Hargreaves

Week in Mining

15 October 2011

The Difference between a Recession and a Depression

What's a recession, granddad?

It's a temporary drawing back, son. Comes from the Latin word, 'recessio'. In our context, it means the man next door has lost his job.

How did that happen?

Well, he worked at the platinum mine down the road and those nasty foreigners who own it have closed it down.

Why?

They tell us that our costs are too high and the Chinese and Indians are not building as many motor cars as they planned. So the metal price is falling.

Why does that matter?

Because most of our platinum is used in cars, to stop the exhausts smelling.

So why are they not building as many cars?

Because it's a recession. Vicious circle, you see, but if you're not careful, that argument ends with you staring up your own orifice. In a recession, my boy, the price of things falls, even platinum. So if the price going down meets the costs coming up, you have a right mess.

So, why did the costs go up?

Well you see, son, platinum mines are deep, dangerous and employ a lot of people. So wages are the biggest cost factor. We thought we had the bosses on the run only a year ago. The metal was heading for $2000 an ounce – that's enough to buy a car in Rustenberg – and the union man said we had them by the unmentionables.

So, what did you do?

Well, we looked at inflation being under 4%, so thought we would ask for 14% more. The man said they were bound to offer us 7% and still think they had won. Very clever is our head union person; he's been to America, you know. But he still gets paid when the mine closes.

So, what did they do?

Caved in, can you believe it! They gave us 10% per year guaranteed for two years. Then, for good measure, they threw in travelling allowances, washing-up time and carpets on the floor of the shift bosses offices.

So, what did you do next?

Why, threw a big party, of course, and agreed we had taught those nasty foreigners a lesson. The union man said we must start preparing for the next round of negotiations when we would really sock it to them.

Then what happened?

Well, came the recession so they closed the mine down. Only temporarily, they said. But it takes six months for mealies to grow and the lads are getting hungry.

So, are you getting hungry, too?

Well, not quite. You see, I am the pump attendant and they need to keep the place dry for if and when it opens up again.

So, you still get your wages?

Yes, but the union says I should put them into the fund, to help all the others.

And, have you?

No. I told them to off and they have threatened to burn my house down.

So what's a depression, then granddad?

Ah. That's when I lose my job. Night night.

Night night, granddad. I want to grow up to be as smart as you, or one of those nasty foreigners.

The Markets

A better week all round as the pound and Euro rallied against the dollar on a more bullish outlook for the debt crisis. October 23 is the Euro Summit when the plans will be announced. Sackcloth and ashes (made in China of course) are being distributed by Oxfam. The banks will be shored up and there will be more QE. On the concrete side was good US retail sales data. So Brent Crude, the world oil marker, rose 8.5% on the week to $115/bbl and the miners, too, nudged ahead. Paradise may have been postponed, but this is purgatory, not hell. Not yet. So we ponder if there will or won't be a double-dip recession. It explains why commodities are favoured over stocks, does it not?

Major Caps

The big boys not only held their ground as shown, but mostly nudged ahead. They were helped by mineral prices stabilising but each had its reasons: **Glencore** was racing away until Friday when it suffered a 3% (13p) fall to end the week level, still a long reach from its earlier market launch at 530p. The fall is attributed to hedge funds selling the company's shares, to buy its convertible bonds, £111M put on the block by Goldman Sachs. These can be swapped for shares. There is also play in the revival of the rumour that Glencore will bid for **Xstrata**, in which it already holds 32%. The latter's shares bounded 7% on the week, but are still below their 12-month high.

Rio Tinto moved up a not-inconsiderable 6% on the back of its Q3 results. Steady-as-you go CEO Tom Albanese tells us he is mindful of the thin ice out there but delivers new quarterly records for:

> *Iron Ore*: 64Mt (up 5%), year to date is 179Mt, up 3% on last year.
>
> *Hard Coking Coal* was a record 2.77Mt (+14% on like 2010) despite the Queensland floods. *Semi-Soft Coking Coal* was up 57% at 0.73Mt. Total coal output (Rio attainable shares) from Australia targets 29Mt for the year. Copper output is treading the proverbial, with lower grade at its major mines, Kennecott, USA and Escondida, Chile. A rebound is not expected until H2 2012 and into 2013.
>
> For full 2011 Rio expects mined *copper* output of 522,000t and refined 337,000t. As reported, the company has stepped up to its allowed 49% of Ivanhoe Mines, now developing one of the world's great untouched ore bodies in Mongolia, the Oyu Tolgoi. This should put 500,000 tpy copper and 650,000 oz gold on the table per annum in the first 10 years, starting 2013.

