WHIreland

21 February 2010

THE WEEK IN MINING

The Week in Mining: February 21-28, 2010

Exposed at Last: The Contents of Little Red Riding Hood's Basket!

In exchange traded terms, LME and all that, you might argue that only two commodities matter: copper and the rest. Its bounce back above US$7,000 last week served industry and investors a timely reminder that it dominates its sector. But metals are a poor relation of energy, particularly oil. The long-termists are warning us, with good reason, that cheaply won supplies, like those from the great Middle East geosyncline, are on the wane. It is not that there is not a lot left, but that is only at current demand and the predictions are for the global increase in consumption to be exponential. The double-whammy of uncontrolled population growth and the aspirations of developing nations makes that hard to refute. Yet there is another dimension we ignore at our peril: an oil strike transforms lives and alters the mind-sets of countries. Politics play more than a walking-on part. We speak not of corruption nor the envy of next-door neighbours. Whilst we have been convinced that the possibility of another Middle East basin discovery, trillions of barrels just below the sand, is remote, smaller but regionally significant goodies continue to surface. In the right place, happiness; in the wrong place, mayhem. Thus we presently have Ghana, Uganda and the Falkland Islands in the chorus line, giving us a glimpse of their stocking stops. You need to get tickets in advance for a front row seat here.

To it in perspective, here is the value of oil compared with a basket of other world commodities.

Table 1: Relative Weighting by Value of Major Minerals. Annual Consumption

Mineral Mt	Unit	Consumption pa	Traded Price US$	Value $ x 10^{12}	% of Basket
Crude Oil	Mt	3,928	568/t	2.22	76%
Coal	Mt	3,304	80/t	0.26	9%
Copper	Tonnes x 10^6	18.74	7,192/t	0.14	5%
Aluminium	Tonnes x 10^6	39.26	2,071/t	0.08	3%
Nickel	Tonnes x 10^6	1.4	20,205/t	0.03	1%
Zinc	Tonnes x 10^6	11.58	2,260/t	0.03	1%
Lead	Tonnes x 10^6	8.65	2,289/t	,0.01	<1%
Diamonds	M carats	150	50/carat	0.01	<1%
Gold	Moz	128	1,118/oz	0.14	5%
Platinum	Moz	6	1,529/oz	<0.001	<1%
Total				2.92	100%

Source: GFMS, DH Interpretation

Oil Resources can come at a price. You only have to look at the political and ethnic convolutions in Iraq, Iran, Venezuela and Nigeria to appreciate that oil wealth does not come by itself. **Uganda** will soon discover this. Having recovered from the Amin years, it is a relatively stable, but largely agricultural land-locked African nation. How it handles the potential of the Lake Albert finds will determine not only its future, but will impact its neighbours. They have all had their recent share of troubles. Can you imagine the fall-out from striking oil in Zim? Even the USA would find out where it was. **Ghana**, too, has a potentially juicy offshore discovery which will add to its growing economic status. But it does need to keep an eye on its neighbours. We analyse it in **Energy** where we think prices will keep going up. An abundance of energy sources ought to correlate to rising GDP which by and large, it does.

Table 2: The GDPs of the Oil Producers: Barrels versus Population

Country	Output/day boe x 10^6	Population/millions	Output per head boe/day	GDP per head/US$
Saudi Arabia	10,846	28.7	378	20,700
USA	6,736	307.0	22	47,000
Russian Federation	9,886	142.0	70	15,800
Iran	4,325	73.2	59	12,800
China	3,795	1,331.0	3	6,000
Canada	3,238	33.7	96	39,300
Mexico	3,157	109.6	21	14,200
Nigeria	2,170	153.0	14	2,300
UAE	2,980	5.1	584	40,000
Kuwait	2,784	3.0	928	57,400
Venezuela	2,566	28.4	90	13,500
Iraq	2,434	30	81	4,000

Source: GFMS, World Population Statistics, DH Interpretation

Is there a correlation? You bet your last litre there is. Oil producers with a low population base have high GDPs. Those who have overpopulated without diversifying from oil have low GDPs. You cannot have it both ways. Thus the largest producer, Saudi Arabia ranks only 5 out of 12 whilst Kuwait and UAE are 1st and 3rd respectively. This goes far to explain the strains within OPEC. Producers well above the average world GDP threshold of $10,400 want to keep a lid on the oil price. Those well below would like to see it in 3 figures and staying there. The OPEC boys meet again shortly. They will have smiles on their faces, knowing that despite the best efforts of the green lobby, ***Little Red Riding Hood's basket is light on low calorie minerals, but weighed down with oil derivatives.*** Now what will happen when she gets to granny's house?

