Hargreaves

Week in Mining

10 December 2011

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How Many Forecasters Does it Take to Change a Light Bulb?

Does it signify that Gold seems happy as Larry around $1700/oz, Platinum content to play second violin at 0.8-0.9 discount and silver grin smugly above $30? Surely they won't stay here? So will they diverge? Will they rise or fall in unison? Let's see what they have done in only three years.

Precious Metals Price Movements: 2008-2011

Metal	13 Dec 2008	9 Dec 2011	Change
Gold $/oz	$824	$1717	+108%
Platinum $/oz	$801	$1520	+90%
Silver $/oz	$10.07	$32.30	+221%

Source: The London Times

No complaints, eh? But where to now? Let's look behind the reasons for the rises. No major war threats; the Chinese and Russians are too busy making money. The former are colonising by stealth and the latter enjoying the fruits of covert capitalism. Now the Euro crisis is pretty new, so what gave the precious three their leg up? Why, the US trade deficit, of course. Do you remember that? Strange it doesn't feature any more, is it not?

Now, the EU matters. By GDP, it is 20% of the world's economy. Its player who started the rot, Greece, is but 0.4% of global activity and only 2% of its club. The current Eurozone crisis will be accommodated, surely. If Greece is shown the red card, will the world economy grind to a halt? Will Britain taking its bat home spoil the party? Of course not. It is swallowing nasty medicine time, but the boys and girls are up to it. We have a few anxious weeks, checking temperatures, going to the toilet on time. Then the recovery period. If we come through, will it be necessary for precious metals to stay at these levels? Doubtful. Will they come back to 2008? Why not? Or, at least a measureable retreat. Some physical gold will now become a recommended part of a portfolio, which will help the industry. Miners might be pleased the call for a rerating of shares fell on cloth ears and life might get back to normal. That oil has dropped a couple of dollars might not signify, but we are well into a northern hemisphere winter. There are those still rooting for $50 silver whilst we question its stability at $30. We are facing austerity, but the fear factor is receding. Precious metals prices might well follow suit.

So, how many price forecasters does it take to change a light bulb? None. They form a group called Coping with Darkness.

The Markets

Major Caps

Positioning (oops! – nearly said posturing) continues amongst the large caps. If commodity prices continue to stagnate as they are doing, the war chests will be raided. Acquisitions will become fewer, attitudes will harden towards labour and governmental demands. This is all happening, we simply need to study which feature is getting the most attention. Prices

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were down, except for the copper miners. So, **ENRC** is rightly on the regulator's naughty step. **Rio Tinto** is repositioning its book although not so overtly as **BHPB** whilst **Anglo** is mulling its next diamond move.

Eurasian Natural Resources Corporation (ENRC) does coal, ferro-alloys, iron ore and copper and toils in Kazakhstan and the DRC. At a market cap of c. £9 bn it is at the lower end of the London big board miners but of greater concern is its small free-float, 18.0%, the bulk of its shares being held by its three billionaire oligarch founders. No shrinking violets these. They combined to oust two highly respected non-execs in June, have been accused of unacceptably dirty tricks in the DRC and overt bribery. That won't do in London so the SFO has been called in, allegedly. Miners are used to dirt, but this may stick. Despite ENRC's earnings being on an upward trend, it cannot outperform its sector on a price-earnings basis: ENRC (6.6), Anglo American (10.3), BHPB (7.1), Rio Tinto (6.1), Xstrata (7.8).

Rio Tinto remains the largest of the FT miners at £47 bn market cap but is bemusing us a little with its choice of both minerals and locations. In energy, it remains the 3rd largest uranium producer. As we note further, it has not made a move on Husab, Namibia, despite that being mega, but outbid world Nº 2 Cameco to Canada's Hathor Exploration, an altogether smaller outfit. So do geo-politics count? No sir, Rio is Nº 2 in aluminium production (9.2% world) but is closing units in Australia and the UK on cost grounds whilst sinking $2.7 bn into its Kitimat, BC, Canada smelter where power is cheap but labour problems daunting. Yet before North America gets a tad smug, it has divested a not-small thermal coal mine in Colorado, USA, the Colowyo, even as it beefs up via Riversdale Coal in Mozambique. Rio remains desperately fond of coal, iron ore, copper and aluminium but as yet is not seriously tempted into those rising stars, potash and shale gas. Yet divest it does. Since 2008, it has wiped $11 bn of non-essentials off the slate. Of late, it has warned Australia's Pilbara iron ore miners that they are "too aggressive". We wonder if they know how active Rio is in that mineral in the bulge of Africa?

