Venmyn Deloitte.

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Chinese growth
What it means for mineral companies

Many mineral companies are carrying on mining despite receiving low prices and sometimes prices below the cost of production. Some are concerned that they may lose market share if they stop producing, some are just trying to cover as much of their fixed costs as possible, and some continue to be buoyed by a sense that China is still growing.

While all of these motivations reflect real marketing and production concerns, it is the confidence that China's GDP is growing at ±7% that is perhaps the most concerning motivation for the mining sector's commitment to carry-on-as-usual-no-matter-what.

Wall Street economists and academics are, after all, now discussing whether the official Chinese GDP figures are correct, so it may be prudent to reflect on the extent to which to allow Chinese GDP figures to affect a mining company's production and investment decisions.

"The message that the Chinese market is carrying on performing, although at a reduced rate than previously, has influenced investor psyches," says Venmyn Deloitte MD Andy Clay.

"It has led mineral companies to carry on producing," he notes.

However, China's growth may not be what is stated in the press.

Some suggest that inaccurate growth figures may be being released as part of a political agenda to show Chinese growth as smooth or because it is in the interest of party officials who receive incentives for high levels of growth.

More charitably, others suggest that it is the sheer difficulty of measuring growth in the large country that has led to inaccurate reporting, while still others suggest that inflation tends to be underestimated, leading to an overstatement of GDP growth.

For those in the mining sector, Chinese GDP figures need to be examined carefully. If they are an overstatement, mineral production strategies may have to be changed to allow for much weaker demand and expected demand from China.

Moreover, even if the Chinese GDP figures are accurate, the mining sector may want to review what this means for it, especially given that the Chinese GDP's composition is changing and the services sector is thought to be making a larger contribution to GDP growth than ever before.

As a result, mining companies that are pinning their hopes on being able to supply a thriving manufacturing sector, may have to reduce their expectations of growth from this sector despite its having been a significant source of demand for all manner of commodities in the past.

To comment on this issue, go to Venmyn Deloitte's Facebook and Twitter pages.

Kind regards,
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