

A slow news day on Miami Beach....

The satirical comedian Bob Newhart gave a rendition of the farewell speech to the crew by the captain of the nuclear submarine USS Codfish. It was about to surface after two years under the ice. There had been interesting moments. A bit like a global recession and recovery. He referred to one particular incident: "About the landing on Miami Beach. It wouldn't have gotten so much publicity had it not happened on what they call a slow news day...."

Last week in mining was a slow news day. Hardly a darn thing stirred. You think? Shares, currencies, warehouse stocks all flat; one fundraising and one merger proposal on the FTSE big board. No, don't go away. A great deal happened, actually. The big boys announced their intentions only to go for mega projects. This is exactly what the tiddlers want. They can do the dream stuff – cheaply – and sell into the reality if they get it right. The iron ore miners are back in the ring with the Chinese – and Indians – and Japanese – and Taiwanese – and Europeans. Contract negotiations on next year's prices that are becoming increasingly irrelevant. The push for a benchmarking system has gone from a whisper to a full blown scream and will happen. Neither rule it out with coal, particularly the coking variety. Spot prices are an increasing influence but are haphazardly reported. They are crying out for regularisation and a reporting mechanism. When you are shifting almost 2000 million tonnes of ore per year, tracking the price of the last spot cargo will not do. Then we heard it from the PIPS – not the Gladys Night variety – the Peak Is Popular Society. This cult believes that the supply of key minerals will plateau whilst demand – driven ever upwards by exponential increases in GDP, population and longevity – will result in huge shortages. We have had it for peak oil and are now hearing it for peak gold. It keeps the wheels of commerce lubricated. There is a whisper of peak iron ore, which is as far from reality that one can get. Peak anything really. There will, as ever, be a price. The fundamentals of the laws of supply and demand have not changed. There are choppy waters out there and a lot of inexperienced sailors trying to make it to port. But whatever the Captain of the USS Codfish said, it was not a slow news day on Miami Beach.

Exchange Traded Metals

Copper took a rest last week following a bullrun after the major 8 February Chilean earthquake. Serious aftershocks were reported, but the big miners – Antofagasta, Codelco, Anglo, report business as usual. The price of \$7466/tonne was barely changed and is above forecasts for a 2010 average of \$6600-7000. Warehouse stocks were almost unchanged at 535,000 tonnes. A reasoned letter by Peter Hollands of Bloomsbury Minerals Economics to Mining Journal put the stocks-metal prices relationship into perspective. There used to be a direct correlation between the two ie rising prices. The entry of Commodity Investment Funds (CIFs) and Exchange Traded Funds (ETFs) with a long-only philosophy have severely dented the impact of the carry trade (contango-earning hedge sales, backwardations and good old fashioned shorting). Neither have near zero interest rates assisted. So when we look at aluminium stocks at c.4.6Mt or almost 12% of world production, perhaps we should not ask if this is a major price depressant, but where would the price be without the off-market holders?

Nickel continues to fail to perform. It 3% fall on the week to \$21,775/tonne came despite the strike at Vale's Sudbury operations stretching into its eighth month. These mines are deep and expensive (see Bulk Minerals). Relatively cheap and easy to extract laterites continue to be found and developed.

Antofagasta, the major Chilean miner expects copper to average around \$6600/tonne this year compared with a current price of \$7469. The group expects its production to be 543,000 tonnes this year rising to over 1,000,000 tonnes by 2015.

Table 1: Metal Stocks in LME Warehouses

Metal	6 March 2010	13 March 2010	% Change
Aluminium	4,551,975	4,523,200	-0.63%
Copper	544,225	535,650	-1.58%
Lead	168,675	170,225	0.92%
Nickel	161,598	159,384	-1.37%
Tin	24,340	23,860	-1.97%
Zinc	541,040	539,250	-0.33%

Source: Mining Journal

Precious Metals

Gold. South Africa, once the world's largest miner saw its output continue to decline, slipping 5.8% to 205 tonnes in 2009 after a 14.5% fall in 2008. RSA is now fourth in the world ranking after China, Australia and USA. Gold remains critically

important to the country's economy but now earns less in foreign exchange (R48.7 billion) than PGMs (R58 billion). The mines are old and deep with little prospect of new bonanza discoveries.

