With all due respect…. Or the art of diplomacy.

When the Brits realised they no longer had enough gunboats to settle international problems in the time-honoured fashion, they switched to diplomacy. Diplomacy has its roots in Ancient Greece and Rome, but flourished with the city states of Milan, Tuscany and Venice until they refused to host French representatives because of the fear they were involved in espionage. The French continued to develop diplomacy, sending its first ambassador to the Court of England in 1487. Now the two of us are a bit like grandfathers who still enjoy a quiet round of golf but do much of their fighting on the 19th hole.

No one could accuse the Americans of being masters of the art and it is getting a bit late for them to start taking lessons. They stick to a hand on the pistol holster. The Germans, Japanese and Italians have honed their skills remarkably since 1945. The Indians have a long habit of smiling whilst they get the best deal and the Russians have at last defrosted the corpse of Lenin.

But do we hear it for the Chinese? This week will see the start of a test case, the opening of the trial of the Rio Four. It is about China, iron ore, diplomatic and industrial relations and a potential knock-on internationally about alleged commercial espionage over iron ore pricing in China in mid-2009 when the consumers had a recession-related upper hand. Had it been tin or zinc it might have passed unnoticed. But not iron ore. It is the largest of the internationally traded bulk minerals by value. China imports more than anyone else, like $15 billions worth in 2008 of which 40% comes from Australia. So there is much at stake in the trial and there will be serious kick-off posturing. Australian diplomats will not be given access to the trial. They are reported to have accepted this. In tandem, China's giant company Chinalco (Rio's largest shareholder) is cuddling up to Rio again. This, despite the failure of a major strategic partnership initiative last year. Meanwhile, negotiations are on internationally to settle contract prices for iron ore for the April 2010-11 period.

Given the buoyant state of the market and the ascendency of spot-pricing, these may be the last of their kind in this form. The Australian Trade Minister has said there will be no damage to trade relations regarding the trial. He would, wouldn't he? But BHP and Rio are close buddies and together account for over 50% of the world's iron ore production. Now the Rio Four might have been naughty boys. If so, they should have their bottoms smacked. Be fired, even.

But they have a different way of viewing punishment in the East. A man called Pak Nam Gi was in charge of North Korea's disastrous currency revaluation last year (a 1 for 100 swap). They introduced him to the firing squad last week. It is all about how you handle a disagreement. Let's hear it for diplomacy.

When a Brit disagrees with you, his counter argument often beings, "with respect…" which means you are well wide of the mark. If he opens "with all due respect…" watch out. Rio has its roots in London and much of its business in Australia. We all know who the Aussies are descended from. Watch this one carefully but don't make it an excuse for taking a quick turn on the shares. This one will run and could go either way. With respect.

Exchange Traded Metals

Nothing stirred. Not even a run on copper. No Chilean after-shocks as the big miners assured us they were back to normal. So prices, too, lay dormant, bar nickel, which kicked up 4% to $22,675/tonne. A year ago, it was $10,000. So what is happening here? Nickel's biggest outlet is stainless steel which is picking up along with the ordinary variety. The still important Canadian mines in Sudbury remain locked in a longterm strike. No shortage of discoveries of laterite nickel deposits. But these are low grade, long term and expensive to develop and environmentally unfriendly to process. AIM-listed **Toledo Mining** (AIM:TMC.L 34.75p, up 6.75p or 24%; Hi-Lo 49-14p) did some running. See small caps. **European Nickel**, too, is off the bottom (AIM:ENK.L 7.125p; Hi-Lo 12.25p-5.875p).