Curiouser. We bore on the subject of Rio and Implats being vital to Zimbabwe's hopes of a national salvation via the mining industry. No apologies. Thus Impala, never mind this 51% business, has agreed to turn over 10% of its Zim units to 'locals'. No bets ahead of time on their identities, please. No word on what happens to the remaining demanded 41%. Similarly, Rio has apparently put in an acceptable plan for its Murowa Diamond Mine, but a deafening lack of details. Doesn't make you want to reach for your cheque book now, does it? The Zim State media says Rio has agreed to cede 51%. Let's believe it when we hear it from Tom A.

ENRC, at £8bn ($13bn) market cap. is just about in the premier league but can still afford the $650M it is paying its founder shareholders for the 75% shares in Kazakh Coal Mine's Shubarkol Komirit does not already own. This is cheap and cheerful thermal coal which will supply ENRC's local operations. ENRC acquired its 25% for $200M in 2009 with an option on the balance. Output is about 6Mtpy which works out at a cost of about $140 per tonne of production. That is not expensive.

Back to the Big League. **BHPB**'s Olympic Dam mine in South Australia could bid for being the world's largest, doing uranium, copper and gold. The company has allotted $1.2bn for what amounts to a prefeasibility study and works that will eventually see copper output at 750,000 tpy from today's 150,000. A 320km pipeline will bring process sea water to the site and presumably back again. Uranium production will rise commensurately, from a current 4,000 to 19,000 tpy. Mine life could be 100 years.

Share Price Movements, Majors

Stocks	8 Oct 2011	15 Oct 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5303.4	5466	3.07%	6,002-4,790	14.11%
Anglo American	2330.0	2361.5	1.35%	3,335-2,210	6.86%
Antofagasta	1063.0	1118.0	5.17%	1,556-756	47.88%
BHPB	1867.5	1947.0	4.26%	2,585.5-1,678	16.03%
ENRC	629.0	662.5	5.33%	1,276-554	19.58%
Gem Diamonds	202.0	198.0	-1.98%	300-182	8.79%
Glencore International	422.0	422.5	0.12%	550-348	21.41%
Hargreaves Services	1020.0	1080.0	5.88%	1,072-550	96.36%
Kazakhmys	857.5	900.0	4.96%	1,634-793	13.49%
Rio Tinto	3164.0	3345.5	5.74%	4,592–2,751	21.61%
UK Coal	38.0	34.75	-8.55%	83-32	8.59%
Vedanta	1160.0	1213.0	4.57%	2,958–1,101	10.17%
Xstrata	910.0	974.1	7.04%	1,514-820	18.68%

Source: The London Times and the FT

Share Price Movements, Small and Medium Caps

Out in front was **Beowulf** (BEM.L 35.62p, up 11.6p, 48%; Hi-Lo 74.25-3.5p) propelled by its latest economic study of its two iron ore projects in Sweden. These are low grade magnetite, which will have to be concentrated on site. Indicated costs are at the lower end of the scale in an investment. Friendly country, well placed to supply Europe's near 100Mtpy appetite.

Nyota Minerals flies the flag for Ethiopia in that country's efforts to establish a mining presence in a tough part of North Africa. It has plugged away at its main Tulu Kapi prospect in the west and has now reported on its outlying blocks, 100km north. It has outlined a suite of targets and describes them as "drill ready". It has a rig, too. This is a solidly managed company whose persistence should pay.

Red Rock Resources (RRR.L 5p, N/C; Hi-Lo 16.5-4.75p). The grades at the Migori, Kenya Au & Ag target look quite promising at 11.65g/t and 33.5 g/t respectively. But they have only blocked out 1.286 Mt of ore and need to double that to justify a mine there.

The Diamond Market continues to give us nightmares. Wholesale demand is weak as we see the window closing for the important Christmas sales. Shudder what we expect across the retail counter.

