Commodities Digest

Africa's role in commodity markets

Economics
Global

- Commodities are a big deal for Africa, accounting for over 80% of exports in 35 of 48 African countries
- However, for most global commodity markets, Africa's role is modest and has been steady
- Africa accounts for 13% of global oil exports, between 2% and 8% of key base metals, but dominates PGMs and cobalt

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Africa and commodity markets

In discussions about commodities we occasionally get asked about Africa. Specifically, clients ask: how big is Africa's role in commodity markets? Is it increasing? For which commodities does the Africa story matter most?

In this piece we briefly summarise how important Africa is for commodity markets, how important commodities are for Africa, and which commodities and countries play the biggest roles. We also take a detailed look at the role of commodities in the three Sub-Saharan African nations that HSBC covers -- Ghana, Kenya, and South Africa.

At the outset, it is clear that commodities matter a lot for Africa. For 35 of 48 African countries, commodities account for over 80% of the nation's exports. In some cases, the African nation's exports are dominated by just one commodity. For 30 of 48 African nations, a particular commodity accounts for over 40% of that country's total exports.

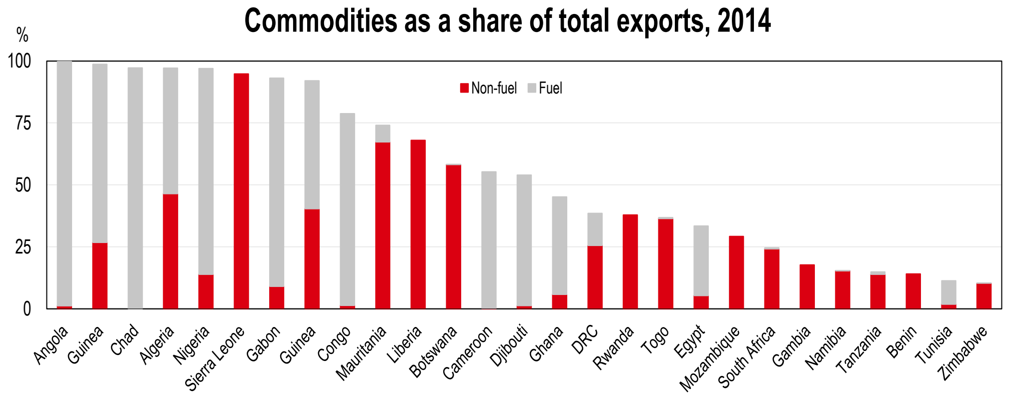
Unsurprisingly, then, growth in Africa has also been fairly highly correlated with commodity prices over time. The commodity prices 'super-cycle' of earlier this century has a strong positive correlation with overall growth in Africa.

However, for most global commodity markets, Africa's role is quite modest. Although there has been a ramp up in investment in the mining industry in Africa over the past decade or so, this has only managed to keep Africa's share of the commodity markets broadly steady.

In addition, to the extent that Africa is a big player in any commodity market, this is driven by just a small handful of African nations. For oil, Algeria, Libya, Angola, and Nigeria are global players. For metals, the Democratic Republic of Congo (DRC) and South Africa are big producers.

Finally, there are some specific commodities where Africa plays an outsized role such as the platinum group metals, where South Africa accounts for around 66% of global production (and has 90% of global reserves) and the DRC, which accounts for around two-thirds of global production of cobalt, which is a key ingredient in batteries.

1. Commodities are the major export category for many African nations



Source: IMF

A big deal for Africa…

Commodities dominate the exports of most African nations

Commodities are a big deal for Africa, with commodity exports accounting for over 80% of exports in 35 of 48 African nations (Chart 1). As a result of Africa's commodity market exposure, commodity prices and the 'super-cycle' that occurred over the first decade and a half of this century had a large impact on Africa's growth (Chart 2).

For much of Africa, there is also considerable concentration of economic exposure, with many economies highly exposed to just one or two commodity exports (see Table 3 below). For 30 of 48 African nations, one particular commodity accounts for over 40% of that country's total exports.