Table 1: Metal Stocks in LME Warehouses

Metal	13 March 2010	20 March 2010	% Change
Aluminium	4,523,200	4,618,200	2.10%
Copper	535,650	524,175	-2.14%
Lead	170,225	170,350	0.07%
Nickel	159,384	158,478	-0.57%
Tin	23,860	24,040	0.75%
Zinc	539,250	540,400	0.21%

Source: Mining Journal

Precious Metals

It was not the movement in the metals, but the strong sentiment behind **gold** that set the scene. The house view of $1000-1200 as a range for 2010 remains and looks set fair. The lower level is now being supported from several quarters as "a floor" so that's OK. **Palladium** has its fans. Not all of them know where to buy tickets for the show so let's tell them what is on the programme. You only find Palladium with Platinum. It is a PGM, of which it is the second most common of six rare metals in the group. It shares many of the qualities of platinum in being corrosion-resistant, catalytic; things like that. But it is only about a third as effective and thus a third of the price. Now for the commercial spin: only two countries provide PGMs in any quantity: Russia and RSA. Most of Russia's is from by-product Norilsk nickel, where it comes in the ratio Pd3=Pt1 or a ratio of 3 to 1, Pd to Pt. South Africa's comes almost all from Rustenburg where it is Pd:Pt=1:3. There. You can play a tune on it, but it is a quiet one. No one else has much.

Gold. The Fairtrade™ movement is in its infancy, and prior to this has made its mark in coffee, chocolate, bananas, cotton and the like. Now a hallmark has been registered and that is only the start. Watch this space.

Goldfields. That the world's Nº 3 producer will spend $1.1 billion over the next five years at its RSA South deep operation speaks volumes for its faith in the metal price. They talk of a 30 million ounce resource and a 45-year life.

Bulk Commodities

Iron Ore. Brazil's **Vale**, the world's largest producer, has asked China, its largest customer, to accept a doubling of iron ore prices this year. In countering, the China Iron and Steel Association (CISA) said steel output in January-February 2010 far exceeded demand and exports may drop. National output was 1.8 million tpd in February, a record. This is one more reason for an exchange-traded system to be introduced. This is no way to run a shop.

Table 2: Commodity Price Movements

Commodity		13 March 2010	20 March 2010	% Change
Aluminium	$1/tonne	2215	2232	0.77%
Copper	$1/tonne	7469	7460	-0.12%
Lead	$1/tonne	2250	2210	-1.78%
Nickel	$1/tonne	21775	22675	4.13%
Tin	$1/tonne	17500	17650	0.86%
Zinc	$1/tonne	2329	2287	-1.80%
Gold	$/ounce	1106	1104	-0.18%
Silver	$/ounce	17.17	17.05	-0.70%
Platinum	$/ounce	1613	1607	-0.37%
Brent Crude Oil	$/bbl	78.65	78.5	-0.19%
Platinum/Gold	Ratio	1.46	1.46	0.00%

Source: The Times of London

Exchange Rates

The US currency controllers must have read a book of verse we sent them recently. It is by the UK Empire-tout, Rudyard Kipling. An immortal line says "If you can meet with triumph and disaster and treat those two imposters both the same…." Well, that is what the dollar is doing with the Euro and the pound. If you must trade in currencies these are the only two non-dollar ones on the serious channels right now. The greenback is grinding them fine. Movements on the week were minor, the pound down 2 cents and the Euro 3 cents but it is the direction which counts.

Sterling cannot expect its fortunes to lift up whatever the Budget of March 24 reveals, can it? There is a grimness about the UK finances that will not be magic-wanded away. Particularly since a general election looms in May. Then the Euro. At first blush, its current problem with the Greek economy – effectively bankrupt – is blown out of proportion. Greece is only 3% of the 27 member GDP pot. But the other PIIGS – Portugal, Italy, Ireland and Spain – are also treading water. Whatever Greece gets in the way of a soft landing they will want, too. With the Chinese Yuan sticking slavishly to the dollar and Japan still wallowing in its domestic problems, this is no time to desert the lead currency.

But the South African Rand? It keeps going up and the locals don't like it. This export-minerals dominated country produces in Rand but gets its receipts in dollars. It is hurting, particularly since local inflation is high (+10%), ditto the bank rate, the expectations of the workers unions and the all-important cost of energy. Were it Iceland, you could deal with it off-balance sheet, but RSA matters.

