exposure to an asset class, Goldman Sachs, has taken a bullish stance on, predicting it to be the best-performing asset class in 2023.

Energy

Oil

With the reopening of China, oil demand might exceed 2019 levels and reach a record high in the second half of this year. Emerging Asia, including India and Indonesia, is also expected to drive oil demand growth in the second half. The global economy could slip into a recession in the first and second halves of the year however, due to the effects of high inflation and rising interest rates. The Organisation of the Petroleum Exporting Countries (OPEC) has cut its demand estimates for 2023, from a projected increase of 2.5 million barrels per day (mbpd) to 2.25 mbpd.

Brent Crude Oil Price relative to WTI Oil Price



Source: Infront Terminal

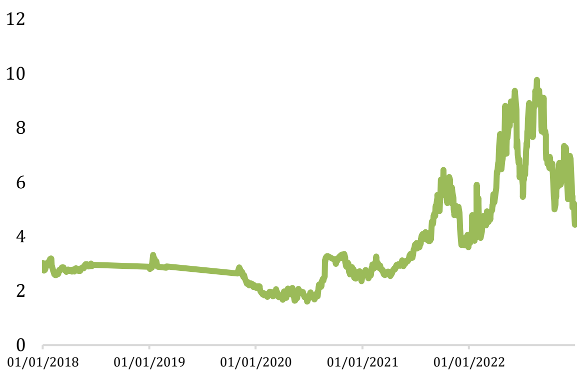
From a supply perspective, Russian oil production is expected to contract in the year due to the European Union's ban on Russian crude and refined products. This ban is expected to come online in February. While production in the US is expected to grow moderately given the underinvestment in building new supply.

The U.S Energy Information Administration (EIA) forecast Brent Crude oil price to average $83 per barrel, while a poll on Reuters forecasted Brent will average $89.37 in 2023.

Natural Gas

Natural gas prices reached multiple record highs last year, due to reduced Russian supply and rising energy demand. By the end of the year however, prices had tumbled by more than 50% to trade at 4 USD per 10,000 million thermal units after reaching a record high of 9.76 USD/MMtu due to milder weather in the northern hemisphere.

Natural Gas Price



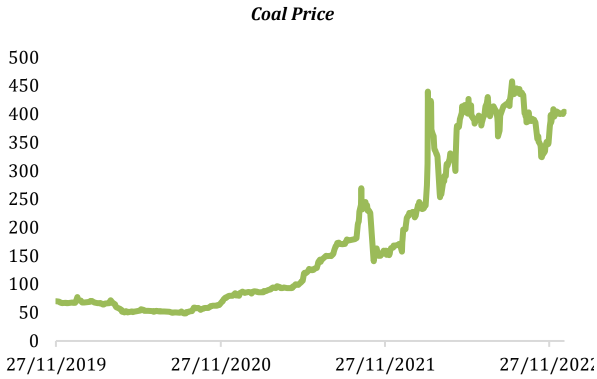
Source: Infront Terminal

Russian gas supplies to the European Union fell by approximately 80% year-on-year in 2022 and are expected to fall by a further 60% this year according to ING Group, which could put pressure on prices.

Fitch Solutions expects prices to average 6.5 USD/MMtu, while the EIA predicts prices will average USD 5.43/MMtu in 2023, as expected lower global economic growth will reduce demand in the short term.

Coal

The Russian-Ukraine war drove thermal coal prices to record levels in 2022, as Europe, which sanctioned Russian fuel, created supply bottlenecks. By the start of the new year, prices began to tumble as prospects of increased supplies and reduced demand amid warm winter in the northern hemisphere alleviated concerns about shortages. Prices remain at above-average levels, however.