Then to the Falkland Islands. A British dependency since 1833, it seems quite happy with its status quo. Well, it might be. Its coastal oil potential, both seismically and geologically, is set fair but Argentina has revived its sovereignty claims. For only £1.50 (change out of US$3), you can find out all about the relative strengths of the Brits and Puma's in the London Times. We have more firepower than they do, but theirs is 400 miles away; ours is 8,000. So where is the money to be made and what is the degree of risk?

Exchange Traded Metals

Table 3: Metal Stocks in LME Warehouses

Metal	13 February 2010	20 February 2010	% Change
Aluminium	4,561,275	4,605,675	0.97%
Copper	545,300	555,075	1.79%
Lead	158,075	160,250	1.38%
Nickel	166,356	163,818	-1.53%
Tin	26,630	26,110	-1.95%
Zinc	499,850	541,300	8.29%

Source: Mining Journal

A further, but not indicative nudge up in all bar nickel (although plus 8% on zinc) warehouse stocks did not prevent a recovery led by copper. LME dealer Triland Metals moots a 75kt metal shortage in 2010. Hardly a tree-shaker against consumption of over 18Mt. They also go for a three months price of US$7,700 per tonne (now $7,200) with a possible upside of $8,200. That is seriously bullish. Don't be tempted to extrapolate metal and share prices. Remember last year.

Precious Metals

Gold recovered from testing the downside of US$1,100 to close on $1,118, narrowing its deficit to platinum two points from 1.39 to 1.37. The World Gold Council reports that global demand fell 11% in 2009 to 3,385.8 tonnes but dollar demand remained above $100Bn. Much of the fall was in Q4, 24% in the run up to Christmas. WGC points out the fundamental differences between investment, industrial and jewellery demand. Exchange traded funds (ETFs) saw the biggest increase over 2008, 85% at 594.7t. Gold supply increased 11% in 2009. The largest contributor was Q1 sales of recycled metal at higher prices.

Bulk Commodities

Iron Ore. The authoritative Steel Index reports iron ore prices moving steadily up. The Chinese steel mills have agreed a 'provisional' 40% increase over 2009 prices, so we are sort of back to 2008, are we not? It starts to make the contract negotiations look increasingly irrelevant and begs for an exchange traded mechanism.

RSA Royalties. The big Kumba iron ore exporter is locking horns with the Treasury over whether it pays 7% royalty on its exports or only 3%. The bargaining chip is that it upgrades its product by over 10% before sale. This makes a hornets nest look like a chicken run. So what now? Advice to South African parents: Put your child through mining school, force it to do an accountancy conversion course, then leave it on the Department of Mines' doorstep. Job for life.

Brazil is not to be outdone in setting iron ore export royalties, coupled with removing duties on finished steel. Nothing definitive yet.

Sierra Leone. Let's hope for the sake of the iron and steel industry that hard trying West African country maintains its path back to stability. It has an abundance of iron ore and potentially good export routes. This has not been missed on developers. **London Mining** (AIM 218.5p, +3.5p; Hi-Lo 257-195p) has approval for its Marampa project. Starting with tailings retreatment at 1.5Mtpy at a cost of US$80m, it could see cashflows in 18-24 months. The primary production target is 5-8Mtpy by end 2013. This one is worth following. **African Minerals** (AIM:AMI 377p; Hi-Lo 440-24.75p), led by the not-unknown Frank Timis, has raised £80m for its Sierra Leone iron venture. The claimed JORC-compliant resource at 10.5Bnt is the largest reported magnetite deposit known. Almost too big. **We shall continue to track this one.**

Table 4: Commodity Price Movements

Commodity		13 February 2010	20 February 2010	% Change
Aluminium	$/tonne	2,004	2,071	3.34%
Copper	$/tonne	6,766	7,192	6.30%
Lead	$/tonne	2,,075	2,289	10.31%
Nickel	$/tonne	18450	20,205	9.51%
Tin	$/tonne	16,075	16,850	4.82%
Zinc	$/tonne	2,130	2,260	6.10%
Gold	$/ounce	1,088	1,118	2.76%
Silver	$/ounce	15.43	16.19	4.93%
Platinum	$/ounce	1510	1529	1.26%
Brent Crude Oil	$/bbl	72.3	77.45	7.12%
Platinum/Gold	Ratio	1.39	1.37	-1.44%