Table 3: Exchange Rates Movements			
Currency	**13 March 2010**	**20 Mar 2010**	**% Change/week**
£:$	1.52	1.5	0.66%
€:£	1.10	1.11	-0.90%
£:SA Rand	11.23	11.03	0.00%
US$:Aus$	0.92	0.92	1.10%
Br Reale:US$	1.77	1.8	-0.56%
$:€	1.38	1.35	1.47%
$:SA Rand	7.4	7.35	-0.54%
$:Rupee	45.4	45.5	-0.44%
US$:HK$	7.76	7.76	0.00%
$:Israeli Shekel	3.72	3.74	-1.06%
$:Thai Bhatt	32.55	32.29	-0.31%
$:Yuan	6.83	6.83	0.00%

Source: Financial Times

Share Price Movements, Majors

The relative lack of action amongst the big boys should fool nobody. They are positioning themselves once more. The money is rolling again. It is hard to keep up with the price of coking coal (see Energy) and iron ore is set to double on a contract basis. It already has in spot market terms. Nickel is looking impressive again (see Exchange Traded Metals) whilst aluminium companies are being bundled and unbundled like the Boxing Day sale at Harrods.

Antofagasta, the major Chilean copper miner, lost 3.5% to 996p on earthquake-related sentiment despite assuring us it is alive and well.

Gem Diamonds lost 3% to 242p despite posting a profit following a difficult 2009. Gem has two producing mines in two safe havens – Australia and Lesotho. After its flirtations with superficially attractive suitors, let's hope it is settling for wedded bliss. It has cash and its Letseng mine will throw up some more beauties. The largest of the non-conglomerate producers remains on our shopping list.

Vedanta, the Indian-based, internationally hungry conglomerate, fell a chunky 4.55% on the week. It could surely not be on the news that it plans to spin-off its $20 billion aluminium division, could it? Whilst it is part of a spinning-off policy, there has to be merit in parking the assets of the over-supplied metal. Sadly, it cannot include Bharat Aluminium (BALCO) which is 49% owned by the Indian Government. Stay with Vedanta.

Table 4: Share Price Movements, Majors					
Stocks	**13 Mar 2010**	**20 Mar 2010**	**% Change**	**12-mo Hi-Lo**	**% Above Low**
FTSE 100	5625.65	5650.13	0.44%	6364 – 3530	60.06%
Anglo American	2708	2664	-1.62%	2897 – 906	194.04%
Antofagasta	1033	996.5	-3.53%	1024 – 353	182.29%
BHPB	2198	2185	-0.59%	1969 – 1025	113.17%
ENRC	1173	1160	-1.11%	1034 – 295	293.22%
Gem Diamonds	250.4	242.5	-3.15%	282 – 104	133.17%
Hargreaves Services	695	670	-3.60%	768 – 415	61.45%
Kazahkmys	1517	1483	-2.24%	1498 – 187	693.05%
Rio Tinto	3708.5	3670	-1.04%	3638 – 1112	230.04%
UK Coal	56.5	51.75	-8.41%	164 – 49	5.61%
Vedanta	2747	2622	-4.55%	2886 – 193	1258.55%
Xstrata	1193	1143	-4.19%	2510 – 289	295.50%

Source: Proquote

Share Price Movements, Small and Medium Caps

This sector saw most of the action last week. Hardly any fallers but a serious number of risers. You could blame it not on warehouse stocks, metal prices nor even an earthquake in Chile. It happened whilst the big boards were moribund. So what is it telling us? The majors are pulling in the cash again. The spot price of coking coal was c. $90 per tonne in September 2009. Last week we spoke of $220. Iron ore is set to double. Nobody is calling gold below $1000. But the Goliaths have no appetite for attacking each other (let's park Glencore-Xstrata) so they are eyeing the Davids. All this whilst they are unbundling into commodity-defined divisions for clarity of thought (and analysis), also shedding non-core assets and non-core geographical areas. Yes, it is approaching feeding time at the zoo. So, who did what?

African Consolidated Resources (AFCR, 10.5; Hi-Lo 17.75-5.5p) put on almost 8% despite the Zim Government threatening to arrest its senior executives over the long-running Marenge diamond saga. In a real world, this share would be in the bargain basement at its present level, but Zim is not real.