Meanwhile, South Africa's PGM sales have resumed an upward trend, the first since July 2008. Automobile sales have played more than a walking-on part. US sales rose by 13% year-on-year during February.

The Arrogance of Youth. An undisclosed source (OK, Mineweb) last week announced that investors are looking to gold as an alternative currency. Gosh. Since about 10,000BC, gold *has* been the currency. Until the ravages of the last century, paper money was only a ticket to get your gold out of hock and avoid being robbed by Dick Turpin on your way from London to York. Trouble is, if you today divided all the paper in US dollars by all the gold, the metal would be about a million dollars an ounce. It used to be called the gold standard. It does not make a convincing case for the price falling, does it?

Bulk Commodities

There was, as ever, action in coal, both thermal and coking, iron ore and earth tremors in chrome. Annual benchmarking is breaking down in what is becoming a rapidly changing daily market. BHPB has broken ground by settling a three-month, not twelve-month, contract to end of June to a range of customers in Europe, China, India and Japan on coking coal. It is at \$200/tonne, a full 55% up on the previous, annual contract of \$129. It is to end June 2010.

In **iron ore** the largest producer, Vale SA of Brazil, is asking for 80% increases for 2010-11. It makes China's demand for a 50% decrease in the downturn look modest. To put it in context, current spot prices, fob Australian port, are about \$132/tonne compared with the \$60 of the 2009-10 benchmark. This is, as ever, beginning to feed into the steel industry and will have major inflationary significance. They speak of increases in Europe of €100 per tonne from the present level of c. €450 for hot rolled coil. As we note elsewhere, a regularisation of the spot price will be essential to prevent an increasingly disorderly market (Source: Steel Business Briefing).

A merger of UK coal mining interests? Britain's two largest coal groups have spoken of a possible merger.

Hargreaves Services Plc (FTSE:HSP 695p; Hi-Lo 768-415p) runs one colliery, Maltby, produces coke, imports and distributes. **UK Coal** Has three deep mines, opencast and a major landbank (FTSE:UKC 56.5p; Hi-Lo 164-49p). The latter is almost certainly undervalued but held back by the not infrequent geological problems at its mines. The combined market cap is c.£370 million. Discussions are reported to be at an early stage. On the news, Hargreaves fell and UK Coal rose. See Major Caps.

Table 2: Commodity Price Movements

Commodity		6 March 2010	13 March 2010	% Change
Aluminium	\$1/tonne	2200	2215	0.68%
Copper	\$1/tonne	7466	7469	0.04%
Lead	\$1/tonne	2173	2250	3.54%
Nickel	\$1/tonne	22475	21775	-3.11%
Tin	\$1/tonne	17400	17500	0.57%
Zinc	\$1/tonne	2256	2329	3.24%
Gold	\$/ounce	1139	1106	-2.90%
Silver	\$/ounce	17.48	17.17	-1.77%
Platinum	\$/ounce	1585	1613	1.77%
Brent Crude Oil	\$/bbl	79.0	78.65	-0.44%
Platinum/Gold	Ratio	1.39	1.46	5.04%

Source: The Times of London

Exchange Rates

Imitation is the sincerest form of flattery. The **US Dollar** is being subjected to both right now. The dollar has been the universal lubricant in its paper form since Tricky Dick abandoned its gold convertibility in 1971. The sheer weight of greenbacks ballasting the international currency boat precludes any competitor from even suggesting swapping monetary cargoes, doesn't it? Let's look at imitation. Countries with no worthwhile financial credentials of their own, use dollars. Zimbabwe is but the most recent example. Then flattery. China has pegged its powerful Yuan to the dollar at 6.83 and is enjoying all the benefits of association at nil cost. The US is accusing China of being a currency manipulator and via none less than President Obama who is calling on China to move to a "more market-oriented exchange rate". The US Treasury Department's semi-annual report is due April 15th and there are mutterings of punitive actions against China which could lead to a trade war. Let's take this one seriously. If the Yuan floated, it would be stronger, exports would be hit, the

domestic economy and mineral imports likewise. Do not be tempted into sterling, the Euro or the Yen just now. This is a hot potato.

