



Understanding the Sector Impact of COVID-19

Mining & Metals

The commodity markets have been affected by the COVID-19 crisis in a variety of ways. Company operations themselves have been affected through isolated outbreaks and government-mandated shutdowns in markets like South Africa and Peru. Demand for many commodities like copper, iron ore and zinc remain low as markets anticipate a lower near-term demand outlook for these commodities. One of the key exceptions to this trend has been gold, which typically benefits from higher levels of uncertainty. As China emerges from the COVID-19 crisis, we are seeing Chinese manufacturing, mining and metals companies back online, but a wider increase in commodity demand prices are likely to remain low for a few quarters. One silver lining for the mining industry has been lower energy prices. With energy typically constituting 20-25 percent of direct operating costs, companies with unhedged positions in energy are able to benefit from this new pricing regime.

Potential long-term impact on mining and metals companies

If we see a protracted recession or several waves of COVID-19 outbreaks, this could have some longer term implications for the sector:

- Companies with balance sheet strength now may take advantage of M&A opportunities driving further consolidation in key sectors.
- Prior to the crisis, liquidity was tight in the junior end of the market; this is likely to be further exacerbated.
- Mining companies may see benefit in IROCs (Integrated Operations Centers) long term as well as opportunities for automation of critical roles and functions.
- Companies pre-crisis were expected to provide value beyond compliance to communities and host governments. This is likely to accelerate, particularly as health care infrastructure in developing markets become strained.

Key questions executives and boards should be asking

- How do we maintain the safety of own people first?
- As the crisis evolves, how exposed is our supply chain across different geographies?
- Through any cost-takeout, how do we prevent that cost coming back in 12-18 months?
- Are our current risk systems adequate across our organization?

Practical next steps

Mining and metals leaders will be defined by what they do along the three dimensions of managing a crisis: Respond, Recover, and Thrive. Some key next steps include:

- Determine how to maintain critical services while ensuring the safety of employees through a number of possible scenarios.
- Focus efforts on understanding your financial and legal exposure and formulating plans to release cash and maintain financial viability through uncertainty.
- Consider if the crisis can be used as a catalyst to rethink how and where work is done, improve the ability to collaborate remotely, and accelerate adoption of automation and digital capabilities.



For additional steps that companies should consider taking, visit www.deloitte.com/covid19-resilient-leadership

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