

Growth. Transformation.  
Can you achieve either  
without risk?

Top 10 business risks and  
opportunities for mining and  
metals in 2022

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The better the question. The better the answer.  
The better the world works.

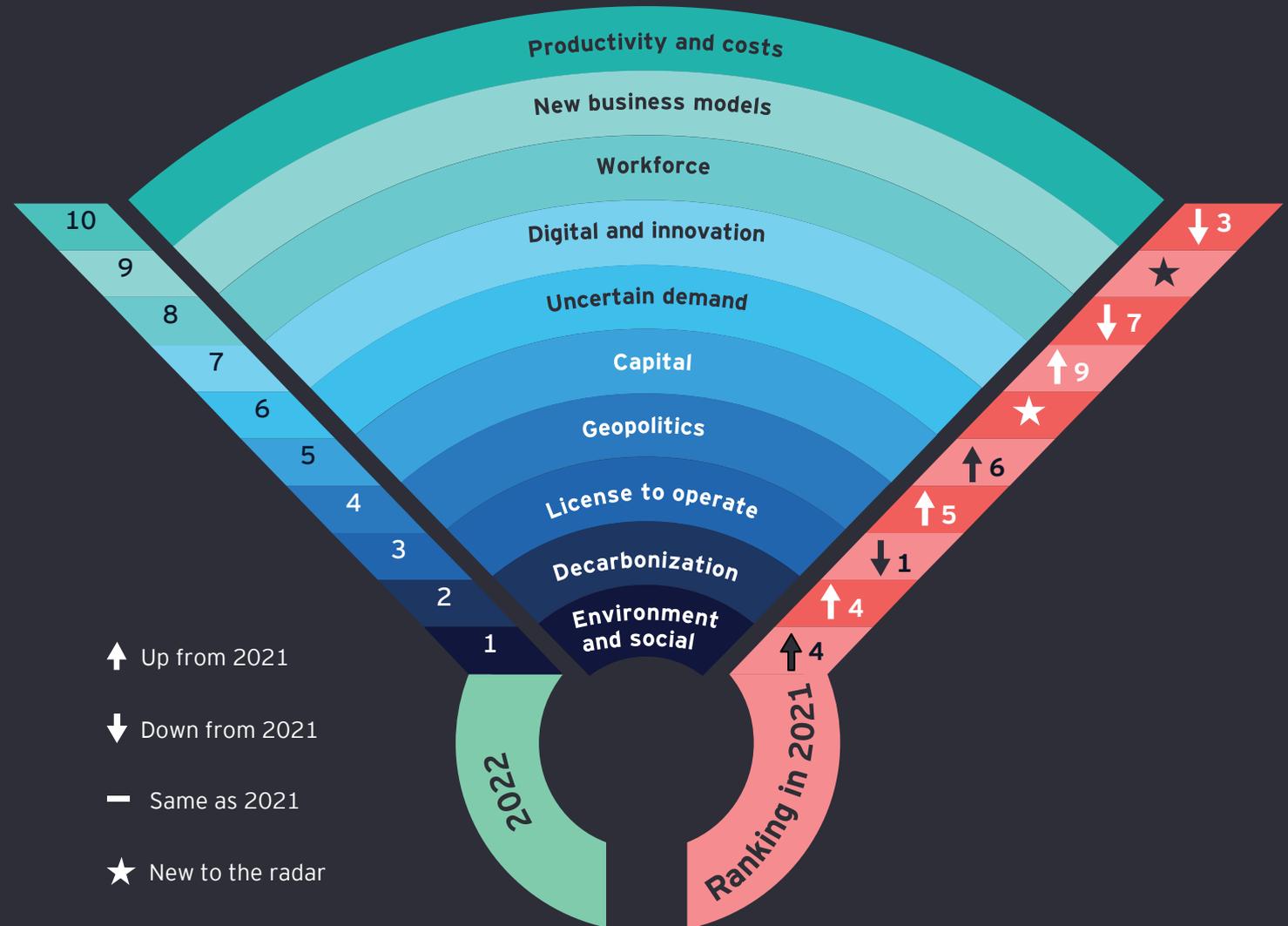


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# Top 10 M&M business risks and opportunities – 14th edition

- ▶ External and societal factors impacting the rankings
- ▶ 2021 was dominated by decarbonisation – but Environment and Social was the surprise top risk
- ▶ Social impact, water and biodiversity key focus areas for 2022



# Capital Markets and other Stakeholders want long term value

## Capital Markets

By 2035, 95% of all investment decisions will incorporate ESG

## Regulators

Carbon pricing, targets and taxing will impact the sector

## Customers

Downstream pressure to reduce carbon footprint. Also seeking carbon-neutral materials and

## Industry associations

Can play a key role in driving a low carbon future via responsibility measures.