Yet the smaller cap shares have put on a brave face, mostly, **Firestone**, with good addresses in Botswana and Lesotho, held steady at 14.5p (up 5%). **DiamondCorp** is committed to its sizeable underground development of the Lace Mine in South Africa. Grades, sizes and qualities should be excellent. It will need further capital in a tough market but we think it should get it. The stock nudged up 3% on the week to 8.12p on AIM. **Gemfields** (Emeralds in Zambia and rubies in Mozambique) has turned in a great set of results as we recently reported and is broadening its gem base. It moved up a further 10% to 22.12p, approaching its annual high. **Petra Diamonds** now fully in control of the major, ex De Beers, Finsch Mine in RSA, has its sights on 5Mcpy production and a place at the high table, FTSE. It improved 4.7% on the week to 122.25p.

The Gold juniors held well, in line with the improved bullion price. **Vatukoula** (Fiji) may have found persistence pays off. Even as the gold price rocketed, V bit the bullet, redeveloped its underground and carried on exploring. The new zone, imaginatively called the Baron d'Este has turned up 124.7g/t over 0.46m and 33.6g/t or 2.86m. We have stuck with V since its brave decisions and continue to do so.

Share Price Movements, Small and Medium Caps

	Company	8 Oct 2011	15 Oct 2011	% Change	1 year Hi-Lo	% above low
AAU	Ariana Resources Plc	4.12	4.38	6.31%	5.25-2.25	94.67%
AFCR	African Consolidated Resources	3.25	3.12	-4.00%	11.75-3.25	-4.00%
AGQ	Arian Silver Corporation	20.25	24.62	21.58%	54.25-6.5	278.77%
AXM	Alexander Mining Plc	5.0	5.25	5.00%	17.0-5.0	5.00%
BEM	Beowulf Mining Plc	24.0	35.62	48.42%	74.25-3.5	917.71%

CGNR	Conroy Gold and Natural Resources	2.75	3.0	9.09%	12.9-2.75	9.09%
CLF	Cluff Gold	88.75	89.0	0.28%	125.75-64.5	37.98%
DCP	Diamondcorp	7.88	8.12	3.05%	16.9-7.88	3.05%
DME	Discovery Metals Ltd	86.0	88.75	3.20%	96.0-37.25	138.26%
EUA	Eurasia Mining	0.95	0.82	-13.68%	1.75-0.75	9.33%
FDI	Firestone Diamonds	13.75	14.5	5.45%	36.5-22.25	7.41%
FML	Frontier Mining Limited	3.17	3.42	7.89%	8.5-3.05	14.77%
GDP	Goldplat	10.88	11.25	3.40%	13.25-8.0	40.63%
GEM	Gemfields	20.12	22.12	9.94%	24.75-3.75	489.87%
HER	Herencia[3]	1.68	2.0	19.05%	4.0-0.5	300.00%
HMB	Hambledon Mining	3.12	3.62	16.03%	8.25-3.12	16.03%
KAH	Kalahari	246.0	248.5	1.02%	301-142	75.00%
KDR	Karelian Diamond Resources	2.38	2.38	0.00%	5.25-1.0	5.78%
KEFI	Kefi Minerals	3.10	2.88	-7.10%	9.5-0.5	476.00%
KYS	Kryso Resources	17.38	18.0	3.57%	19.5-12.5	44.00%
MWA	Mwana Africa	3.98	3.99	0.25%	14-3.98	0.25%
NYO	Nyota Minerals	7.40	8.11	9.59%	30-7.4	9.59%
ORE	Orogen Gold Plc	0.72	0.65	-9.72%	1.62-0.2	225.00%
PDL	Petra Diamonds	116.75	122.25	4.71%	189-60	103.75%
RLD	Richland Resources	9.38	9.12	-2.77%	16.0-6.5	40.31%
SNRP	Strategic Natural Resources	15.12	16.0	5.82%	27.75-8.25	93.94%
SXX	Sirius Minerals Plc	10.25	11.0	7.32%	20.75-1.25	780.00%
TMC	Toledo Mining	21.25	21.88	2.96%	34.25-20.25	8.05%
VGM	Vatukoula Gold	80.5	89.0	10.56%	227-82.0	15.96%
ZOX	Zincox	55.0	55.38	0.69%	77-32.25	71.72%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

Whilst copper continues to take centre stage, the rumble in the jungle is for nickel. Two opposing forces as ever: the price is under pressure which may lead to the closure of marginal units and a slowdown of exploration. Then will follow a shortage and the price will go back up. The market can handle it but the companies cannot. Of late however, a contradictory picture: Warehouse stocks down, metal prices down, share prices down further.