Table 3: Exchange Rates Movements

Currency	6 March 2010	13 March 2010	% Change/week
£:\$	1.51	1.52	0.66%
€:£	1.11	1.10	-0.90%
£:SA Rand	11.23	11.23	0.00%
US\$:Aus\$	0.91	0.92	1.10%
Br Reale:US\$	1.78	1.77	-0.56%
€:\$	1.36	1.38	1.47%
€:SA Rand	7.44	7.4	-0.54%
€:Rupee	45.6	45.4	-0.44%
US\$:HK\$	7.76	7.76	0.00%
€:Israeli Shekel	3.76	3.72	-1.06%
€:Thai Bhatt	32.65	32.55	-0.31%
€:Yuan	6.83	6.83	0.00%

Source: Financial Times

Share Price Movements, Majors

One of the problems with the analysis of a conglomerate is that it is truly difficult to ascribe a value to it. A spread of minerals, countries, exchange rates and political risk make an already cloudy skyline call for night vision goggles. Thus, whilst several of the big ones are once again challenging their twelve-month highs, Xstrata trails as do others. They are also capable of using their weight to instigate a barroom brawl. Like Rio pouncing on Alcan at the top of the market. Or Vale and Xstrata plunging into the Sudbury nickel mines, deep, expensive with a bullet-headed union to boot. It takes the shine off bright stars in a portfolio. So, probably not before time, there is some unbundling taking place. Like Barrick, the world's largest gold miner, floating off its African assets into a separate vehicle. It will retain a majority stake and management control but will, we assume, be standalone on profitability and dividend policy. Gives the investor a choice. We can expect more of this so you need not despair of a perfectly sound diamond miner in Botswana doing his dough in Angola. If he does, the market will soon point out the error of his ways.

Glencore and Xstrata. Our favoured putative deal moves closer: Glencore to list then strike a bargain with Xstrata, of which it already owns 35%. In a widely predicted move, it will buy back – as is its right – the Prodeco, Columbia coal mine for \$2.2 billion plus accrued profits. It has 225Mt of high grade reserves plus a share of railway and port facilities. Privately-held Glencore has potential market value (some say) of up to \$35 billion. It puts it in the major league.

Table 4: Share Price Movements, Majors

Stocks	6 Mar 2010	13 Mar 2010	% Change	12-mo Hi-Lo	% Above Low
FTSE 100	5599.76	5625.65	0.46%	6364 – 3530	59.37%
Anglo American	2664.5	2708	1.63%	2897 – 906	198.90%
Antofagasta	993	1033	4.03%	1024 – 353	192.63%
BHPB	2207	2198	-0.41%	1969 – 1025	114.44%
ENRC	1115	1173	5.20%	1034 – 295	297.63%
Gem Diamonds	246.6	250.4	1.54%	282 – 104	140.77%
Hargreaves Services	729.5	695	-4.73%	768 – 415	67.47%
Kazakhmys	1546	1517	-1.88%	1498 – 187	711.23%
Rio Tinto	3701	3708.5	0.20%	3638 – 1112	233.50%
UK Coal	49.5	56.5	14.14%	164 – 49	15.31%
Vedanta	2693	2747	2.01%	2886 – 193	1323.32%
Xstrata	1187	1193	0.51%	2510 – 289	312.80%

Source: Proquote

Share Price Movements, Small and Medium Caps

Cluff Gold (AIM:CLUF 09.75; Hi-Lo 94-29) continues to show that news flow pays. It is mining gold at two of the not most fashionable locations in the world, Burkina Faso and the Ivory Coast. Its reserves are steadily climbing but still represent

only 2.0-3.5 years' production. In February it reported a possible bid. The price ran up a further 5% last week to 90.75p. It is hard to argue with success.

Baobab Resources (AIM:BAO 7.37p; Hi-Lo 1601p) plugs away with its spread of minerals projects in the Tete Province of Mozambique, unavoidably one of the major new mining zones internationally. It has an intriguing iron-vanadium-titanium project there where a serious drilling campaign has just started. The area, 632 km² is immediately north of the provincial capital and is strategically located with access to low tariff hydro-electricity. **One to Watch.**

Vatukoula Gold Mines (AIM:VGM 2.27p; Hi-Lo 2.5-0.5p) has produced its final results which confirm its determination to redevelop a gold project in Fiji. As our review of March 9th notes in detail, we rate it a **Buy** on its inaugural results and future prospects.