BHPB continues its deck-clearing apace. The Canadian diamond operations are to go if anyone will have them. Who might? The mooted $0.5 bn-1.0bn price tag would not phase Anglo American, now with DeBeers in its stable, or even Gem Diamonds or ambitious Petra Diamonds if they could find backers. The major thrusts remain in iron ore and potash, but question marks must hang over the under-performing nickel and aluminium.

Anglo American continues to favour coal, particularly the high-priced, coking variety. It has approved the 5Mtpy Grosvenor project in Queensland's Bowen Basin. This will add 50% to Anglo's c. 12 Mtpy output.

Share Price Movements, Majors

Stocks	3 Dec 2011	10 Dec 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5552.29	5529.21	-0.42%	6,002-4,790	15.43%
Anglo American	2471.0	2449	-0.89%	3,335-2,210	10.81%
Antofagasta	1207.3	1228	1.71%	1,556-756	62.43%
BHPB	2000.5	1961	-1.97%	2,585.5-1,678	16.87%
ENRC	674.5	681.47	1.03%	1,276-554	23.01%
Gem Diamonds	194.5	180.3	-7.30%	300-180.3	-0.00%
Glencore International	410.95	404.7	-1.52%	550-348	16.29%
Hargreaves Services	1105.66	1135	2.65%	1,072-550	106.36%
Kazakhmys	856.0	943	10.16%	1,634-793	18.92%
Rio Tinto	3346.5	3245.5	-3.02%	4,592–2,751	17.98%
UK Coal	31.5	31.25	-0.79%	83-30.5	2.46%
Vedanta	1086.0	1112	2.39%	2,958–928	19.83%
Xstrata	1036.0	1011.5	-2.36%	1,514-820	23.23%

Source: The London Times and the FT

Share Price Movements, Small and Medium Caps

Whilst the juniors poured out their usual mixed bag of results during the year, they were almost mostly mauled, primarily for being juniors, not bad performers.

Small Caps Change 2010-2011

Date	FTSE 100	Gold $/oz	Cluff Gold	Firestone Diamonds	Kryso Resources	SNR	Zincox
30 Dec 2010	5791	1048	110	28	17	17	49
9 Dec 2011	5552	1717	78	10	28	13	54
% Change	-7%	+64%	-29%	-64%	+52%	-23%	+6%

Source: The London Times and the FT

Kalahari rose close to its Chinese bid price of 243p (see Energy) in what is an agreed deal.

Anglesey Mining (AYM.L 30.5p; Hi-Lo 94-29p) knows that now its 33% held Labrador Iron Mines in Canada is bedding into production, it must do something with 100% held Parys Mountain in North Wales. Parys is the site of one of the most historic mines in the world. The Cu-Pb-Zn deposit has a historic resource of about 7 million tonnes at over 9% combined metal. An IP survey will determine if a diamond drilling programme will follow, targeting two shallow zones, the Engine and the White Rock. Both could be accessible by a surface decline.

Baobab Resources (BAO.L 14.0p; Hi-Lo 57-10p) has produced an attractive JORC compliant 56Mt resource at Ruoni South in Tete Province, Mozambique. The average grade of 34% indicates a producible concentrate of 62% iron, 0.9% vanadium pentoxied and 8% titanium dioxide. Impurities are low. It adds to the 93Mt at Ruoni North and presents an attractive prospective.

Rockwell Diamonds has sold some beauties (see Gemstones)

European Goldfields (EGUq.L 801.5p; Hi-Lo 1056-525p) powered ahead on confirmation of an approach although no formal offer has been made. The rumour mill has it as Canada's Eldorado Gold Corp. European Gold has a project in Greece and one in Romania plus Turkey's largest mine, Kisladag, targeted to produce 285,000 oz this year and 475,000 oz by 2014. It has another mine in Turkey and mines in China. Definitely worth a look.