Source: Infront

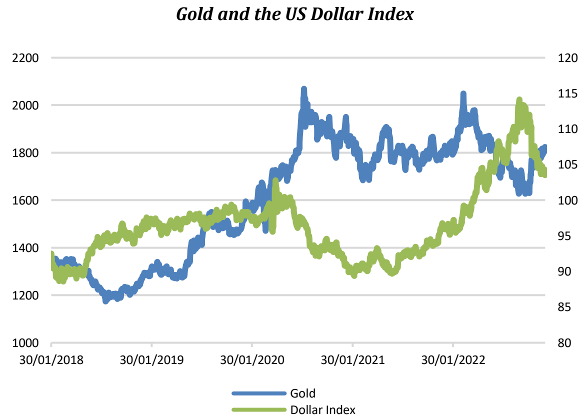
Thermal coal prices are expected to continue to fall this year as China, India, and Indonesia announce higher production targets to meet domestic needs internally. S&P Global predicts China's 2023 domestic coal production will rise to 4.9 billion metric tonnes (MT), from 4.5 billion MT in 2022, while India's coal production is projected to rise to 950 million MT, from 840 million MT last year. The IEA predicts global coal demand will plateau around the 2022 level of 8 billion MT through to 2025. The impact of the Russia-Ukraine war is also expected to gradually ease as countries adapt to new trade flows. India and China are expected to continue to buy Russian coal, however.

A relatively new kid to the listed market, Thungela Resources, was one of the best-performing coal listed miners on the Johannesburg Stock Exchange in 2022 (+188%), followed by Glencore (+46%), and Exxaro Resources (+39%). The Anglo-American spin-off is significantly far off highs of almost R370 per share reached in September 2022.

Precious Metals

Gold

The traditional inflation hedge had a rather interesting 2022, surging 16% between the end of January and the beginning of March, from the fallout of the war in Ukraine which led to increased geopolitical tensions and market aversion. The precious metal almost reached its prior all-time high of $2075/oz, reached in August 2020.



Source: Infront Terminal

By September, gold prices fell 22% from March peaks to a low of $1615/oz amid a dollar rally and rising US Treasury yields, brought on by interest rate increases implemented to tame rising inflation. Gold then began to recover after hitting a technical "triple bottom" in the months of September, October and November. Overall, gold (+1.23%) outperformed copper (-14%) and palladium (-4.2%), but lagged behind silver (+4.5%) and platinum (+4.6%) in 2022.

The price of gold has continued its general incline since November 2022, as demand has been underpinned by market turbulence, rising recession expectations and an increase in gold investment from central banks.

A global economic slowdown and a shift by central banks away from tighter monetary policy, particularly in the United States, and the reopening in China, would be the best-case scenario for gold. Bank of America analysts and Citigroup analysts see gold prices topping around the $1900 - $2000 an ounce level in 2023. An extremely bullish view out there is that investors could flee equities, bonds, and currencies all at once into gold, should stagflation get worse and central banks not change their stance on high-interest rates, making gold "the only asset in town, an event that took place in the 1970s", then gold may be on its way to surpassing its all-time high price of $2075 an ounce.

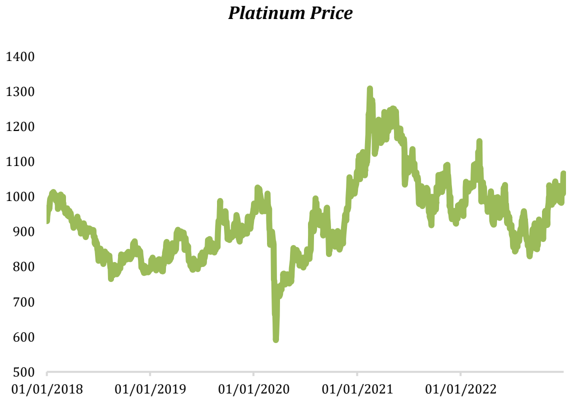
A continued hawkish Federal Reserve that doesn't change its stance if a recession does occur and keeps hiking more than expected could be a worst-case scenario for the yellow precious metal. If inflation proves to be stickier than expected, but the economy remains resilient and the labour market remains exceptionally strong, central banks might be left with little choice than to raise rates.

AngloGold Ashanti (+50.09%) has outperformed its listed gold mining peers since gold recovered from its lows in November, followed by DRD Gold (+34.52%), Gold Fields (+32%), Harmony Gold (+22), Pan African Resources (+5%), and Sibanye Stillwater (+4.68%). Key drivers to watch out for include cost control in a high inflationary environment, production output amid the Eskom energy crisis and Transnet challenges, and risks in a post-Covid world dealing with high-interest rates and a slowing global economy.