Movement of Share Prices, Metal Prices, Stocks, Nickel. Oct 10-Oct 11.

	14 Oct 2010	14 Oct 2011	% Change
Nickel ($/tonne)	22,453	18,850	(17)%
European Nickel (t)	0.36	0.15	(58)%
Minara Resources (A$)	0.80	0.87	9%
Norilsk (US $)	17.98	212.00	18%
Sherritt (C$)	7.93	4.25	(40)%
Stocks (t)	124.176	91,020	(27)%

Source: Mining Journal

Norilsk – the world's largest nickel producer so it should know – says about 10% of the involved companies are losing money at $18000 – 18500 per tonne. The metal has fallen 30%, since the start of the year. About 30,000 tonnes could be lost in Q4, rising to 100,000 tonnes in 2012 unless prices rebound.

Copper. OECD growth figure forecasts are gloomy, backed by actuals showing all percentages negative across June-August from 0.9 in the OECD area to 6.7 for Brazil and even 1.3 for China. This prompts the more-right-than-wrong Simon Hunt to turn seriously bearish on copper, pointing out that China cannot save us this time as it did in 2008.

Metal Stocks in LME Warehouses

Metal	7 Oct 2011	14 Oct 2011	% Change
Aluminium	4,548,725	4,551,675	0.06%
Copper	467,100	453,100	-3.00%
Lead	380,400	388,325	2.08%
Nickel	94,266	91,020	-3.44%
Tin	20,290	19,035	-6.19%
Zinc	807,925	798,885	-1.12%

Source: Mining Journal

Commodity Price Movements				
Commodity		**7 Oct 2011**	**14 Oct 2011**	**% Change**
Aluminium	$/tonne	2,176	2,170	-0.28%
Copper	$/tonne	7,249	7,500	3.46%
Lead	$/tonne	1,945	2,007	3.19%
Nickel	$/tonne	18,705	18,850	0.78%
Tin	$/tonne	22,715	22,045	-2.95%
Zinc	$/tonne	1,845	1,901	3.04%
Gold	$/ounce	1,640	1,673	2.01%
Silver	$/ounce	31.5	31.97	1.49%
Platinum	$/ounce	1,505	1,550	2.99%
Brent Crude Oil	$/bbl	106.7	114.9	7.69%
Platinum/Gold	Ratio	0.92	0.926	0.65%

Source: The Times of London

Bulk Minerals

Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt			
23 Sept 2011	**30 Sept 2011**	**7 Oct 2011**	**14 Oct 2011**
$174.1	$171.3	$170.0	157.5

Source: The Steel Index

Spot iron ore continues to fall, mostly on lower Chinese offtake, but it puts the spotlight on India, whose burgeoning domestic smelting industry is short of local supplies. India ships a lot of its home-produced ore to China so to curtail this, it is considering upping export duties to 30%. That is hefty. Curious, too, because India has a domestic surplus of iron ore production over steel. Now there is a court-driven ban on mining activities in Kamataka State, which produces almost 25% of the country's steel and 20% of its iron ore output. India is the world's 3rd largest exporter, much to China, Japan, South Korea and Singapore, a total of 100Mtpy or half the output of over 200Mt.

Precious Metals

Platinum continues to tread water. This is the price pattern since the heady days:

Spot Platinum Price, $/oz								
2007	**2008**	**2009**	**2010**	**January 2011**	**March 2011**	**June 2011**	**August 2011**	**October 2011**
$1304	$1576	$1205	$1611	$1735	$1846	$1818	$1850	$1550
% Change	+21%	-23%	+34%	+8%	+6%	+1%	+2%	-16%

Source: Johnson Matthey

It prompted those engaged in South Africa, which produces most of all Pt, to make overgenerous wage settlements, even as it embarked on over-ambitious M&A and expansion activity in the Bushveld. It is coming home to roost. Yet Implats has fallen in line with its competitors by conceding wage increases at 8% - 10% per year for the next two years, more than twice the rate of inflation. Suicide is no longer a crime, but it is messy and even at the current Pt price, we hear it for the marginal cost of production. Northam Platinum is still to settle.