Share Price Movements, Small and Medium Caps

	Company	3 Dec 2011	10 Dec 2011	% Change	1 year Hi-Lo	% above low
AFCR	African Consolidated Resources	2.5	2.3	-8.00%	11.75-2.5	0.00%
AXM	Alexander Mining Plc	5.13	5.13	0.00%	17.0-5.0	2.60%
AGQ	Arian Silver Corporation	19.75	17.98	-8.96%	54.25-6.5	176.62%
AAU	Ariana Resources Plc	4.63	4.60	-0.65%	5.25-2.25	104.44%
BEM	Beowulf Mining Plc	16.25	15.98	-1.66%	74.25-3.5	356.57%
CLF	Cluff Gold	80.5	77.5	-3.73%	125.75-64.5	20.16%
CGNR	Conroy Gold and Natural Resources	2.88	2.88	0.00%	12.9-2.75	4.73%
DCP	DiamondCorp	5.25	5.38	2.48%	16.9-5.45	0.00%
DME	Discovery Metals Ltd	86.0	89.5	4.07%	96.0-37.25	140.27%
EUA	Eurasia Mining	0.7	0.7	0.00%	1.75-0.70	0.00%
FDI	Firestone Diamonds	10.88	9.88	-9.19%	36.5-9.88	0.00%
FML	Frontier Mining Limited	3.15	3.10	-1.59%	8.5-3.05	1.64%
GEM	Gemfields	25.75	26.0	0.97%	24.75-3.75	593.33%
GDP	Goldplat	11.63	11.3	-2.84%	13.25-8.0	41.25%
HMB	Hambledon Mining	4.0	4.0	0.00%	8.25-3.12	28.21%
HER	Herencia[3]	2.1	2.07	-1.43%	4.0-0.5	314.00%
KAH	Kalahari	232.0	242.5	4.53%	301-142	70.77%
KDR	Karelian Diamond Resources	1.75	2.0	14.29%	5.25-1.0	100.00%
KEFI	Kefi Minerals	3.0	3.8	26.67%	9.5-0.5	660.00%
KYS	Kryso Resources	28.38	27.98	-1.41%	31.88-12.5	123.84%
MWA	Mwana Africa	4.08	4.08	0.00%	14-3.90	4.62%
NYO	Nyota Minerals	6.83	6.7	-1.90%	30-6.43	4.20%
ORE	Orogen Gold Plc	0.53	0.49	-7.55%	1.62-0.2	145.00%
PDL	Petra Diamonds	126.0	120.0	-4.76%	189-60	100.00%
RLD	Richland Resources	8.88	8.75	-1.46%	16.0-6.5	34.62%
SXX	Sirius Minerals Plc	28.5	29.25	2.63%	22.75-1.25	2240.00%
SNRP	Strategic Natural Resources	13.63	12.88	-5.50%	27.75-8.25	56.12%
TMC	Toledo Mining	22.25	22.85	2.70%	34.25-20.25	12.84%
VGM	Vatukoula Gold	71.5	69.75	-2.45%	227-65.5	6.49%
ZOX	Zincox	54.0	53.5	-0.93%	77-32.25	65.89%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

Metal Stocks in LME Warehouses

Metal	2 Dec 2011	9 Dec 2011	% Change
Aluminium	4,557,650	4,546,050	-0.25%
Copper	386,700	387,400	0.18%
Lead	369,250	363,325	-1.60%
Nickel	91,074	90,348	-0.80%

Tin	12,150	11,905	-2.02%
Zinc	741,350	758,200	2.27%

Source: Mining Journal

Commodity Price Movements

Commodity		2 Dec 2011	9 Dec 2011	% Change
Aluminium	$/tonne	2,103	2,066	-1.76%
Copper	$/tonne	7,800	7,800	0.00%
Lead	$/tonne	2,061	2,092	1.50%
Nickel	$/tonne	17,170	18,320	6.70%
Tin	$/tonne	20,800	20,245	-2.67%
Zinc	$/tonne	2,032	1,985	-2.31%
Gold	$/ounce	1,743	1,717	-1.49%
Silver	$/ounce	32.97	32.30	-2.03%
Platinum	$/ounce	1,568	1,520	-3.06%
Brent Crude Oil	$/bbl	109.3	108.45	-0.78%
Platinum/Gold	Ratio	0.90	0.88	-2.22%

Source: The Times of London

Bulk Minerals

Iron Ore Pricing. We have long advocated a clearing house system for iron ore, based on the LME format. Opponents argue it would be too difficult. So were aluminium and nickel before someone did it. Now the world's largest producer, **Vale SA** of Brazil (24% of world total), is edging closer. It is to base its quarterly contracts on "actual averages" on spot prices, not lagging ones. On that basis, prices will be 20% lower Q4 than Q3 2011, but that's show business. It makes the spot price truly relevant.