Oil and gas are particularly important

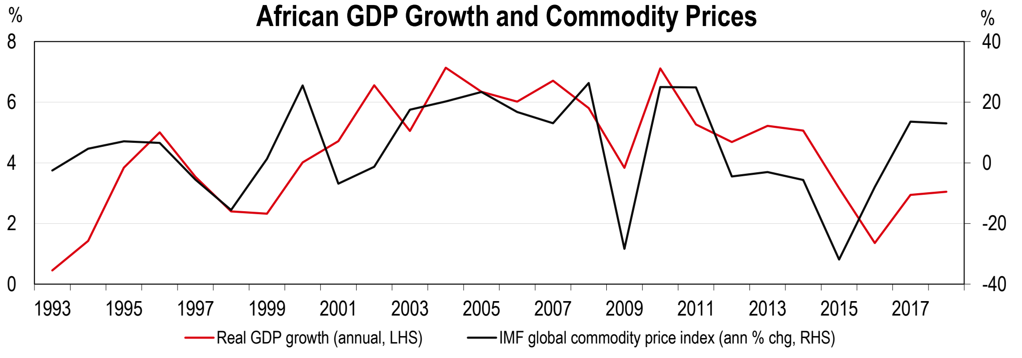
For many African nations, oil and petroleum products are the dominant commodity exports -- 21 of 48 African nations have petroleum as one of its top three commodity exports. For some nations, like Angola, Chad, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and Sudan -- petroleum is the dominant export.

Of course, for many African nations, where the economies are small, commodity exports are also only small in overall value. Only 8 of the 48 African nations have commodity exports that exceed USD10bn annually.

Only a few African countries have commodity exports large enough to impact global markets

It is these 8 economies -- Algeria, Angola, Cote D'Ivoire, Egypt, Ghana, Libya, Nigeria, and South Africa -- that have commodity exports that mean their scale has some noticeable impact on global commodity markets. The dominance of the DRC in cobalt production and reserves also gives it a global role.