Platinum

According to the World Platinum Investment Council (WPIC), the platinum market might shift into a deficit in 2023, after two years of surpluses as global demand is expected to increase by 19% compared with a 2% increase in supply.

Despite the recessionary outlook, platinum demand, unlike other commodities is expected to grow. Increasing platinum for palladium substitution in gasoline vehicles, flat jewellery demand, industrial demand remaining strong and investment demand turning positive, will underpin the support for the commodity this year.



Source: Infront Terminal

Platinum supply is forecast to grow by only 2% as maintenance and severe load-shedding in South Africa, which produces over 70% of global mined supply, and flat output from sanctioned Russia, are issues that will negatively continue to impact supply for the conceivable future.

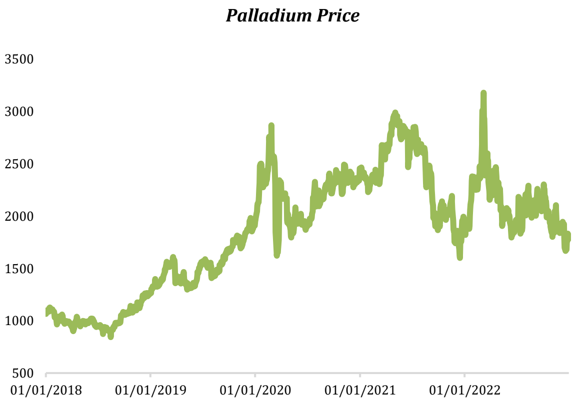
Overall, South African platinum miners had a tough year in 2022 as higher interest rates, seasonally weak automotive demand, and competition from electric vehicle production possible, with Anglo American Platinum's share price falling the most by 21%, followed by Northam Platinum (-10.23%), Sibanye Stillwater (-8.96%), and Impala Platinum (-2.43%). Royal Bafokeng Platinum, which has been a takeover target was up 4.71%.

Palladium

The palladium price reached an all-time high of $3,178.50 in March 2022 and ended 2022 at $1784.00, which represents a more than 40% contraction from all-time highs. The precious metal ended the year down only 6.18%, however.

Moving forward from a volatile year, the health of the automotive sector, which accounts for over 80% of demand, will be a key driver for palladium demand.

S&P Global Mobility forecasts new vehicle sales globally to increase by 5.6% in 2023 to approximately 83.6 million units. Stagflation could result in weaker consumption which will negatively impact palladium demand.

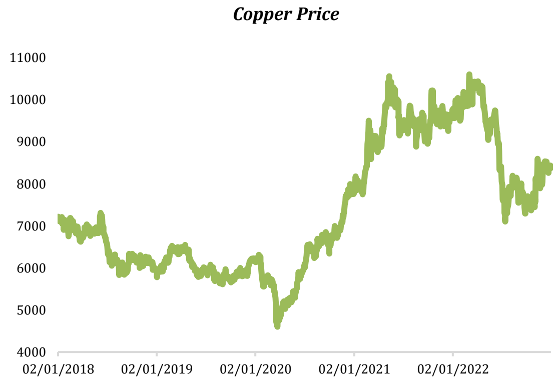


Source: Infront Terminal

Industrial Metals

Copper

The price of copper was under pressure in 2022 (-14%) due to global recession fears, weaker demand from Chinese manufacturing giants and China's zero-COVID policy, a stronger dollar, and a mass sell-off on the London Metal Exchange (LME).



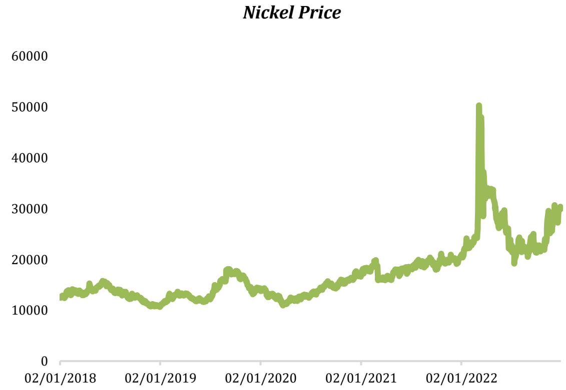
Source: Infront Terminal

The red metal is expected to move into a supply deficit this year however and the price may reach a record high of $11,000 per tonne according to Goldman Sachs. In the short term, a rebound in mainland Chinese copper demand along with a weaker dollar is expected to lift prices, while on the supply side, operational issues in Latin America are expected to persist. While in the long-term, copper's use as a key component in green energy technologies, notably electric vehicles, and solar panels, is a key fundamental driver of demand for the metal as the energy transition globally accelerates.