Not all is gloom in the largest non-oil bulk market. RMG's Magnus Ericsson remains most positive on a 5-10 year outlook. He stresses that miners must learn to the politics of dealing with places like Guinea and Canada's far north. Yet he is sanguine on price: not much below $100 and $120-130 for the next twenty years. We would have thought that a deterrent to c.30% Fe north of the 54°.

Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt

18 Nov 2011	25 Nov 2011	2 Dec 2011	9 Dec 2011
$147.4	$140.4	$138.8	$139.5

Source: The Steel Index

Precious Metals

Our bearish outlook for the precious into 2012 reinforces what is happening to **platinum**, both shares and metal, particularly in South Africa. The miners made some vulgar profits last year. What did they do with them? Why, paid lip service to dividends, acceded to unsustainable wage demands and embarked on ambitious expansion plans. The two major features of demand, autocatalysts (50%) and jewellery (20%) both look suspect presently. Big names are coming onside with us. Goldman Sachs gets straight to the point: avoid the sector entirely and sell what you have. It looks for the current metal supply surplus to be with us until 2013. It warms more to palladium, because its major supplier, Russia, warns that its long time stockpile is running dry. At $687/oz, Pd is at a 55% discount to Pt. Goldman's sell recommendations include **Amplats, Impala** and **Lonmin.**

The Gold under your bed. Mineweb says (so it must be right) that a report by Macquarie (so it really must be right) tells us Indian households have $950 bn of gold squirreled away. Now at $1700/oz, we make that 17,000 tonnes or twice what the US Fed says it has and 6-5 years world new mined output. Now the Indian government could one day appeal to people's better natures (like the Americans did in 1933, Hitler in 1939 and China maybe soon) and just think what they could do with it. Treat that Rupee with respect, boys and girls, it has some serious backing.

We see precious metals prices under pressure – see the leader.

Minor Metals

Before we bemoan recent price slippages, let us look at movements over only a three-year period, since December 2008. All are up and most have doubled or quadrupled in three years.

Minor Metals									
Minerals	**Unit**	**Dec 2008**	**Dec 2009**	**Dec 2010**	**June 2011**	**Oct 2011**	**25 Nov 2011**	**3 Dec 2011**	**10 Dec 2011**
Antimony	$/t	$4,000	$5,800	$12,000	$17,500	$13,500	$12,800	$12,500	$12,300
Bismuth	$/lb	$7.75	$6.80	$9.00	$11.75	$12.20	$11.60	$11.00	$10.50
Cadmium	$/lb	$0.60	$1.60	$1.65	$1.35	$1.15	$1.15	$1.15	$1.15
Mercury	$/flask	$600	$500	$1,300	$1,600	$1,900	$2,000	$2,000	$2,000
Rutile	$/t	$525	$560	$600	$718	$790	$790	$790	$790
Ilmenite	$/t	$120	$75	$75	$139	$256	$256	$256	$256
Zircon	$/t	$790	$875	$960	$1,303	$2,140	$2,140	$2,140	$2,140
Global Coal Index	-	74.18	68.85	109.90	117.0	109.44	106.32	101.72	102.81

Source: Mining Journal

Demand has gone up as end uses expand, but the major reason is found in China. Western producers slackened off when prices were low, relying on Chinese exports. Now that country is using more internally. It now rates in world order: cobalt Nº 3, gallium Nº 1, lithium Nº 3, manganese Nº 1, molybdenum Nº 1, titanium Nº 4, tungsten Nº 1, vanadium Nº 1, rare earths Nº 1. The USA calls shock-horror about its growing strategic dependency, but does little to encourage domestic output for the most part.

Exchange Rates

No, non, nein. British PM David Cameron's veto of a European face-saving treaty at the EU meeting in Brussels created a lot of news flow, but did not phase exchange rates much. The US dollar stayed steady against the Euro, moved up against the commodity currencies of Australia, Brazil and India and went to bed early on Friday night. Much pressure falls on Mr Draghi, President of the ECB which can alone print Euro money. A rating agency might downgrade France and Greece may be thrown out of the Club. Survival of the world and its long term economy is not in doubt. There will be no runaway market or minerals upsides but there is some fat left on the cow. Standard & Poors will be working right up to Christmas eve.