Source: The Times of London

Exchange Rates

The US Dollar. We heard it loud and clear this week as the US currency hit an 8-month high against Sterling at 1.54 and shaded the Euro a cent to 1.35. Reasons not hard to find: inflation down a tad but the driver was the raising of the discount rate on emergency loans from 0.50% to 0.75%. They also lengthened the loan repayment period from overnight to thirty days.

Sterling. Good thing it takes two to tango. Shares Magazine says following its recent fall, it will bounce. Why? It has come down from $1.70 (July 2009) to $1.54 for good reasons. Inflation is rising (we speak of 3.5%), the fiscal deficit is of Greek proportions and quantitative easing has not worked. Yet. Tax revenues are down because manufacturing has not picked up. The looming General Election adds to uncertainty. Don't bet on that bounce before May, perhaps the opposite. It will give a cosmetic glow in the UK accounts of those miners who report in Sterling but earn in dollars. There are many.

The Yuan. The Chinese hanging onto a fixed rate of 6.83 to the dollar does not please the USA. When the world's largest surplus gets into bed with its largest deficit there is bound to be more than pillow talk. Because of its huge domestic appetite, China is the major raw materials importer. These are cheaper when you have a strong currency, particularly one tied to the benchmark for minerals trading. The Chinese have promised to look at it; maybe in March.

Table 5: Exchange Rates Movements

Currency	13 February 2010	20 February 2010	% Change/week
£:$	1.56	1.54	-1.28%
€:£	1.15	1.14	-0.87%
£:SA Rand	12.08	11.84	-1.99%
US$:Aus$	0.88	0.89	1.14%
Br Reale:US$	1.86	1.81	-2.69%
$:€	1.36	1.35	-0.74%
$:SA Rand	7.72	7.68	-0.52%
$:Rupee	46.4	46.31	-0.19%
US$:HK$	7.77	7.77	0.00%
$:Israeli Shekel	3.76	3.78	0.53%
$:Thai Bhatt	33.23	33.19	-0.12%
$:Yuan	6.83	6.83	0.00%

Source: Financial Times

Share Price Movements, Majors

Barrick Gold (ABX.TO C$41; Hi-Lo C$50.53-32.69). The world's largest gold miner is to spin off its African gold interests via a separate IPO to be named **African Barrick Gold** and launched on the LSE. They claim it will start life with a $280m bankroll and 850koz annual production. This is probably a sound economic-political move. In 2010, Barrick is looking for 8Moz, net of Africa at cash costs of US$425-455/oz.

Dividends, or the lack thereof, were the name of the game last week as we noted. The headlong rush for growth by the conglomerates in the past few years has sidelined traditional shareholder values and changed the reasons for buying shares in the first place. There was ever a clinical division between those who bought for growth and those who bought for yield. Once they could also buy bonds for a yield, in the knowledge that the underlying capital value would be maintained. Between shares and bonds lay the yield gap. Now, neither is giving either, almost. But most of the conglomerates have returned to the yield fold, be it every so tiny. **Anglo** did not, last week. But following hostile publicity it says it will later in 2010. It might cover the Christmas turkey, but easy on the port and Stilton. Anglo, as we noted, has a lot of children to support. **Xstrata** is committed to organic growth, it says. So no taking a pop at its rivals. For now.

Impala Platinum (Implats) (FTSE/JSE £16.34p; Hi-Lo £19.26-7.44) has maintained its dividend to give a 1.6% yield on a 19.4 P/E. It has just reported its six months to 31 December 09. That it maintained its dividend against a 76% drop in earnings was in sharp contrast to neighbour Anglo Plats which passed both its interims and final. Speaks of good old fashioned values. The real concern has to be the Zimplats operation in Zimbabwe. It could have significant expansion there but it reasonably wants to know which rulebook is to be applied. **Hold.**