Goldman Sachs expects copper prices to average around $9,750 this year, and average $12,000 by 2024. Fitch Solutions expect prices to average $8,500 a tonne this year.

Nickel

Nickel emerged as the strongest base metal in 2022 (+44.51%), after rising to multi-year highs in March 2022 due to the Russian invasion of Ukraine. After the March rally, the price of the stainless-steel commodity began to drop as the US Federal Reserve started its monetary tightening programme, and China faced a fresh COVID-19 outbreak which resulted in strict lockdowns across several cities.



Source: Infront

Fitch Solutions expects the nickel price to decrease to $20,000 per tonne this year, and then fall to $17,000 in 2024. ANZ Research forecasts nickel to drop to $22,575 in 2023, and then drop further to $19,225 in 2024.

Demand from stainless steel and batteries for electric vehicles is expected to increase, however a global economic recession and increased Indonesian supply, the world's top nickel producer is expected to increase downward pressure on the metal.

Iron Ore

The steel-making commodity is forecast to have another tough year as it remains in the oversupplied territory despite cuts in exports from Russia and Ukraine.

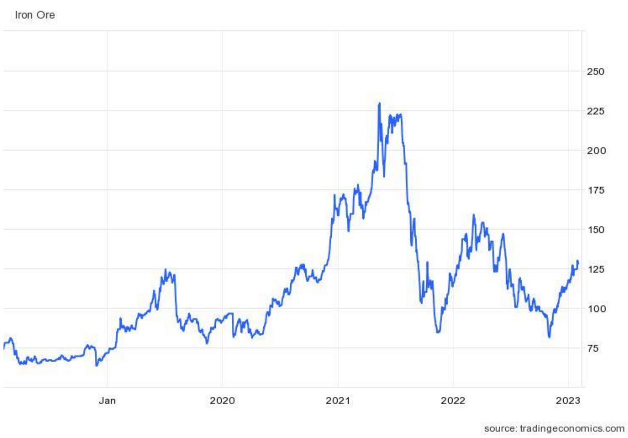
Iron ore prices in 2022 were subdued due to constrained steel production in China driven by strict lockdowns and a weak property sector, while outside of China, slowing construction activity and higher energy costs forced steel manufacturers to cut production as well.

The World Bank and Fitch Solutions both expect the iron ore price to average $100 per tonne in 2023, while ANZ Research expects prices to fall to $95/tonne by December this year.

As the single largest iron ore importer, accounting for 62% of global consumption, the health of the Chinese economy will be the primary driver of iron ore prices. Japan and the European Union (account for 7% of global consumption each), and South Korea (5%) are also economies to watch.

In China, the easing of COVID restrictions came with much optimism as factory activity should gear up by around the second quarter of the year, however, economic disruptions such as the seasonal lull due to the Chinese New Year will create a volatile environment over the next six months.

Outside of China, European demand is expected to continue to decline as recessionary fears impact steel production, while the Asia Pacific region will avoid the current slowdown according to Wood Mackenzie data.



On the supply side, key producers Australia and Brazil are expected to grow output following a contraction in supply due to weather disruptions down south and operational challenges in the Latin American country, which could hurt prices.

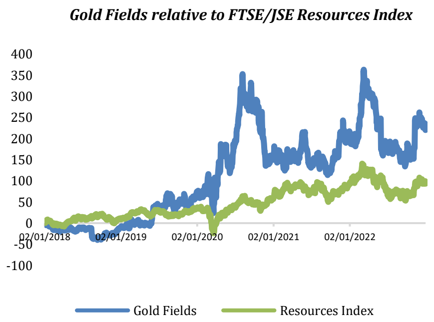
The share price of Kumba Iron Ore ended the year up 8.36% at R492.30, after almost reaching highs of R700 around February-April, while diversified miners Glencore (+40.34%), BHP (+26.88%), and African Rainbow Minerals (+26.45%) came out strong.