2. Growth in Africa has been positively correlated with global commodity prices



Source: IMF

3. Commodities in Africa

	Key commodity exports (% of commodity exports)	Commodity exports value (% of total)	Share of GDP	Top 3 destinations
Algeria	Petroleum (57), Gas (32)	47864 (98)	24.0	EU (65), US (7), N. Africa (5)
Angola	Petroleum (94)	45961 (100)	32.5	China (52), EU (18), US (10)
Benin	Cotton (26), Gold (24), Petroleum (15)	2215 (87)	24.6	China (23), India (18), W. Africa (16)
Botswana	Precious stones (85)	6701 (94)	44.4	EU (70), S. Africa (8), Norway (5)
Burkina Faso	Gold (65), Cotton (17)	2035 (94)	17.0	Switzerland (58), W. Africa (8), EU (7)
Burundi	Coffee (45), Tea (27), Gold (11)	109 (86)	3.8	UAE (45), EU (17), E. Africa (9)
Cameroon	Petroleum (45), Wood (14), Cocoa (14)	4249 (92)	13.9	EU (47), Nigeria (23), Thailand (4)
Cent. Afr. Rep.	Wood (41), Pearls (21), Abrasives (14)	129 (90)	7.3	EU (36), China (28), Indonesia (8)
Chad	Petroleum (92)	3630 (98)	29.9	US (67), Japan (10), China (9)
Congo	Petroleum (76), Copper (11)	6675 (92)	50.5	China (51), EU (28), Australia (6)
Cote D'Ivoire	Cocoa (45), Petroleum (14)	10667 (86)	32.4	EU (42), W. Africa (16), US (10)
DRC	Copper (45), Copp. ore (18), Petrol. (12)	5898 (95)	15.8	China (43), Zambia (22), EU (17)
Egypt	Petroleum (45)	12707 (52)	4.4	EU (36), India (11), N. Africa (7)
Eritrea	Copper (41), Fish (23), Vegetables (11)	505 (89)	13.8	China (54), India (36), EU (6)
Ethiopia	Coffee (21), Vege. (21), Petroleum (18)	4916 (92)	8.9	EU (23), E. Africa (17), Kuwait (15)
Equatorial Guin.	Petroleum (73), Gas (22)	8608 (96)	60.0	EU (39), China (18), Japan (17)
Gabon	Petroleum (81)	6954 (89)	43.4	Japan (28), EU (18), US (16)
Gambia	Wood (42), Fruit and nuts (22)	84 (80)	9.5	China (51), India (20), EU (9)
Ghana	Gold (32), Petroleum (26), Cocoa (25)	10144 (94)	28.0	EU (32), India (14), Switzerland (14)
Guinea	Alumina (40), Petroleum (22), Gold (19)	1923 (96)	29.1	EU (31), India (21), Switzerland (11)
Guinea-Bissau	Fruit and nuts (89)	169 (99)	14.9	India (83), Singapore (6), US (6)
Kenya	Tea (29), Vegetables (18)	3621 (64)	5.9	EU (33), E. Africa (18), Pakistan (6)
Lesotho	Precious stones (71)	304 (36)	15.4	EU (64), S. Africa (29), US (5)
Liberia	Iron ore (37), Rubber (24), Gold (14)	309 (73)	14.2	EU (33), China (20), UAE (14)
Libya	Petroleum (82), Gas (10)	14728 (95)	36.0	EU (78), China (6), Switzerland (3)
Madagascar	Nickel (36), Spices (23)	1546 (70)	15.2	EU (40), US (12), China (9)
Malawi	Tobacco (60)	1019 (84)	17.2	EU (42), E. Africa (9), S. Africa (6)
Mali	Gold (71), Cotton (20)	2431 (92)	21.5	UAE (32), S. Africa (21), Switz. (16)
Mauritania	Iron ore (36), Fish (30), Gold (11)	1808 (98)	35.8	China (38), EU (12), W. Africa (12)
Mauritius	Fish (44), Sugar (25), Pearls (12)	964 (37)	8.0	EU (64), Vietnam (9), E. Africa (6)
Morocco	Fish (22), Vege (14), Fertilizers (13)	7458 (33)	7.1	EU (51), US (5), Russia (4)
Mozambique	Aluminium (26)	3688 (93)	23.3	EU (37), S. Africa (19), China (19)
Namibia	Prec. stone (26), Fish (20), Uranium (11)	3224 (75)	24.8	EU (36), S. Africa (32), US (6)
Niger	Petroleum (35), Uranium (34)	861 (64)	11.3	W. Africa (43), EU (30), China (10)
Nigeria	Petroleum (78), Gas (12)	77068 (97)	14.1	EU (36), India (16), Brazil (10)
Rwanda	Base metal (43), Coffee (16), Petrol (12)	549 (82)	6.8	DRC (22), China (16), E. Africa (11)
Senegal	Petroleum (24), Fish (22), Gold (16)	1952 (72)	13.2	W. Africa (32), EU (24), Switz (14)
Sierra Leone	Precious stones (38), Base metals (31)	1500 (97)	30.7	China (80), EU (13), US (1)
Somalia	Live animals (70), Gold (10)	452 (95)	65.7	Saudi (37), UAE (36), Oman (14)
South Africa	Silver/plat. (15), Iron ore (11), Coal (11)	43982 (55)	13.2	EU (20), China (20), S. Africa (11)
Sudan	Petrol (57), Gold (22)	3731 (98)	4.3	China (50), UAE (23), Saudi (8)
Swaziland	Wood (33), Sugar (29)	678 (40)	16.0	S. Africa (45), EU (24), China (12)
Uganda	Coffee (28)	1564 (69)	6.0	EU (33), E. Africa (31), UAE (7)
Tanzania	Gold (25)	4888 (85)	10.2	India (24), EU (16), China (11)
Togo	Gold (34), Fertilizers (14), Petrol. (11)	828 (65)	19.1	Switzer (28), W. Africa (24), EU (15)
Tunisia	Petroleum (43)	3591 (23)	7.9	EU (68), N. Africa (11), Libya (7)
Zambia	Copper (79)	7189 (86)	29.4	China (31), Switzerland (28), UAE (6)
Zimbabwe	Tobacco (40), Coal (13)	2400 (83)	32.6	China (29), EU (18), S. Africa (15)

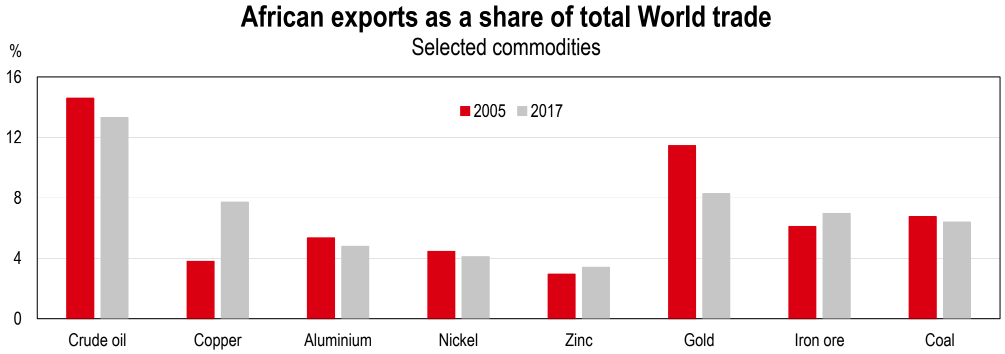
Source: State of Commodity Dependence 2016; UN

…but in most markets, Africa is just a modest-sized player

Total African exports make up less than 10% of trade in most major commodities

Even in aggregate, Africa's role in most commodity markets is modest. As Chart 3 shows, total African exports of most major commodities make up less than 10% -- and in many cases less than 5% -- of global trade flows. Those proportions have also remained quite steady, being at similar levels in 2017 as they were in 2005.