Table 6: Share Price Movements, Majors

Stocks	13 Feb 10	20 Feb 10	% Change	12-mo Hi-Lo	% Above Low
FTSE 100	5,142.45	5,358	4.19%	6364 – 3530	51.78%
Anglo American	2310	2457.5	6.39%	2897 – 906	171.25%
Antofagasta	855.5	892.5	4.32%	1024 – 353	152.83%
BHPB	1,898	2,029	6.90%	1969 – 1025	97.95%
ENRC	938	1034	10.23%	1034 – 295	250.51%
Gem Diamonds	249.3	255	2.29%	282 – 104	145.19%
Hargreaves Services	678	742	9.44%	768 – 415	78.80%
Kazahkmys	1253	1335	6.54%	1498 – 187	613.90%
Rio Tinto	3,206	3,414	6.49%	3638 – 1112	207.01%
UK Coal	52	52	0.00%	164 – 59	-11.86%
Vedanta	2,363	2,554	8.08%	2886 – 193	1,223.32%
Xstrata	1,005	1,087.5	8.21%	2510 – 289	276.30%

Source: Proquote

Share Price Movements, Small and Medium Caps

Table 7: Share Price Movements, Small and Medium Caps

Small Caps	13 Feb 2010	20 Feb 2010	% change
African Consolidated Resources	11.5	10.5	-8.70%
Cape Diamonds	4.25	4.62	8.71%
Cluff Gold	62.25	80	28.51%
Europa Oil & Gas	15.75	15.5	-1.59%
Eurasia Mining	0.72	0.65	-9.72%
Firestone Diamonds	38	38.5	1.32%
Goldplat	10.75	10.25	-4.65%
Gemfields	5.25	5.38	2.48%
Herencia	0.58	0.56	-3.45%
Kalahari	162	176	8.64%
Kopane	13.75	13.25	-3.64%
Kefi Minerals	1.88	1.75	-6.91%
Kryso	10.75	12.0	11.63%
Northern Petroleum	130	136	4.62%
Nyota Minerals	10.25	10.75	4.88%
Petra Diamonds	57	58.5	2.63%
Strategic Nat Res	16.25	16	-1.54%
Toledo Mining	25.0	26	4.00%
Tanzanite One	12.75	11.75	-7.84%
Vatukoula Gold	2.21	2.29	3.62%
Zincox	58.25	56	-3.86%

Source: Proquote

Nyota Minerals (AIM:NYO 10.75p; Hi-Lo 11.5-2.50p) continued its quiet but steady progress as it expands its gold resource in Ethiopia. Continue to accumulate as it builds up to the next announcement.

African Copper (AIM:ACU 6.88p; Hi-Lo 13.0-0.7p) is not short of excitement. Its Mowana, Botswana-based projects. It is in J/V with Zambia's ZCI, from whom it has a $31.3 million loan facility. Botswana learnt a serious lesson in the diamond crash, that mono-product economies (or nearly so) are highly vulnerable. It is probably looking benevolently on non-diamond developments. Let's watch it awhile longer.

Obtala Resources (AIM:OBT 27.50p; Hi-Lo 30.5p-10p). We continue to scrutinise the active junior, spearheaded by the equally active Frank Scolaro. Having taken a firm grip on Lesotho-based diamond miner **Kopane** (AIM) it has examined Tanzania, Sierra Leone and now, reportedly, uranium in Niger. We are reliably advised that this last has no connection with the February 19th coup in that country. **Stay with Both.**

Cluff Gold took pride of place amongst the juniors, rising 28%, on the back of takeover talk. We suspect a North American player.

Energy Minerals

We deal at some length with oil in this week's leader. There are many ways to capitalise on oil's strength, from filling the 4x4 with diesel to a raid on BP. At the practical level, at odds with the minerals industry generally, some of the explorers and their support groups have above-average appeal.

Gemstones

African Consolidated Resources (AIM:AFCR 10.5p; Hi-Lo 18.0-5.0p) deserves our support for its dogged determination to see justice done on its Marange, Zimbabwe diamond deposit. In law, ACR has full title to a rich diamond area. This was upheld by the High Court and judgement in the Appeal Court is going their way. In reality, ACR has been thrown off, the police and army have moved in, illegal miners are counted in thousands and no one knows what happens to the stones (for full details, visit www.afcr.com). The Supreme Court ordered that all diamonds recovered from the Marange claims be delivered to the Reserve Bank. They spoke of 129k carats. At a world average of $50/carat that would be $6.45m, which goes a long way in Zim. It is almost certainly much more. Inexplicably, a high ranking police officer is reported to have seized the diamonds from the RBZ offices . Understandably the Kimberly Process Group is deeply concerned and industry leader Martin Rappaport has resigned from the World Diamond Council in protest. This one has far to go. ACR has other substantial mineral holdings in Zim and would be a significant beneficiary of a return to normality.