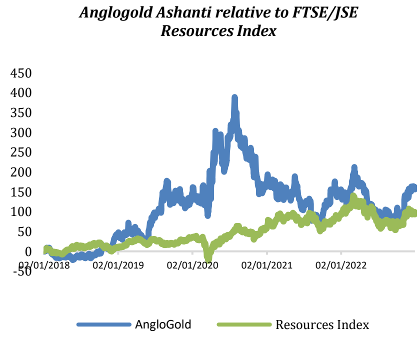
Table 1: Major listed South African mining companies' financial highlights

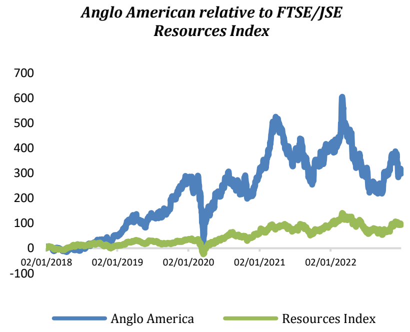
Company Name	EPS	Operating Profit Margin	Price/Earnings (x)	Price/NAV (%)	Dividend Yield (%)	Return on Capital Employed (%)	Price (R)	Market Cap (R'bn)	Return YTD (%)	Return (1-Year) (%)	Return (3-year) (%)	Return (5-Year) (%)
Sasol	31.81	17.42	4.94	1.13	4.8	15	313.28	196.2	16.28	1.39	-11.33	-36.32
Anglo American	USD 3.11	41.99	8.43	2.39	5.4	29.30	708.50	948.8				
Anglo-American Plat.	101.25	50.00	26.15	5.02	6.7	85.40	1285.06	354.6	-9.81	-21	7.25	297.64
Impala Platinum	29.12	34.67	5.41	1.25	7.57	29.90	201.35	177.4	-5.53	-2.43	48.74	553.80
Sibanye Stillwater	4.23	28.91	6.43	2.80	7.07	38.70	45.35	130.5	1.41	-8.96	26.51	175.71
Gold Fields	100	35.17	11.54	2.53	2.92	21.80	197.31	175.2	12.01	2.89	87.39	220.56
AngloGold Ashanti	USD 0.48	19.66	16.73	2.30	1.95	10.90	361.95	154.9	9.94	1.74	3.62	156.15
Kumba Iron Ore	36.04	58.73	8.11	4.78	10.92	84.40	529.55	174.7	7.57	8.36	16.97	28.62
BHP	USD 2.29	53.66	5.90	3.35	8.91	41.30	604.05	2965.5	14.68	26.88	80.20	137.01
Glencore	USD 0.82	10.64	5.98	2.02	5.09	9	115.25	1484.7	1.07	40.34	155.29	74.51
Northam Platinum	15.99	43.40	6.76	2.70	0	33	170.67	69.5	-8.82	-10.23	51.44	252.70
African Rainbow Minerals	39.15	47.53	4.51	1.15	11.18	15.70	283.75	64.3	-1.48	26.45	74.94	115.13
Royal Bafokeng Plat.	7.65	45.58	12.75	1.96	4.64	23.10	166.50	48.8	0.97	4.71	233.27	526.90
Harmony Gold	-172	8.77	38.37	0.94	1.00	9.70	61.59	34.5	4.74	-7.55	13.95	153.78
DRD Gold	1.3070	27.03	10.44	1.65	4.38	24.30	13.79	11.8	12.66	-7.48	60.00	200.00
Pan African Resources	USD 0.01	29.36	5.51	1.58	5.13	26.30	3.53	7.8	5.37	-6.94	55.81	42.55
South32	USD 0.34	36.70	6.12	1.36	6.56	22.60	55.12	261.6	18.82	-1.30	73.49	36.64
Exxaro Resources	34.26	23.56	4.19	1.36	12.65	11.20	217.76	76.5	0.21	39.93	64.31	34.18
Thungela Resources	130.75	31.37	3.63	1.26	34.77	31.30	231.85	31.5	-19.12	232.28	1208.95*	-