3. Africa is a modest player for a range of key commodities…



Source: Chatham House

The only examples among these major commodities where Africa's share of global trade has changed materially are gold and copper.

For gold, South Africa's role in global production of the precious metal has declined over the years as mine shafts have been dug deeper and have become less productive.

For copper, much of the increase in global trade share has been driven by production growth in the DRC (although the 2017 numbers are boosted by some double counting, as much of the DRC exports are unrefined copper, which is sent to Zambia for processing and then exported to Europe or China).

The key commodities are oil, gold, iron ore, and coal

For a few major commodities, Africa does play a decent-sized role, albeit not a major one.

Half of OPEC's members are African nations, but they account for a minority of output

For instance, African exports accounted for around 13% of global trade in crude oil in 2017. Half of the 14 members of OPEC are African nations (Algeria, Angola, Equatorial Guinea, Gabon, Libya, Nigeria, and the Republic of the Congo), although collectively these countries made up only 18% of OPEC production in 2018.

South Africa and Mozambique are important coal suppliers to India

In coal markets, South Africa and Mozambique are fairly significant producers, with most of their coal exports going to India (rather than Japan or China, as is the case for other major coal exporters). In 2017, these two countries were the third and fourth largest coal suppliers for India, after the two coal powerhouses of Australia and Indonesia. With the two African nations collectively supplying 27% of India's imported coal in that year, they clearly have an important role in that specific market, even if their share of total global trade is relatively small.

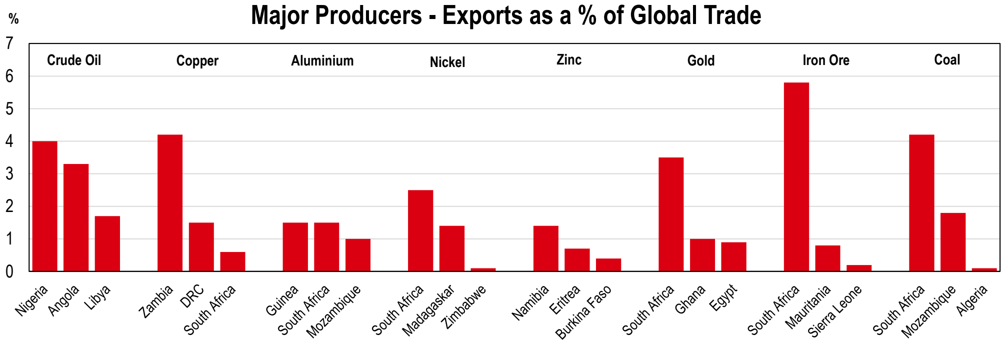
South Africa is also the third largest exporter of iron ore in the world, although its share of global exports, at around 5% in 2017, lags a long way behind Australia and Brazil, which accounted for around 50% and 25%, respectively in that year.

For gold, both South Africa and Ghana are relatively large producers, and South Africa also has the second-largest proven gold reserves in the world, after Australia.

As the above discussion, along with Chart 4, shows, although Africa's aggregate role in commodity markets appears small, production of most commodities is highly concentrated among a handful of countries. That means that those specific countries do play an important role in some markets.

This is particularly the case for South Africa, which is the biggest producer - and in some cases the only major producer -- in Africa for iron ore, coal, gold, nickel, and platinum.

4. Africa's production is highly concentrated in a handful of countries



Source: Chatham House

Africa does dominate platinum and cobalt production

There are a few specific commodities, not typically counted among the key globally traded commodities, where Africa plays a dominant role in global markets.

The first is platinum, where South Africa is the largest producer in the world.

