

Africa, Trouble Building is Good for Gold

While no one likes to profit from others misfortune, every cloud has a silver lining, or in Africa's case, a gold lining. Lately we have been spoiled for choice of trouble in Africa, where the collapsed commodity prices are wreaking havoc in the budgets of practically every country in the continent. The world produces about 3,000 tonnes of new gold globally, with about 30 percent of that coming from Africa. But that understates the importance of African gold. According to the estimates by the United States Geological Survey, China produces about 490 MT annually, and Russia about 242 MT annually. At present neither amount leaves their respective countries. Africa produces almost 40 percent of world gold production adjusting for China and Russia.

By far the largest gold producer in Africa is the Republic of South Africa (RSA), producing about 140 metric tonnes a year, down from about 160 MT as recently as 2012. But according to experts on African mining Mbendi based in Cape Town, South Africa also has amongst the highest average production costs in the world. Continuing labour problems, and lowering grades.

They do not anticipate that South African production will increase in the future, although mining technology might change to more robotic mining next decade.

Ghana comes in next producing about 86.5 tonnes of gold.

So far so good, both countries are relatively stable countries with good rule of law. But good rule of law is a double edged sword in South Africa. Earlier last month South Africa's High Court ruled that the country's biggest-ever class action lawsuit, first filed in 2012, could go ahead against South Africa's leading mining companies.

As Reuters reported: South African gold mining firms plan to appeal against a High Court ruling that allowed class action suits seeking damages for up to half a million miners who contracted the fatal lung disease silicosis and tuberculosis, they said on Friday.

A High Court decision last month set the stage for protracted proceedings covering cases dating back decades in the largest class action suits yet in Africa's most industrialized country.

Anglo American, Africa's top gold producer AngloGold Ashanti, Gold Fields, Harmony Gold, Sibanye Gold and African Rainbow Minerals, have formed the Occupational Lung Disease (OLD) group to deal with such issues.

Mining costs in South Africa still might not come down, no matter what technological advances occur.

But in African mining it all goes a bit wobbly after South Africa and Ghana.

Sudan comes in third with 46.1 metric tonnes of gold production. Followed by Tanzania 44 MT., Mali 40 MT., Burkino Faso 27.8 MT., Togo 16.5 MT., Zimbabwe 14.7 MT., Ethiopia 12 MT., Ivory Coast 10.4 MT., Eritrea 10.Mt. Of all of these, only Tanzania really meets the description of stable with good rule of law.

So what drew my attention to the budgetary problems of Africa and gold. Well two recent news items. Just today, according to Reuters,

HARARE (Reuters) – Zimbabwe has postponed paying June's salaries for its army and security services by two weeks and some civil servants will not be paid until next month, as the government struggles to raise money for wages, a ministry of finance official said on Friday.

Zimbabwe spends more than 80 percent of its budget on salaries, which the finance minister has previously said needed to be halved under proposed reforms aimed at winning financing from the International Monetary Fund.

In 2008, at the height of an economic crisis that saw hyperinflation reach 500 billion percent, some soldiers went on a rampage in the capital, looting shops because they were unable to get their salaries.

Generally speaking, it's not a good idea to stop paying troops, even if only by two weeks. At the height of Zimbabwe's great inflation in 2008, the government only dared to delay payment by one week and the troops rioted. Readers might be reminded of what happened to Vortigern, King of the Britons when he stopped paying Hengist and Horsa, after the Roman legions left Britain.

Much of Africa that doesn't economically run on oil, so to speak, runs on copper. Both copper and oil prices have collapsed in the last two years. There's a lot more budgetary pain still to come in Africa in the months ahead.

The other news item concerned China and came out during the week on June 15th. Could China soon be forced to source even more gold from the rest of the world? If so, when will that get priced in? This is not a summer to be short gold.

China's exhausting its gold reserves at 5 times the global rate

A new report by BMI Research says this gap between China's domestic mineral capacity and demand is what is driving the country's push to acquire overseas mines:

Notably, China's production-to-reserves ratios for gold and iron ore are 23.5% and 19.2% respectively. In comparison,

global usage rates for gold and iron ore are at just 4.9% and 3.8% respectively.

China surpassed South Africa as top gold producer almost a decade ago and last year produced 490 tonnes of the metal, nearly 200 tonnes more than number two Australia. China in 2013 became the world's top gold market at 1,132 tonnes and although consumption has shrunk since then it's holding around the 1,000 tonne level.