Exchange Rate Movements			
Currency	**3 Dec 2011**	**10 Dec 2011**	**% Change**
£:US$	1.57	1.56	-0.64%
£:€	1.16	1.17	0.86%
£:SA Rand	12.69	12.70	0.08%
US$:Aus$	0.98	0.98	0.00%
£:Aus$	1.53	1.54	0.65%
US$:Br Reale	1.79	1.81	1.12%
US$:C$	1.02	1.02	0.00%
US$:€	0.74	0.75	1.35%
US$:SA Rand	8.09	8.13	0.49%
US$:Rupee	51.46	52.03	1.11%
US$:HK$	7.77	7.78	0.13%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.74	3.77	0.80%
US$:Japanese Yen	77.71	77.62	-0.12%
US$:Thai Bhatt	30.90	30.55	-1.13%
US$:Yuan	6.36	6.36	-0.64%

Source: Financial Times

Energy

Nuclear power struggles, where sits Rio? And climate change? And where will the coal come from?

The climate change conference in Durban, South Africa may have proven but an expensive route to a suntan for those who did not arrive with one. The belief that human behaviour affects climate is losing credibility, its impact being increasingly political and profit motivated. That much greater changes than now took place before people walked the planet is recorded. We speak ominously of changes in the past 50 years, when we can pinpoint events in the previous 50,000 and 5 million. Yet those who do buy into it divide into the ones that can afford to go green and the ones that cannot. Then, like those exasperating recorded calls, we have two further choices: Those who will and those who won't. The possibility of legislating amongst the 200-odd energy consuming nations does not exist; in any case, only a handful count.

World Energy Consumption (Mtoe) by Type 2010

Country	Oil	Natural Gas	Coal	Nuclear	Renewables	Total
USA	833	588	496	190	34	2286
China	388	81	1557	16	7	2432
Russia	135	351	92	37	1	691
India	151	46	251	4	5	524
Japan	199	79	109	65	5	501
Germany	114	70	72	31	17	320
South Korea	103	31	69	33	1	255
France	88	38	10	93	3	252
Iran	85	118	1	--	--	212
Saudi Arabia	117	71	--	--	--	201
World (%)	3909 (33)	2662 (22)	3306 (28)	614 (5)	137 (1)	12,000

Sources: BP, Deutsche Bank

Behind these figures lie the realities of growth, particularly in China and India. GDP and energy consumption go hand-in-hand, on a minor exponential, upward curve. The forecasts for 2016—five years only away – tell an unrelenting tale:

GEP and Coal Usage Comparison and forecasts

	GDP ($\$x10^{12}$)			Coal Usage (Mt)		
	2011	2016 (f)	% increase	2011	2016	% Increase
World	78.3	105.5	+35	3306	4463	+35
China	11.1	19.0	+70	1557	2047	+70
India	4.4	7.1	+60	251	402	+60
USA	15.2	18.8	+24	496	615	+24

Source: World Bank and BP

On this premise we expect the demand for coal to increase in the five-year period 2011-2016 by 35% (4.5% per year) worldwide but much more so in developing countries. The correlation is reasonable:

Country	% World GDP	% World Energy Use
USA	19.0	19.0
EU	19.9	14.4
China	14.0	20.0
India	5.6	4.4

Source: World Bank and BP

In this short but critical five-year time frame, it will not be possible, let alone commercially expedient for the major users to alter their patterns of consumption. For nuclear power in particular the timescale from debating, to deciding, to financing to commissioning can be measured in decades, not years. In the ten years 2000-2010 increases in demand by fuel type were:

Percentage Increases in Demand by Fuel Type 2000-2010

Coal: 59% Natural Gas: 30% Oil: 14% Nuclear: 7%

All this was before the Fukushima disaster, Germany's decision to phase out nuclear, China's obvious lack of appetite and the USA not buying further into the concert party.

So to uranium? The show will go on, but the attitude of the majors to developments will be decisive. The spot market like that for iron ore, is incisive and shows no desire to return to the heady days of 2007 (only four years ago). The majors are ambivalent. It surprised that Rio Tinto showed no further appetite for either **Extract Resources** or its 43% shareholding in **Kalahari** as the major Husab deposit came back on the block. Yet Rio saw off its near rival in the U_3O_8 mining stakes. **Cameco** in the bidding war for the smaller **Hawthor Exploration** in Canada. It is hard to propose a geo political move here. The Husab is a mega deposit next to Rio's ageing Rossing Mine and Rio is tucking into Mozambique. Curiouser and couriouser.