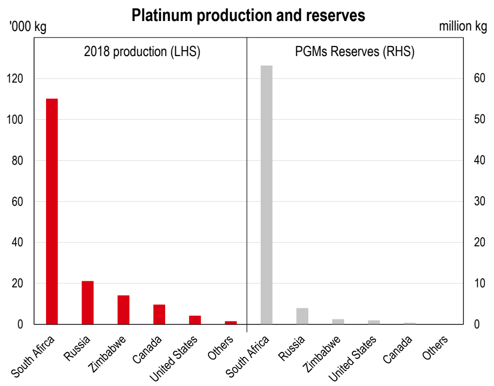
South Africa is the dominant global supplier of platinum group metals…

South Africa's production of platinum accounted for around two-thirds of global output in 2018, while the country also makes up around 90% of global reserves of 'platinum-group metals' (Chart 5). The main use of platinum is as a catalytic converter, reducing the emissions of petrol engines. Unsurprisingly then, the major export destinations for South African platinum are large automobile producers such as Japan, China, the US, and Germany. For more on PGMs, see *PGMs on autopilot*, 15 April 2019.

…while the DRC dominates cobalt production

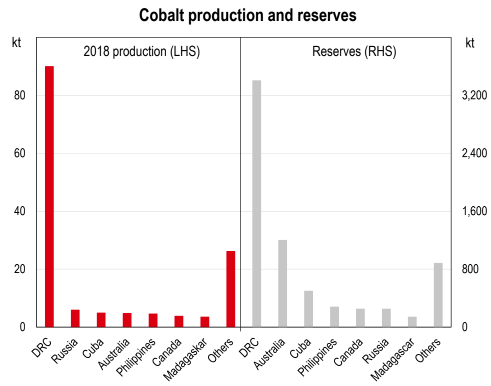
For cobalt, it is the DRC that dominates. DRC cobalt production made up around two-thirds of global output in 2018, with the country's reserves making up around half of the global total. Almost all of the country's exports go to China. Cobalt is an ingredient in battery manufacturing, which would typically suggest strong long-run demand potential. However, in this case the highly-concentrated nature of supply adds additional risk and, along with high prices, is incentivising manufacturers to develop batteries that use less cobalt, or even alternative materials altogether. Recent price declines may slow this transition, but it is still likely to occur over time; for more on the latest developments in the batteries space see Charge! The race to be the Li-ion king heats up, 14 June 2019.

5. South Africa is the dominant producer of platinum



Source: USGS

6. The DRC dominates global cobalt markets



Source: USGS

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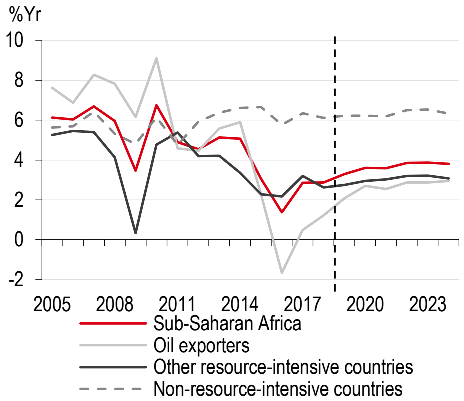
Commodities matter for the SSA economies we cover

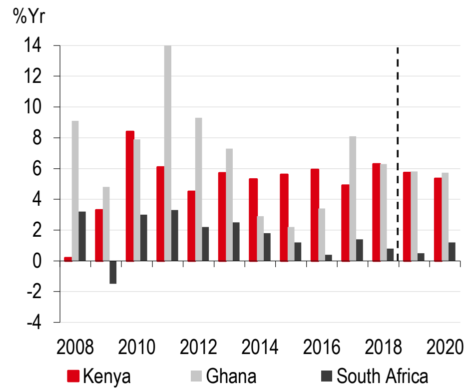
Our Sub-Saharan Africa coverage includes resource intensive South Africa and Ghana, as well as Kenya, which has a more diversified economic structure and is less dependent on commodities. Generally, the large resource producers in Sub-Saharan Africa have under-performed relative to the less resource-intensive economies in recent years (Chart 7). Of the three SSA economies we cover, the largest commodity producer, South Africa, has had the weakest growth performance (Chart 8).