China goes for slot machines. China has followed the USA, Germany, Italy and the UAE, in putting in ATM machines to dispense bullion and gold coins. Both cards and cash can be used for payment. Being a nation of 1.5 billion people partial to the real thing, the planned 2000 machines may not be enough. They have not yet got round to a buy-back facility, but they will.

Egypt has done gold since the Pharaohs but its first modern mine of consequence, **Centamin** (CEY.L 100.7p; Hi-Lo 202.8-87.45p) is on track towards a 200,000 oz yr target. We remain intrigued by the country's no-tax or royalties but 50% of the equity-policy. It will be interesting to compare Centamin's earnings and market ratings with its competitors. Beats Zim and Angola.

Exchange Rates

Exchange Rate Movements			
Currency	**8 October 2011**	**15 October 2011**	**% Change**
£:US$	1.56	1.58	1.28%
£:€	1.16	1.14	-1.72%
£:SA Rand	12.29	12.42	1.06%

US$:Aus$	1.02	0.97	-4.90%
£:Aus$	1.59	1.53	-3.77%
US$:Br Reale	1.76	1.74	-1.14%
US$:C$	1.03	1.01	-1.94%
US$:€	0.74	0.72	-2.70%
US$:SA Rand	7.87	7.87	0.00%
US$:Rupee	49.16	49.02	-0.28%
US$:HK$	7.78	7.78	0.00%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.70	3.66	-1.08%
US$:Japanese Yen	76.76	77.37	0.79%
US$:Thai Bhatt	30.99	30.78	-0.68%
US$:Yuan	6.39	6.38	1.28%

Source: Financial Times

Energy

Paladin Puts a Brave Face on Uranium. The bulking-up miner says U_3O_8 is moving into a tight supply situation and that Fukushima can be only a short-term negative impact. Well it sure impacted Germany (5% of world nuclear output) and Switzerland which are getting out of it. The spot price is $53/lb down from $73 in February 2011 and consumption is back at its 2002 level. Meanwhile there is no shortage of new discoveries. Still, God loves a trier.

Kalahari Resources. The rumour we spread last week about China's returning to bid for the company with a major interest in Namibian uranium (via 43% of Extract, the developer of the giant Husab deposit) looks clearer by the day. Now we need to know a price. The last one was 290p. K crept up to 248.5p in anticipation. So there is a potential 40p upside on a bid and Niagara Falls on a lack of one. The only other contender we sniff would be Rio Tinto, Husab's neighbour at Rossing. Don't expect miracles. The world's biggest miner is being canny with its money. There is even a rumour about a new tartan, the Rio Tinto. It's a very small check.

Spot Uranium Price, \$/lb U_3O_8

31 Dec 09	31 Dec 2010	23 Sept 2011	30 Sept 2011	7 Oct 2011	14 Oct 2011
$44.0	$66.0	$54.0	$52.5	$52.75*	$52.75

Source: Mining Journal

*We apologise for last week's misprint. The uranium price was not $72.75, but as corrected.

Gemstones

A ruby, carat-for-carat, commands a higher price than an equivalent diamond. Its marketing attributes standout: a hardness second only to diamonds a single colour, red; few mined sources and a long and romantic history. Further, the mother-country, Burma, is blacked internationally because of human rights abuses. This makes non-Burmese sources much sought-after. But every tail has a sting. I buy a ruby in Burma but get that lovely man in Vietnam or Thailand to sanitise it with a false origin certificate. How can this be avoided? By purchasing from a guaranteed non-Burmese source. These are on the block:

- Nyala Mines, of Malawi, privately owned but its stones distributed by Columbia Gem House of the USA and Fair Trade Gemstones of UK
- A developing deposit in Mozambique, owned by Gemfields (GEM.L 22.13p; Hi-Lo27.75-9p)
- The Aappalattoq ruby/pink sapphire deposit in Greenland of True North Gems (TGX.V CA$.11; Hi-Lo CR0.19-0.09) which is moving towards production.

World Luxury Goods Sales are broadly calculated at $250 billion. Now China's Commerce Ministry announces a 17% jump year-on-year in retail sales to £109 billion, or over 40% of the total. It sounds a bit rich. India is not to be left behind, despite its GDP being only one fifth that of China. Its luxury goods sector grew 20% y-o-y at a reported $5.8 billion.