Table 5: Share Price Movements, Small and Medium Caps

Small Caps	6 March 2010	13 March 2010	% change
African Consolidated Resources	9.25	9.75	5.41%
Cape Resources	4.12	4.0	-2.91%
Cluff Gold	86.25	90.75	5.22%
Europa Oil & Gas	18.0	16.75	-6.94%
Eurasia Mining	0.62	0.62	0.00%
Firestone Diamonds	38.25	38.75	1.31%
Goldplat	9.88	10.75	8.81%
Gemfields	5.1	5.1	0.00%
Herencia	0.68	0.68	0.00%
Kalahari	184	177.0	-3.80%
Kopane	12.5	11.75	-6.00%
Kefi Minerals	1.75	1.5	-14.29%
Kryso	12	11.75	-2.08%
Northern Petroleum	132	128.0	-3.03%
Nyota Minerals	10.5	10.5	0.00%
Petra Diamonds	67.5	68.5	1.48%
Strategic Nat Res	14.75	13.75	-6.78%
Toledo Mining	30	28	-6.67%
Tanzanite One	12	11.5	-4.17%
Vatukoula Gold	2.27	2.21	-2.64%
Zincocx	54.5	54.0	-0.92%

Source: Proquote

Gemstones

The market in diamonds continues to move apace. Rough prices are at or near those seen in the early 2009 peak. But there has been blood-letting which shows.

Gemfields (AIM:GEM 5.1p; Hi-Lo 9.75-2.5p) the Zambian emerald producer is to start a rough stone trading operation in Kitwe and begin trial-cutting and polishing at its Kagem mine. The move towards local beneficiation is gathering strength worldwide throughout the gemstone trade and will impact on patterns of trading and the Indian influence. The big Kagem mine is still losing money. The six months to 31 December 2009 showed a loss of £6.4M compared with a loss of £188.6M in like 2008 when sales evaporated. The company plans to take its big open pit underground and notes a healthy increase in sales from all its major outlets.

Pointers for the week...and beyond

Monday 15 March:	EU Unemployment Change
Wednesday 17 March:	OPEC Meetings
	UK Unemployment Rate
Thursday 18 March:	US Unemployment Claims
Wednesday 24 March:	UK Budget



The Watchtower

India. We ignore India at our peril, as spelt out here often. In determining whether minerals will rule the world, we ask whether supply or demand will be the driver. An even money bet. We speak as ever of China, but India's GDP, up 7.2% in the last quarter was 2% of the world economy and rising.

Automobiles. We scoffed at car scrappage schemes, perhaps prematurely. They may have saved the key consumer industry from disaster. There is also a sting in the tail. An old banger can be worth scrap money as metal prices rise. China has now overtaken the USA as the largest market. Sales were up 45% y-o-y in February 2010 to 881,085 units (China Car Passenger Association). Annualised, that is 5 million ounces of platinum in exhaust catalysts alone. Let us not speak of lead in batteries.... But to put it into perspective, Canada sold 100,243 vehicles in the same month. Let's give Canada 30 million people and China 1300 million people. The arithmetic is that Canada buys five times as many cars per capita as China. Neatly, it almost fits into the GDP ratio. But China is now into cars big time. Very soon we shall hear it for Brazil, Indonesia, India...?

Shares...and Currencies to Watch

The US Dollar might not be the only game in town, but you buck it at your peril.

The **Copper Miners** will not let us down. The fundamentals outrun the Chilean earthquake and we remain positive on **Antofagasta** and **Kazakhmys**.

The Conglomerates. As long as the market remains in forward mode, so will the conglomerates. But there is room for selectivity. **Xstrata** remains the hot potato, particularly with the **Glencore** sauce ingredient.

The **UK Coal/Hargreaves Services** merger proposal may be an idea whose time has come. It will get good institutional support but with an eye on the UK Coal landbank, they are probably the horse to back.

We remain positive about **Cluff Gold, Kalahari/Extract/Polo, Petra Diamonds, Strategic Natural Resources, Herencia, Goldplat, Nyota Minerals, Gemfields** and **Kopane**.

David Hargreaves
13 March 2010

Disclosures

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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.

Share Price Target

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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