Cluff Gold (CLF 96.75p; Hi-Lo 96.75-29.25) is on target to produce 100,000 oz in 2010 from its West African mines and its cash position is a healthy c. $9 million. There is the sniff of takeover talk in the air so the bounce of over 6% to 96.75p still gives upside scope.

Herencia (HER 0.71p; Hi-Lo 1.0-0.28p) put on a further 4.4% following our buy signal of March 10th. Expect more drilling results shortly. Chile is still an OK place.

Kalahari Minerals (AIM:KAH 183.75p; Hi-Lo 217-83.5p) put on c.4% whilst activity intensifies at its Rossing South uranium exploration project in Namibia. In bid terms, it becomes not if, but when.

Toledo Mining (TMC 34.75p; Hi-Low 48.5-14.5p) was the big mover, up over 24% for reasons not clear. Toledo has two sizeable nickel laterites in the Philippines which are being actively drilled. Grades run 1.25% to 1.8% Ni, which is economic. It has enough cash for the time being, access to a deep water port and has just appointed in Ken Stern, an experienced COO, ex-European Nickel. The next announcement will be drilling results, followed by a decision regarding on-site processing. Stay with it. Someone out there must think he knows something.

Strategic Natural Resources (AIM:SNRP 14.25p; Hi-Lo 21.5-7.5p) has been a favourite of ours for some time, based on its well positioned RSA coal resource and its intention to build a mine-mouth power station in an energy-starved region of South Africa's Western Cape. It has raised £2.7 million. The power station is seriously on hold but there is no shortage of local offtake customers. Following the placement, **Coal of Africa** (CZA 133.0p; Hi-Lo 153.0-42.0p) holds 19%.

Petra Diamonds (PDL 70.25p Hi-Lo 88.75-23p) is rapidly moving beyond the small-medium cap category. It has aggressively bought into producing assets as well as pursuing development targets. It cut its losses and fled Angola (most pragmatic people do that) and has a forceful marketing policy. Petra nudged up 1.75p (2.55%) on the week and is not shy of news flow. **Stay with it.**

Table 5: Share Price Movements, Small and Medium Caps

Small Caps	**13 March 2010**	**20 March 2010**	**% change**
African Consolidated Resources	9.75	10.50	7.69%
Cape Resources	4.0	4.25	6.25%
Cluff Gold	90.75	96.75	6.61%
Europa Oil & Gas	16.75	17.5	4.48%
Eurasia Mining	0.62	0.62	0.00%
Firestone Diamonds	38.75	39.75	2.58%
Goldplat	10.75	10.25	-4.65%
Gemfields	5.1	5.12	0.39%
Herencia	0.68	0.71	4.41%
Kalahari	177.0	183.75	3.81%
Kopane	11.75	11.75	0.00%
Kefi Minerals	1.5	1.75	16.67%
Kryso	11.75	12.0	2.13%
Northern Petroleum	128.0	125.5	-1.95%
Nyota Minerals	10.5	10.5	0.00%
Petra Diamonds	68.5	70.25	2.55%
Strategic Nat Res	13.75	14.25	3.64%
Toledo Mining	28	34.75	24.11%
Tanzanite One	11.5	11.75	2.17%
Vatukoula Gold	2.21	2.2	-0.45%
Zincox	54.0	54.5	0.93%

Source: Proquote

Energy

Coal. The converted shells of coal exchanges are still to be seen around the UK – London, Cardiff, Newcastle – where once the trade thrived. We are moving back to an exchange-related market. The mover and shaker is the world's largest miner, BHPB, which is growing weary of annual price negotiations lasting all year. It is going for three-month fixes. Makes sense. The Japanese steel mills have agreed to it at $200 per tonne for coking coal (up from $90 only six months ago). The rest, producers and consumers alike, will find it hard not to follow.

Oil. OPEC's affirmation last week that $80 per barrel is OK for oil speaks volumes. Peak oil is a distant threat and Iraq (not an OPEC member) is getting back to normal. It has 115 billion barrels of easily get-at-able (9.1% of world reserves) and needs the money. Also $80 is an intriguing number. It makes Canada's tar sands debatable, oil shales out-of-reach and deep water prospects only for those with deep pockets. We remain with a $75-85 range for the foreseeable future.