## Society

End consumers are seeking green products and ethical value chain

## Governments

Seeking greater share of mineral wealth

## Communities

Expectations are expanding beyond life of mine

## Traditional owners

Want a greater voice re licensing and heritage sites

# Business risks and opportunities in mining and metals 2022

## 1 Environment and social

ESG with a focus on environment and social is the #1 risk / opportunity for 2022 as stakeholder expectations broaden and intensify to areas like biodiversity, social impact and water management. Large environmental risk and liability in closed legacy assets, so progressive planning for mine closure should be adopted across life of mine. Miners need to demonstrate their contribution to a sustainable future to be able to access the larger pools of capital available to strong ESG performers.

## 2 Decarbonization

Has been a major focus of CEO's and Boards in 2021 and will continue to disrupt in 2022. Decarbonization needs to be integrated into overarching strategy rather than delegated to a discrete team. Most miners have set targets but, without understanding how to reach them, are committing to potentially unrealistic goals. Companies that share their roadmap to net zero and their successes along the way can gain investor confidence and competitive advantage.

## 3 License to operate

Has been the #1 risk for the last 3 years and continues to evolve. Stakeholder expectations are changing quickly around a myriad of issues including communities, protection of heritage sites, ethical supply chains and D&I. Miners that can demonstrate their long-term value will strengthen relationships with stakeholders and be rewarded with lower costs of capital, better human capital engagement and, in the long-run improved market value.

## 4 Geopolitics

Geopolitical risk has increased significantly over the last year. The geopolitics of the Covid-19 pandemic along with changing governments, social upheaval, changing trade policies, the re-emergence of resource nationalism, cross border carbon taxes, regional investment in critical minerals and a global minimum tax on the largest companies are all factors that are causing mining companies to reassess their strategic investments.

## 5 Capital

Miners will need to work harder to demonstrate their financial and non-financial achievements if they are to compete for capital at a reasonable price. With both traditional and alternative funding sources available, will we see a shift to private capital as a source of funding? Now is the time for bold decisions to meet new demand, invest in innovation and align around a wider stakeholder agenda.

## 6 Uncertain demand

Demand for many commodities is currently surging as economies recover, stimulus packages boost infrastructure spending and the energy transition accelerates. Many commodity markets are forecast to be in deficit by 2025. However, innovation, evolving battery technology and changing customer needs all increase the threat of substitution for miners and suggest that volatility will only increase. The ability to compete effectively amid ongoing uncertainty is now critical.

## 7 Digital and innovation

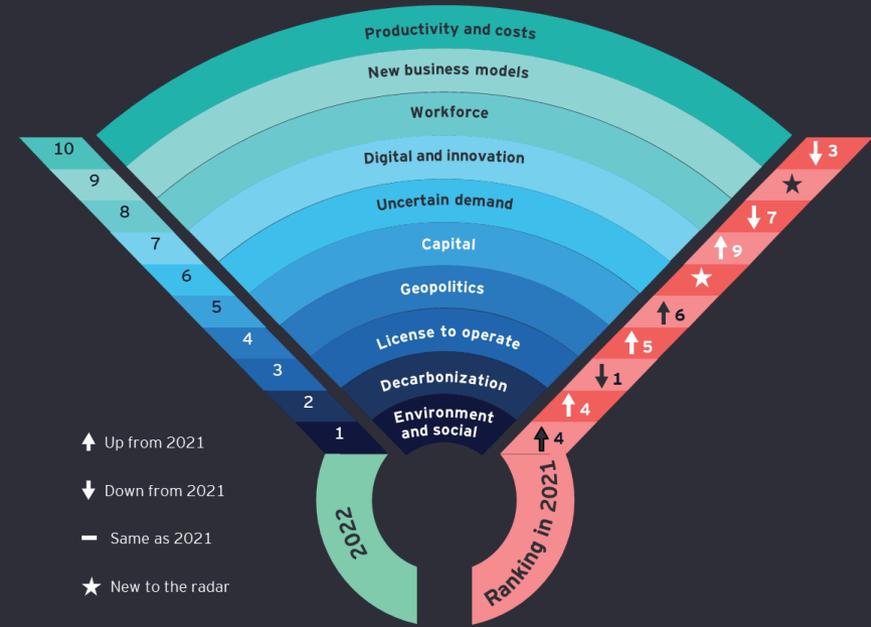
Digital investment is increasing as we see a push to find, develop and deploy new technologies for a broader purpose as miners respond to an accelerated focus on safety, ESG and the transition to net zero and develop "greener" products. Miners are realizing the value of innovation to help them to differentiate and create value.