It looks like, at long last, **Kalahari** (See Major Caps) will fall to the renewed bid from China's CGNPC and its offer of 243p per share, all cash, compared with its previous, pre-Fukushima 290p offer. Now this still leaves **Extract** as the majority in Husab. The company is held 15% by Rio Tinto and 10% by **Polo Resources** (POLO.L 3.10p; Hi-Lo 6.25-2.75p). There is still life in this dog. At a planned 15Mlb (6800t) per year it will double Namibia's output to consolidate the country as Nº 3 world producer and the company as Nº 4.

Countries

Spot Uranium Price, \$/lb U_3O_8						
31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 2010	26 Nov 2011	3 Dec 2011	10 Dec 2011
\$90.00	\$53.00	\$44.00	\$66.00	\$52.25	\$51.75	\$52.75

Source: Mining Journal

Gemstones

No commodity is untouched by the economic turmoil around us; gemstones least of all. These differ in two critical respects from their fellow travellers, precious and base metals. They are highly seasonal (and now is the season) and do not have a ready buy-sell mechanism. The spread on cash copper last week was \$7800-7805. So. Nothing. On a 15-month contract, it was less than 1% on the spread. On a similar trade in diamonds you would be in the lions den. Valuation is an exacting process so the best we can do is sniff out the long term trends. There are some presently.

We only have a handful of quoted companies remotely considered big league who are exclusively in gemstones. Each has suffered in a market in which diamond prices have gyrated wildly.

Share Price Movement Junior Diamond Companies 2010-2011				
Date	**Gem Diamonds**	**Petra**	**Firestone**	**Karelian**
30 Dec 2010	257	129	31.2	4.2
9 Dec 2011	180	120	9.9	2.0
Hi-Lo	300-180	189-60	36.5-9.9	5.30-1.0
Change on Year price %	(30)	(7)	(68)	(52)
Change on Hi-Lo %	(40)	(68)	(73)	(81)

Source: The London Times and FT

It has prompted changes such as:

BHPB selling its Canadian mines, Ekati and Chidliak, if a buyer can be found.

Gem Diamonds (See Major Caps) pondering the future of its major Ellendale, Australia mine. Gem is consolidating in Lesotho and Botswana. Here it has high quality production. This trend is being followed as the top end of the market in stones has been more resilient than the mass.

Petra Diamonds (AIM) is now moving up to the main board in London but also consolidating its ex-DeBeers purchases of deep, established mines in South African and Tanzania. To underscore its commitment to the deep Finsch Mine in RSA, it has negotiated a \$48 million debt facility including a revolving credit line of \$36M and a working capital facility of \$12M. The plan remains to target the Petra group to 5Mcpy by end 2019.

Lucara Diamonds (LUC.TO C\$0.84; Hi-Lo C\$1.44-0.75) bought the cobweb-growing AK6 pipe in Botswana for C\$82M from long-struggling AIM listed African Diamonds in 2010 and has at last propelled it close to production. With the deal also came 75% of the Mothae Mine in Lesotho. Both are good corporate addresses. AK6 is expected to start production in Q2 2012. Like fellow miner Firestone (see below) it will put some production onto the open tender is Gabarone. Target first year production output is 400,000 carats. The exploration and development spend saw Lucara's losses increase 73% to \$5.5M in Q3 2012. Cash and equivalents are \$707M and working capital \$63.4M. So it can comfortably see itself through to production. If the world economy allows India and China to maintain their grown trajectory, this one will motor. Lucara is part of the not-shy Lundin Group.

Firestone Diamonds (See Small Caps) is not short on newsflow, concentrates on the safe havens of Lesotho and Botswana but cannot, in an attritional market, get any fire under its share price. It has just completed its fourth tender of 2011 in Botswana, where it operates the BK11 Mine and included stones from its Liqhobong, Lesotho Mine. Results were a gross \$2.3M from a total 47,567 carats at an average \$95/ct for Lesotho and \$180/ct for Botswana. The company noted full sales, compared with the disappointment of the previous tender, but notes prices have fallen 30% from their July 2011 highs.

The Democratic Republic of the Congo (DRC) matters to the diamond market. It nominally supplies c. 10% of the world output but reporting is poor, cross border smuggling rife and corruption endemic. That apart, you can get by. It is one of the major reasons the Kimberley Process exists and, heaven preserve us, is Chair of that watchdog this year. The DRC has just held presidential elections. Its return of incumbent Laurent Kabila is not seen by all as having been straightforward. They have an African way expressing disapproval there.