7. Weaker growth in SSA's resource-rich economies



Source: IMF

8. The outlook for Ghana and Kenya is robust, South Africa to struggle



Source: Rifinitiv Datastream, HSBC forecasts

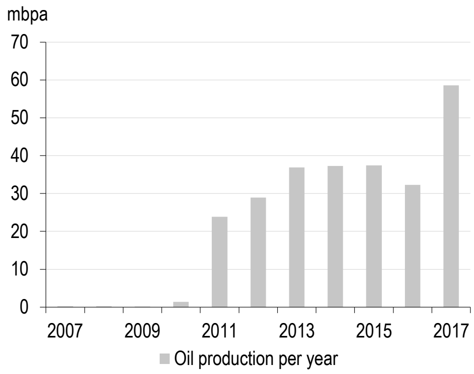
Ghana: Oil playing a bigger role and gold ramping up

Ghana seems set to continue to buck the disappointing growth trend for Sub-Saharan Africa's resource-rich economies, as Chart 8 illustrates. After expanding by more than 8% in 2017 and 6% last year, the IMF expects Ghana to be Africa's fastest growing economy in 2019.

Growing natural resource production has supported Ghana's recent growth outperformance

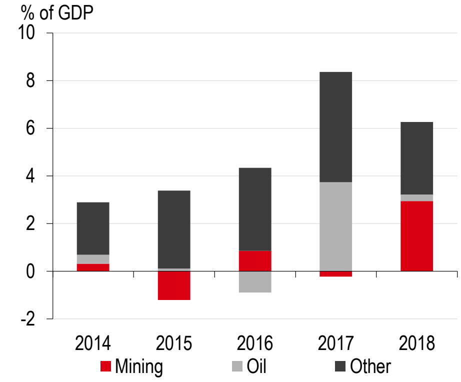
Natural resources have been a key feature of the most recent growth acceleration, as the addition to new oil fields provided significant momentum to GDP growth. Indeed oil output increased to 58.6 million barrels per year (0.16 million barrels a day) in 2017 from virtually nothing in 2010 (Chart 9), supporting the recent pick-up in GDP growth, and potentially providing further growth gains should the country achieve further increases in production. Government officials expect production to go up to 0.5 million barrels a day by 2024.

9. Ghana's oil production ramped up in 2017…



Source: Department oF Energy

10. …and was a key driver of stronger GDP

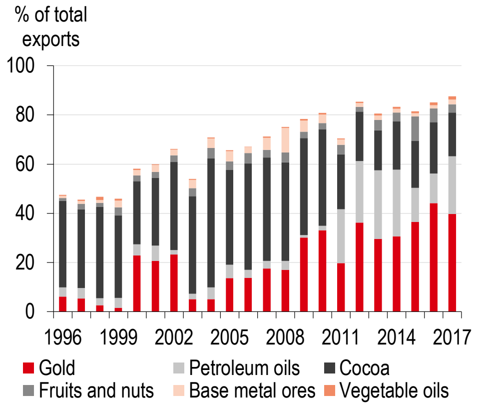


Source: Ghana Statistical Service

There is scope for additional foreign direct investment into the petroleum sector. Beyond plans to expand existing oil fields, new discoveries at the start of the year could also provide an upside for the oil sector over a longer time horizon.

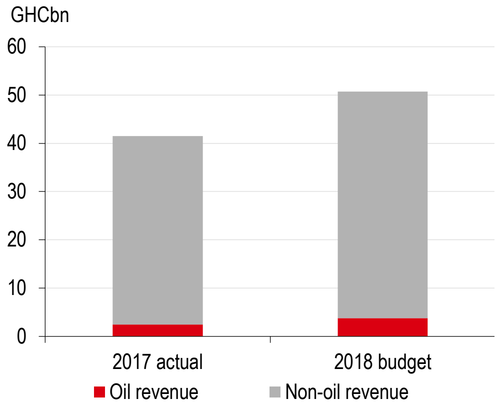
Beyond oil, Ghana is also an important producer of cocoa and gold (Chart 11). Indeed, Ghana surpassed South Africa as the region's biggest gold supplier in 2018 (and the world's eighth biggest producer), as output increased by 12% last year to 4.8 million tonnes.

11. Gold, oil, and cocoa are Ghana's dominant exports



Source: United Nations

12. Oil revenues only contribute a small percentage towards fiscal revenues



Source: Ghana Ministry of Finance

There is some upside for the gold sector, where reserves are seen at 1000 million tonnes, after the government lifted a ban on small-scale mining that had been imposed to counter the proliferation of small-scale illegal miners. In addition, the government has also introduced new regulation that aims to protect the legitimate mining industry – a move that may help boost investor confidence and support rising investment and production over the medium term.

Oil and gold are Ghana's key exports, and both look set to grow further

Gold and oil exports have increased significantly over the past two decades, and are the country's biggest sources of export earnings, contributing 40% and 24% towards the value of total exports in 2017. More than half of Ghana's oil exports go to China. Rising commodity production could also offer upside for fiscal revenues – at present oil contributes less than 10% towards government revenue (Chart 12).