DeBeers – and they should know – tell us the diamond market should be back to normal business by end 2010. It reported a drop of 49% production to 24.6m carats in 2009. This should be noted by the industry. In taking 25m carats off the market, almost 15% of world supply, it lessened the pain for many others, particularly the juniors. But it came at a price, both to DeBeers and Anglo in loans and rights issues (see 14 February, Anglo). It is a reminder that big brother has not left home, yet.

Pointers for the week...and beyond

Monday 22 February:	Petra Diamonds Interim Results
Wednesday 24 February:	Rio Tinto Dividend Announcement
	Federal Reserve Chairman Ben Bernanke delivers semi-annual monetary policy report to the US Congress
Thursday 25 February:	EU Consumer Confidence
Friday 26 February:	UK Revised GDP q/q
	US Preliminary GDP q/q
	India's Finance Minister presents 2010-11 Budget

The Watchtower (I tax. Thou taxeth. He taxes. She taxes. We tax. You tax. They tax…)

Those were the days. Except that if you learnt to conjugate, you escaped detention. No more. Now it means that the profligacy of governments necessitates their milking the mining industry dry. Arid even. Taxation transcends economics, politics and the sexual and racial divide. It is indiscriminate. Yet as with all things modern, it seems we have to complicate it. So, you open this mine in Ebagumland and, after a serious investment in money, time and infrastructure, you begin to make profits. It is the single known source of Krypophilite, previously only recovered from meteors. It becomes essential in the manufacture of easy-glide zip fasteners so shoots to an unseemly price level. Enter the tax squad. Here is what you might face:

- A 51% free carried interest in favour of the Ebagumland Government.
- A demand that you pay 100% dividends on your earnings, so they can capitalise.
- Employee payroll tax on the highest level they can get away with.
- Ditto corporate tax.
- A royalty on exports even though they don't use the stuff domestically.
- A levy on all imports even though they produce nothing locally.
- A resource tax on all the Krypophilite you have under licence notwithstanding it represents 500 years' forecast world demand.
- A windfall profits tax (or, as we call it, top slicing) if K. has a price surge.
- No commensurate reclaim if the K market collapses
- A rock-solid guarantee you will be branded a filthy polluter because you are actively digging holes in the ground.

Don't miss next week's exciting instalment….

Meanwhile, here is where we sit globally:

Zimbabwe is having second thoughts about indigenisation (see Gemstones). That can only help. Meanwhile it is encouraging tourism in advance of the World Cup in South Africa. Sadly, it arrested the Mexican journalist who dared enter Zimbabwe to report on it.

South Africa (JZ himself) has refuted statements that mines nationalisation is on the cards.

India registered 7.9% growth in Q209 and forecasts 7.2% for 2010, but its fiscal debt is at 6.0% of GDP whilst inflation flags 7.8%

China goes one better. Growth was 10.7% in Q309, 8.7% for the year. JPM and RBS are looking for 10% in 2010. But have both inflation and the coat tail hanging of the Yuan to consider. See Exchange Rates.

Shares…and Currencies to Watch

Conglomerates. The bounce in metals, the Chinese and Indian growth forecasts and the oil price predictions do nothing to flag sell signals on the involved groups. Likewise oil is set fair. But we cannot expect up to 10% increases on a weekly basis. **Stay** with what you have and **add** on explainable dips.

Nyota Minerals. Add gently. **Cluff Gold. Hold** for a bid.

African Copper. Just keep **watching.**

Obtala Resources, Kopane Diamonds. Add but don't take your eyes away.

African Consolidated Resources. Big (political) risk. Big (potential) reward.

Kalahari Minerals (uranium, Namibia). **Stay** with it. Rio has some investment funds.

Strategic Natural Resources (coal, RSA). This will come good.

The **US Dollar** has it for now, even if only because it is less worse than its competitors. Also its economic indicators look to be set fair.

David Hargreaves
21 February 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.

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.

Stock Rating Distribution
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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