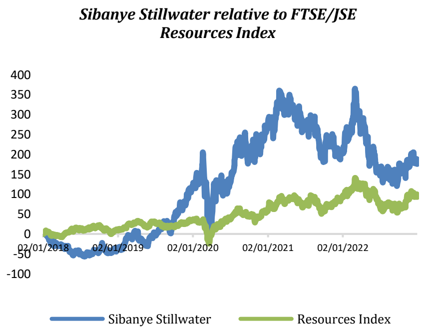
Sources: Company websites, Infront Terminal, Trading Economics

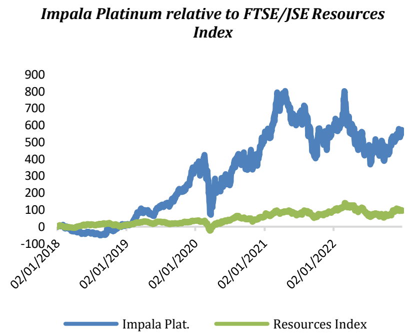
Graphs: Major South African Listed Miners Share Performance relative to the FTSE/JSE Resources Index (5-Years)

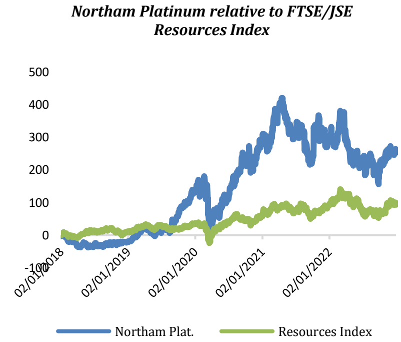


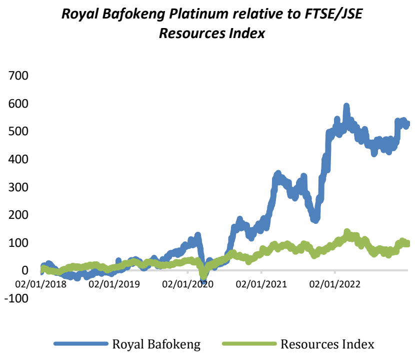


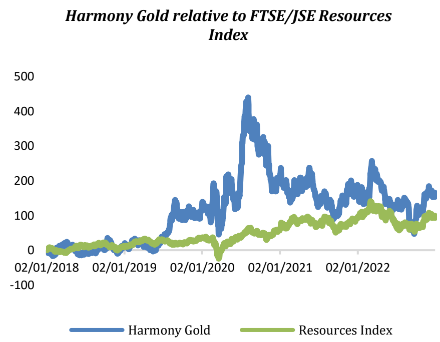


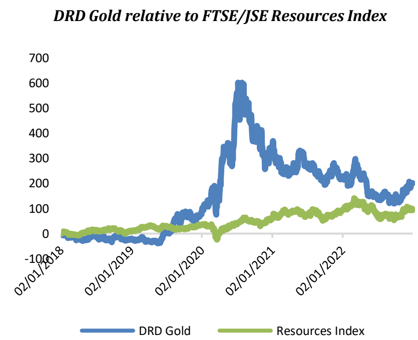


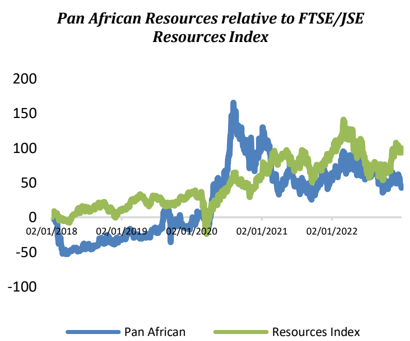






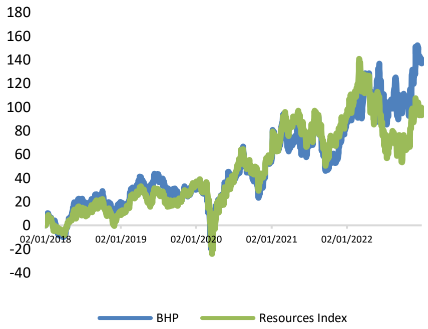




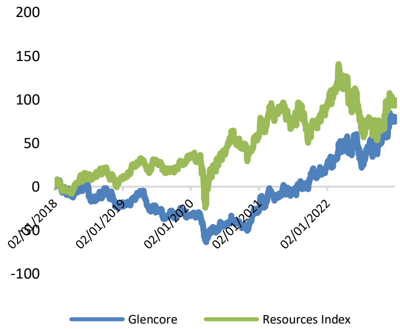


Graphs: Diversified Miners

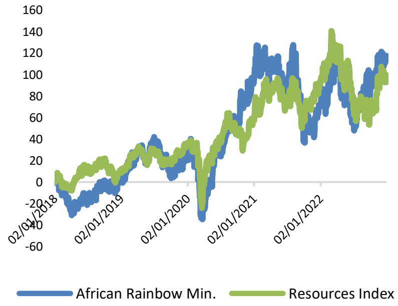
BHP relative to FTSE/JSE Resources Index