South Africa: A falling role in gold and a more complicated regulatory environment

Mining accounts for 7.5% of South Africa's GDP

The mining sector remains important for the South African economy, with exports of precious metal, metal ores, and minerals accounting for 40% of total exports in 2018. Mining also accounts for about 7.5% of GDP, 10% of investment, 4.5% of formal employment, and about 10% of corporate tax revenues while also contributing more than ZAR30bn to the government coffers through the mineral royalty regime over the past five years.

Gold production is important, but less so than in the past…

Historically, gold was the most important commodity for South Africa, with the country dominating global production during the twentieth century and still representing a fifth of total exports in the late-1990s. However, although the gold sector is still an influential commodity (accounting for about 1% of GDP in 2018 and 6% of exports), its production has been in secular decline with mine shafts going ever-deeper and becoming less productive.

…with platinum, coal, and iron ore now dominating

The dominance of gold has been replaced with a more blended commodity mix, both in terms of production and exports. As shown in Charts 13 and 14, platinum, coal, and iron ore are most important, and together with gold account for more than 75% of mining output and a quarter of exports. There have also been marked gains in production of manganese and chromium in recent years, in response to significant increases in prices. This shift in the commodity mix has also influenced mining employment, with the number of jobs in the labour-intensive gold mining falling by more than 40% over the past decade (Chart 15).

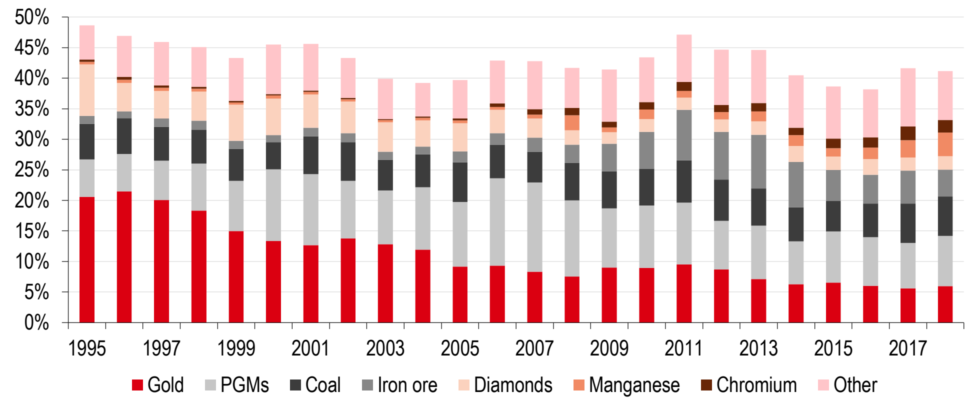
China is a key market for South African commodity exports, accounting for about a quarter of base metal and mineral exports and about 60% of iron ore, manganese and chromium.

Further growth in mining output faces some challenges, both global and domestic

The outlook for the South African mining sector is clouded not only by the current global backdrop, but also domestic factors. These include concerns around the regulatory and legislative framework set out in the Mining Charter, that while providing clarity on the black economic empowerment (BEE) environment may not provide a climate conducive for significant new mining investment (Mining Charter: Still trying to squeeze that stone, 1 October 2018).

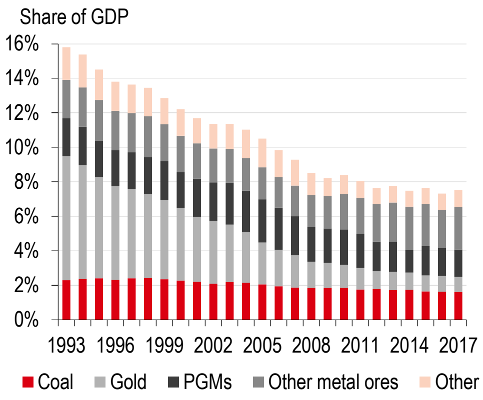
In addition, there has been sustained pressure facing the platinum sector in recent years, including labour unrest (the sector experienced a five-month strike in 2014/15), rapidly rising wage costs, and structural changes in global supply and demand fundamentals that have weighed on prices. Meanwhile, infrastructure bottlenecks have also imposed constraints on coal, iron ore and manganese output and exports over the past few years.