BP, the major oil and gas producer, is becoming geographically sensitive. It is pulling out of five southern African countries including safe haven Botswana. Its development focus continues in Iraq, offshore Brazil and stations east. The geographical-political dimension of mining development will only increase.

Gemstones

The diamond market continues to hold firm. We approach April from whence the pipeline to the important Christmas sales period begins to fill. No lack of action amongst the miners.

Firestone Diamonds (AIM:FDI 29.75p; Hi-Lo 49.5-13.5p) saw a modest rise on the week. It follows confirmation of its selection by NAMDEB (50:50 J/V with the Government of Namibia and DeBeers) as supplier and operator of the dredge and floating treatment plant on Namibia's SW coast. It has a projected capacity of 11.5Mtpy and a 15-year life, starting in 2012. Firestone also has operations in Botswana and South Africa. We continue to recommend Firestone as part of a long term precious stones portfolio at its current price and modest P/E of 10.5. Firestone also intends to apply for a secondary listing on the Botswana Stock Exchange.

African Diamonds (AIM:AFD 44p; Hi-Lo 56-19p) remains at loggerheads with its former partner DeBeers in the AK6 Botswana pipe development. Last year, DeBeers sold its 70.3% stake in AK6 to a Canadian junior, Lucara Diamond Corporation for $49 M cash. Now it appears a million shares in AFD have been sold without its being informed from an account AFD says is DeBeers related. African Diamonds is beginning to resemble a 12-month pregnancy. It has been around for some years but still at the development stage. Recent bulk samples have been assessed at up to $200/ct, which is good locally but stone fracturing is a problem. **Let the dust settle on this one**, particularly as DeBeers has called in the heavies on the above allegations.

Rockwell Diamonds (JSE:RDIJ and TSX:RDI) mines high value alluvials in South Africa. It is about to add **Etruscan Diamonds'** Blue Gum project to add to its Holpan, Klipdam and Saxendrift and Woutersdam properties. The plan is to ramp up from the existing 4000 ct/month to 10,000 ct/month to put it in the 1.0M ct/year league progressively. We will progressively study Rockwell's moves over the next few months. It does not lack ambition and has its sights firmly set on large, quality stones. This could sit well with local beneficiation and the attention of larger groups.

Jagersfontein. When you tread upon history, you tread upon your dreams. Of recent date – like 130 years in diamonds – Kimberley and Cullinan push forth, but so does Jagersfontein. The South African Free State Mine ran from 1870 to 1971 and predated Kimberley. In its long life, it accumulated 13 million tonnes of tailings. DeBeers is putting these on the block and says they run 12 cpht. Sounds fanciful, but the mine was a prolific producer and unearthed the Excelsior diamond (995.2 ct, 1893), the Jubilee (650.8 ct 1895) and the Earth Star (248.9 ct 1967). What lies in the tailings? There have been contentious issues here but DeBeers seems to be in charge and this will be a hotly contested sale. Do we hear it for Petra? There are contentious local issues, but the reworkings of the tailings could uplift the fortunes of a desperately poor area.

Diamondcorp (AIM:DCP 7.5p; Hi-Lo 28.75-7.5p) needs money. It is raising it through a discounted rights issue of 7.0p from its March 12 level of 9.5p to take in £7.1 million to meet repayments and continue work at its Lace Mine in South Africa's northern Free State. It is subject to shareholder approval at a general meeting. This is a make or break decision that the company admits. Significantly, UK's Legal and General Insurance Company, a major, is a putative 10% shareholder. Diamondcorp also has an exploration property at Jwaneng South, Botswana. It is a tough call in politically safe surroundings. It needs a continuingly rising market. The offer is deeply discounted. You pays your money….