Let's hope Rockwell (RDI.TO C$0.67; Hi-Lo C$1.05-0.38) has got it right. It has completed the R33.5M ($4.28M) acquisition of the Tirisano Mine in South Africa's Northern Cape Province. The company specialises in the production of high value stones from its open pit operations. It ended Q2 of 2011-12 with a net profit of C$1.2M on sales revenues of C$9.2M, underpinned by an average price of $2186/ct and, it has cash of C$14.4M. The company, too, finds prices softening 10-12%, but quality is pulling it through. It notes however that its BEE partner, AVR, has not fully stumped up for its participation. The company is making significant technical advances, including bulk x-ray techniques.

Countries

China discovers tax. When a country sits in the $500-2000 GDP bracket, domestic income tax is hardly worth collecting. Push $10,000 like China, and it becomes a necessity. Thus a 'resource tax', domestically, on sales of oil and gas followed by coking coal and rare earths. They speak of 5-10% on sales value and say it is to conserve domestic resources. The country is already the largest importer of raw materials, so will this impact its burgeoning balance of trade surplus?

China and Customer Power. They say the customer is always right. So that is why the proposed takeover by Peabody Energy (USA) and Arcelor Mittal (India) of Macarthur Coal (Australia) needed China's blessing. Seems China is the biggest customer. So they have given it the sign of the cross and the $4.7bn deal moves closer. Thus Peamcoal bids $16 per share for 77.3% it does not already own.

Oh, No, Not **Chile** Too? Another of our safe haven countries has taken a turn for the worse. Chile invented nationalisation and discovered communism in the early 1960's when it took its copper mines back from the American owners. Since then it has largely embraced capitalism. But its State-owned company Codelco remains the world's largest copper producer (12% of total output). By a quirk of history it retains an option to by 49% of Anglo American Sur, owner/operator of the big Los Bronces Mine (220,000 tpy) plus other mines, mills and prospects. Looks like it intends to exercise said option. Its predetermined value is $9.7bn. Playing the white man, as one was once able to say, Codelco intends to pay for it (You listening Bob? Sata? Dos Santas et al?). But – it gets murkier – it has had an offer of a loan from Mitsui & Co of Japan of $6.7bn to facilitate this. Something to do possibly with a supply agreement the two have. This year's Christmas card list should be interesting. But it gives Anglo a bit of a headache, doesn't it? $9.76bn is a nice problem to have, particularly in readies and is almost 30% of Angola's current market capitalisation. So it will need to redeploy it soon. Otherwise those naughty shareholders will start pestering for higher divis and one-off payment in a rocky market. Then just where would it spend it? It has just told us (Cynthia said so; it must be true) it is cutting back on RSA so there are not too may bolt holes. Maybe they might bid or someone? As market caps go we have in £bns: Rio Tinto (46), BHPB (39), Anglo (31), Xstrata (27), ENRC (8), Kazakhmys (5), Vedanta (3). Who knows?

The DRC. We do not find it easy to heap praise on a country which runs a show like that one does. You know you have problems when you start to make Angola look good. But the DRC matters. Not only is it one of the largest countries in Africa, it is one of the most minerals-rich in the world. Its blessings are copper, the most sought after non-ferrous metal, cobalt, arguably the most strategic and diamonds. The government has at last recognised that its route to success lies in mining and has shaken the aged bones of the once powerful State company Gecamines to kick-start a resurgence. Not a bad move and made better by the recognition that it needs to get its railroads running again. It is appealing to the mining firms which will use them, to help finance rehabilitation in return for preferential tariffs. We have heard of worse ideas. The Chinese (who else?) were to have stepped up but it seems the cheque got lost in the post. Hmm….

South Africa's mining output has fallen for the 3rd consecutive month in August 2011 with a plunge in gold and diamond output. The year-on-year fall was 3.4% in August, following 5.0% in July. Gold, which is 17.2% of total output by value fell 19.7% year-on-year, despite the rising metal price.

The gold mines are getting older and deeper. The new deep mining advances (they speak of 5km) will not come in time to halt this.