13. The composition of South Africa's mining exports



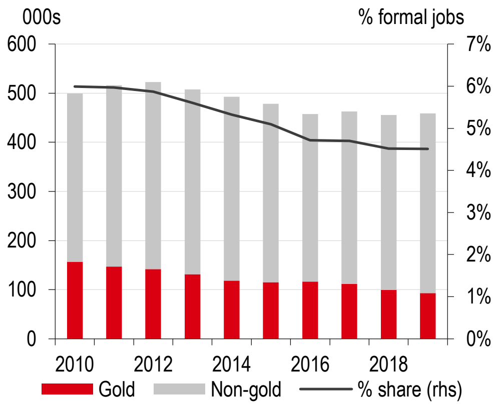
Note: Commodity exports are the combination of precious metals, base metals, and minerals.
Source: South African Revenue Service, HSBC

14. Mining accounts for 7.5% of GDP led by platinum, coal, and other metal ores



Source: Statistics South Africa, HSBC

15. Job-shedding in gold has pulled overall mining employment lower



Note: 2019 shows figures for Q1.
Source: Statistics South Africa, HSBC

Agriculture dominates Kenya's economy and exports

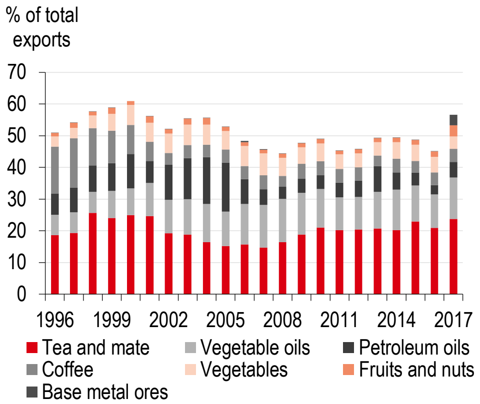
Kenya: Soft commodities are important

While more diversified than most SSA economies, soft commodities remain influential for Kenya. Agriculture is still the mainstay of the economy, accounting for about 30% of GDP and employing over two-thirds of the county's workforce, with tea, coffee, and horticulture accounting for the majority of output and influential for macro performance, including growth, inflation, and trade dynamics (Chart 16). As an oil importer, oil price dynamics are also important with lower oil prices in recent years helping to contain inflation, narrow the external imbalance (oil imports fell from more than 7.5% of GDP from 2010-14 to 3.5% during 2016-2017) and sustain growth momentum (Chart 17).

There is potential for some domestic oil production to begin in the coming years

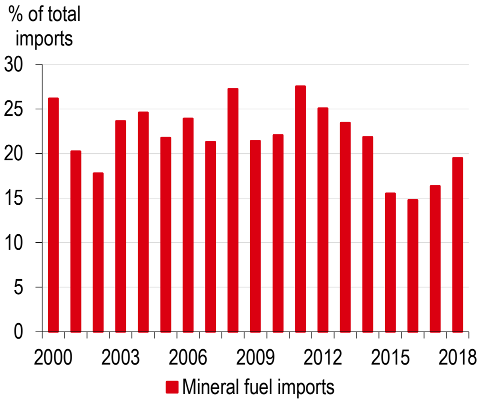
Mining makes little contribution to the economy, but could become more important following the discovery in early-2014 of oil reserves that are estimated at 600m barrels. While these are relatively small from a global perspective, oil and gas production could have a positive impact on Kenya's macro outlook, providing a boost to growth, the external imbalance and fiscal revenues. The World Bank estimates that oil production will begin within the next five years.

16. Evolution of the top five Kenyan export goods over the past two decades



Source: United Nations

17. Lower oil imports have helped the current account deficit to narrow



Source: Kenya National Bureau of Statistic, HSBC

18. HSBC's main commodity price forecasts

Commodity	Unit	2018	Spot price	2019f	2020f	Long term
Aluminium	USD/t	2,108	1,807	1,995	2,154	2,200
Copper	USD/t	6,529	5,809	6,514	6,834	7,165
Nickel	USD/t	13,118	12,647	13,040	13,779	17,637
Zinc	USD/t	2,921	2,355	2,801	2,603	2,337
Iron ore	USD/t	69.7	114	82	77	65
Thermal coal	USD/t	107	75	92	90	80
Coking coal	USD/t	209	187	185	170	130
Brent	USD/b	71.6	64	64	70	70
WTI	USD/b	64.8	59	57	66	68
Nymex gas	USD/mBtu	3.07	2.43	3.13	3.25	na

Source: Bloomberg; HSBC forecasts

Disclosure appendix

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