## 8 Workforce

There is a growing skills shortage and mining has yet to rebrand itself as an attractive sector for the next generation. Miners will need to prioritize closing the big digital literacy gap that exists in the industry. The challenge of managing workers' mental health has come to the fore during the pandemic, as has creating a safe and inclusive workplace to attract a diverse future pool of talent

## 9 New business models

Traditional models may expose miners to more disruption risk. Miners have an opportunity to redefine their business model to capture optimal value. Trading companies are having to increase their focus on customers not just commodities. Where does optimal value lie and what does the conglomerate of the future look like?



# Gold Trends

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## Subsector context

Gold prices reached an all time high in 2020. While prices declined slightly in the first quarter of 2021 on improving economic conditions, another wave of Covid-19 in April led to another upward rally in April and May.

Higher gold prices are providing the free cash flow required to invest in shaping long-term strategies on shareholder returns and resource replacement.

Rising costs and continued market volatility are leading to digital transformation as mining and metal companies implement initiatives to improve productivity.

## Subsector trends

- ▶ Gold prices remain above historical average as the market recovers and gold demand returns to normal
- ▶ Gold miners are strategically focused on ensuring long-term sustainable resource replacement

## Horizon watch

- ▶ Accelerated adoption of digital transformation likely in 2021 and beyond
- ▶ Will Bitcoin overcome volatility to become a contender as a safe haven investment?

# Expansionary monetary policy and ongoing market volatility is keeping gold prices above the 5 year average

LBMA Gold Price (US\$/oz)  
January 2018- May 2021



Consensus forecast gold prices US\$/oz Target price at 30 April 2021	
2021f	1,830
2022F	1,839
2023F	1,766
2024F	1,706
2025F	1,667

Global uncertainty, devaluing currencies, systematic financial risks and massive liquidity provided an ideal situation for higher gold prices in 2020

While prices are likely to ease in 2H 2021, consensus is that they will still be higher than pre-Covid-19.

Source: S&P Global Market Intelligence Platform, ThomsonOne, Australian Chief Economist, World Gold Council, EY Knowledge analysis.

# Long term prices will be dependent on factors such as vaccine roll out, dollar index, monetary and fiscal policy, trade risks and ETF holdings

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## Key drivers of gold prices



**Accommodative monetary policy** provides debt and liquidity to the market thereby supporting gold prices.

**Expansive fiscal policy globally** e.g., stimulus measures announced in the US and EU as well as in other countries

**Rising Government debt** to fund Covid-19 recovery and stimulus measures

**Fed rates** remain **constant** for 2021 and 2022 amid the Fed's new policy of targeting inflation

**Elevated trade and geopolitical risk** support gold prices

**Successful vaccine rollout** will reduce investor uncertainty

**10 year real interest rates:** are still in negative but since the start of the year, they have increased by 0.67%. As they move closer to zero, downward pressure on gold prices will increase

The **strengthening of US dollar** is inversely related to gold prices

**Economic recovery** and concerns or uncertainty surrounding Covid-19 recede

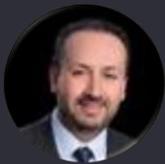
**Outflows from ETFs** or less investment into gold



# Key contacts and additional resources

## Recent and related publications

- Webcast: Should gold mining be considered an impact investment? In this webinar, our distinguished panel of speakers discuss how gold mining is aligned to ESG principles and what makes it an attractive investment that provides long-term financial returns that are socially and environmentally responsible.
- Overview of the Russian Gold Mining Industry: This report has been prepared by EY in cooperation with the Union of Gold Producers of Russia as the latest in a series of overviews of the Russian gold mining industry.
- Top Business Risks and Opportunities - Gold 2021: Considers the top three risks and opportunities facing gold miners: 1. Decarbonization and green agenda; 2. Resource replacement and 3. Capital agenda
- Mining & Metals Commodity Market Update: provides an overview of M&M commodity markets including steel, steelmaking raw materials, thermal coal, aluminium, copper, gold, lithium, cobalt and nickel.



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