Gem Diamonds (FTSE:GEMD 242.5p; Hi-Lo 282-104) has survived the downturn but better not speak of the price at which it floated. OK. It saw above 1100p at end 2008, tested 104p in the past twelve months and is now 242p. This is the largest of the non-conglomerate producers, run by a board with serious experience in the industry (much of it DeBeers). So, no excuses, sir. It is making profits and has some money in the bank. It has ended its flirtations with the DRC (why did a company with all that experience do it in the first place?) and Angola. It remains with Lesotho, where it looks set fair, Australia where the Ellendale mine needs a buoyant market and with Botswana. GEM has a loyal following but it needs to repay its trust by solid results in a rising market. Gem is meant to represent solidity. Charging off into the bush in a panic did not instil confidence. As long as the lessons have been learnt, there is upside here, but let's not hear it for the DRC and Angola again.

Chinese Driving Diamond Demand. Whilst not a surprise, we had it spelled out by RBC Capital Markets last week that by 2015, China will account for 16% of global diamond jewellery demand. Now of late it has been about 10%, so a 5% increase on say a 180 million carat annual demand would be an extra 9 million carats. That's a lot. Not many deep mines coming on stream in a hurry. We have the ever-hopeful African Diamonds AK6 in Botswana, Kopane's Lesotho Mine, Gem Diamond's Ellendale to get back in full swing and then you run out of ideas. So it is alluvials, is it not? Thus South African and Namibia for the most part.

Pointers for the week...and beyond

Monday 22 March:	Trial of the Rio Four begins in China
Wednesday 24 March:	UK Budget
	Eurasian Natural Resources Corp Final Results

The Watchtower

Australian Miners are digging-in regarding a Government proposed resource tax in the May 11 budget. They speak of 40%. Of what? There is choppy water ahead of an election expected later this year. Exposed groups include BHPB, Rio Tinto, Xstrata.

South Africa's forceful Mines Minister, Susan Shabangu, assured investors (March 10) there will be no mines nationalisation. This hot potato has been kept on the boil by one Julius Malembe, president of the ruling ANC party's Youth League. JM is reportedly up to his armpits in personal deals in the private mining sector. He is probably rising 40 years old, too. At what point does one cease to be a youth and show the wisdom of age? Shabangu also noted China's appetite for investments in RSA. China has an interest in investing in minerals in most places but its protocols come at a price. Caveat Emptor. The Minister also addressed the thorny issue of Black Economic Empowerment (BEE). Under this legislation, mining companies have to sell up to 26% of their equity to BEE groups. In her words, "we have not achieved much. It's a big lesson, we have to learn from that." The man on the ground agrees with that. It has to be done on commercial terms. No one can give away 26% and stay in business.

Zimbabwe. The attempt at mediation by RSA's President Zuma between alleged Prime Minister Tsvangari and Herr Mugabe failed. If South Africa cannot bring the guns to bear, nobody can. Still, it is good for metal prices. If Zim's war chest were ever opened, it would reveal gold, platinum, diamonds, chromite, copper and enough food to feed half of Africa.

Shares…and Currencies to Watch

The US Dollar – see exchange rates – continues to look good against its competitors, if there are any.

The Conglomerates have paused for breath but are making serious money again, thanks to price rises in coal, iron ore, gold. Each major is making its own choice, as we have noted, in minerals, locations, unbundling, but we believe you should stay with the basket. If there is excitement out there, it has to be with Xstrata. It is the lowest "above low" on a twelve-month basis and only meets its 35% shareholder Glencore in darkened bars in Geneva. But there is romance in the air.

The Small Caps are posturing, some even prostituting themselves for a bid. Others make steady progress up the aisle and towards the altar. Our warmth continues towards: **Cluff Gold, Kalahari/Extract/Polo, Petra, SNR, Herencia, Goldplat, Nyota, Gemfields, Gem Diamonds, Kopane** and **Toledo Mining.**

David Hargreaves
20 March 2010

Disclosures

WH Ireland Recommendation Definitions

Buy
Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform
Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform
Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform
Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell
Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy
The stock has considerable level of upside but there is a higher than average degree of risk.

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The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

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As at the quarter ending 31 December 2009 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	18	22%	4
Speculative Buy	4	5%	4
Outperform	18	22%	1
Market Perform	26	33%	3
Underperform	14	18%	0
Sell	0	0%	0
Total	80	100%	12

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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