Thus the Beleaguered KP. It endorsed exports from Zimbabwe, which delighted the entrenching Chinese whilst invoking the wrath of others. The Rappaport Group has made its feelings public and has outlawed Zim supplies. Global Witness, no less, has pulled out of the KP, citing breaches by Cote d'Ivoire, Venezuela and Zim as primary causes. None of this will stop rejoicing in the streets of Beijing. The Chinese firm, **Anjin Investments**, is reported to have stockpiled 2 million carats there and has started to sell. The buyers have not been disclosed. The US has apparently compromised on its stance over Zim diamonds, so is there really anything left for the KP to do?

To Something Lighter: Rockwell Diamonds (RDI.TO C$0.56; Hi-Lo C$1.05-0.38) saw a 32.55 ct whopper from its Saxendrift, RSA mine make $232,000/ct. It was one of a pair of D-flawless cut from a 105.53 ct piece of rough found in 2009 and sold under an agreement with the Steinmetz Diamond Group, an arrangement which clearly works.

The sector has been well sold down. Already the survivors are emerging but there is more to come. Not to be confused with the coloured stone industry which is beginning to rationalise.

Countries

This column has been known to argue for the short term merits of dictatorship. There is a time when it can produce more concrete results than the alternative, which is usually democracy. This is particularly so when a country has universal suffrage thrust down its throat for the first time and in a hurry. The battle is, in any event, invariably worn by a former overlord. He carries on for this first term as if nothing has changed then puts the bulk of his efforts into ensuring it doesn't. Every four years we have party rallies, handouts and not usually a dose of intimidation. Thus we are just congratulating ourselves that Iraq and Libya are becoming OK places when we find Egypt, Syria and Russia in the melting pot. Always tricky dealing with someone who will not accept that the game is up. We speak not of Uncle Bob, recently defrosted to secure the ZANU-PF nomination for another term as president of Zim. Just think what he will do with his newly legitimised diamond wealth particularly amongst 18-year-olds voting for the first time.

The link between civil unrest and the ability to afford that luxury is undeniable. So is the link to minerals. Agriculturally based economies tend not to go to war – with themselves or their neighbours – because they cannot afford it. With this in mind, our leader noted last week the likely hotspots. But a week is a long time in mining. In just a few days we have had:

- **Russia** blaming the USA for its post-electoral unrest. Flashpoint: the FSU ships 37Mtpy of oil to America, only 7% of its needs, but if the Middle East had a mini-meltdown? It does it similar favours with aluminium and zinc.
- **Peru** (silver, copper, gold) declaring a state of emergency because of riots over more pollution.
- **South Africa's** October mining production falling 12.7% year-on-year through labour unrest, power shortages and safety-related stoppages.
- **Zambia** trying to disguise its windfall profits tax as an increase in export royalties, which they will "lower, if copper prices drop." If we are green, fellahs, it's because we have been lying in the grass.

Then, last but not least, **Climate Change.** The world and his polar bear have extended their stay at the conference in Durban, South Africa because they cannot agree **what** to change or **how** to change it. They know **when** it should change because the existing Kyoto agreement runs out in 2012. If you must overstay your welcome, why not in RSA in the height of summer? One wonders if they might have got round to something earlier if they had had their deliberations on an ice floe in Northern Greenland. As we note under Energy, the chances of getting anything to stick are as distant as the South Pole. Major polluters USA, China and India (over 60% of the total) will not come to the party. Another twist, too: developing countries would love to comply, but cannot afford it, so the rich ones will have to help them out. Britain's share is mooted at £6 billions. Look, the rest of you, don't try to frighten us, just because we have more ex-colonies to prop up than the rest of you combined. The EU is tickling us for $100 billion to support a currency to which we do not even belong. The last time we were this scared was then Ronald Reagan put his arm around Margaret Thatcher.

Forward Diary

23 December 2011:	Bank Holiday Japan
26 December 2011:	Bank Holiday US, Germany, Italy and UK
27 December 2011:	Bank Holiday UK

David Hargreaves
10 December 2011

Would you or any of your colleagues like to receive a trial copy of "The Week in Mining"? It is beamed into your home each Sunday evening updating you on the mining markets with a mixture of mischief, humour and interpretation that is its established hallmark.

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