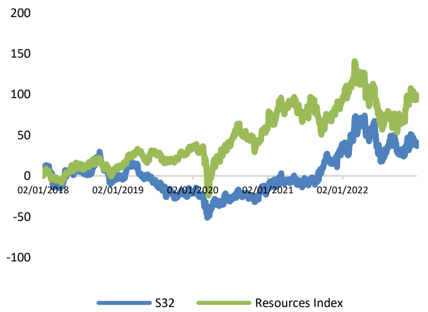
Glencore relative to FTSE/JSE Resources Index



African Rainbow Minerals relative to FTSE/JSE Resources Index

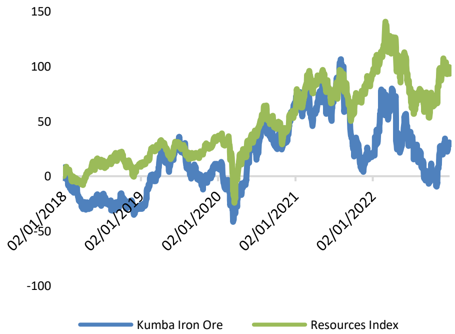


South 32 relative to FTSE/JSE Resources Index

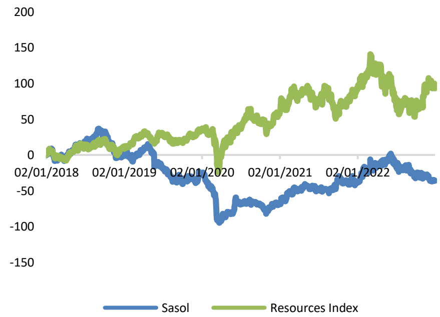


Graphs: Iron ore, coal, and oil miners

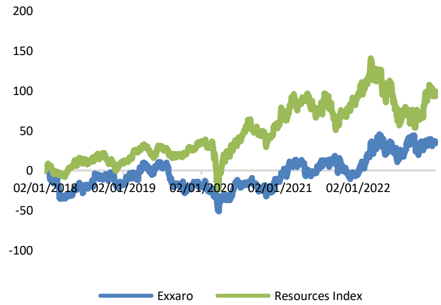
Kumba Iron Ore relative to FTSE/JSE Resources Index



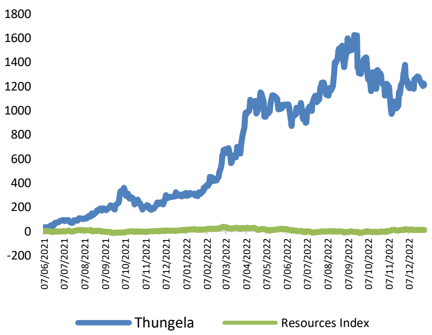
Sasol relative to FTSE/JSE Resources Index



Exxaro relative to FTSE/JSE Resources Index



Thungela relative to FTSE/JSE Resources Index



**All graphical data and key metrics are sourced from Infront Terminal and Company Websites.*