Diamond production was down a full 35%. Despite the best efforts of the rump of De Beers and of ambitious Petra, this sector is dominated by cash-strapped small caps in a volatile market. Longer term the spectre of J. Malema and the indecision of Jacob Z hang over it. Nedbank described the short term as "bleak". This is despite the country having – by far – the greatest known mineral resources on the planet. None of this prevents hard working Mines Minister Susan Shabangu pressing ahead with the local beneficiation plan. Deck chairs and Titanics spring to mind.

South Africa no longer refines zinc. Black-controlled Exxaro Resources will pull the plug on the country's only plant, Zincor, on December 31st. Now the country had a refined production and consumption balance of about 100,000tpy, which fed its galvanising, chemical and alloy industries. This will not have to be imported. All eyes on Namibia, which mines 200,000tpy more than it produces (200,000tpy), but has negligible internal consumption. But there is a SADC trade agreement problem. Apart from a balance of payments issue it flies in the face of the call for local beneficiation. Exxaro says it is all part of the company's move to get out of zinc. So why did not Glencore buy it? The 'big G' likes zinc and is warming to RSA.

Zambia is not going to let us down is it? One of our favourite investment-friendly countries is indulging in a rumble in the jungle. Its 500 workers at Chinese-owned Chambishi copper smelter have downed tools for a wage increase of 40% (no misprint) but are being moderate in comparison with 2000 of their colleagues at other Chinese-owned mines who won 100% increases. But 100% of what? We ask.

Zambia's Government is not far behind. Its new President has a new Mines Minister Wilbur Simussa, who says government will seek larger stakes in foreign owned mining companies, like at least 35%. We do not speak of just tiddlers being affected but the likes of Vale, Glencore, Vedanta, First Quantum, Barrick Gold and Metorex. The Chinese too. It is clear new President Sata learned little form his stint as a railway porter in London. Nor has he had a word with the country's first president, Kenneth Kaunda. Old KK went for 51% in the 1970's and effectively closed down his copper industry. It did Chile, Canada and Australia a power of good but brought his country to its knees. Mr Samusa says the future is bright. There was an old truism circulating at the time of the country's demise:

> Q: "What did they use for lighting in Zambia before candles and paraffin?"
>
> A: "Electricity."

In a statement almost certainly timed before the 35% announcement, First Quantum's CEO said his company was committed to the country. We shall see.

Zimwatch

A Boy Named Sue?

When Mrs. Kasukuwere gazed upon her newborn, she realised he was going to find life tough. Born of poverty in a country not yet called Zimbabwe, he would need all the help he could get. Like a first name which immediately grabbed the headlines. Mr. K. firmly vetoed 'Sue' because that country does not like to blur the edges. So they plumped for Saviour. It worked. He rose to become Minister for Youth, Indigenisation and Empowerment. Presently, his task is to drag a 51% equity share kicking and screaming from expat companies in that troubled land and give it to locals. Just how local remains to be seen.

The edict passed into law, with the threat of gaol for the directors of those companies which did not comply by Sept. 15th. Now there are lots of expats out there, hoping for better days. Only two, however, really matter to those under the age of 85: Rio Tinto and Impala Platinum. Why? Because they have world clout. Kick them and all Zimbabwe will limp. Rio has but the Murowa Diamond Mine, a relatively small producer, but Rio is the world's biggest miner. Impala is one of the largest platinum producers. It is dangling billions of dollars over the potential, via its local subsidiary Zimplats, of Zimbabwe's PGM industry. That is the looming cash cow with the second largest reserve of one of the most strategic of metal suites.

This is not lost on Prime Minister Morgan Tsvangari, who has openly declared his doubts on the 51% process, nor on Reserve Bank Governor Gideon Gono. Saviour has also spotted something. He says the Government will "move quietly" on seizing assets of those companies which fail to comply. Does this mean sneaking up on tip-toe, or sending in one of those silent, electric-powered removal vans? He goes on to say those hit will be paid compensation. In what form we are left to ponder. We are also advised that SK and his Mines Minister Obert Mpofu are not seeing eye-to-eye on policy. All this and an election looming when Uncle Bob gets round to it.

What we love and admire about that man is his determination not to win friends and influence people. Otherwise he would be sending birthday invitations to Jacob Zuma. Instead he is allowing lawless gangs to invade South African owned farms. Now RSA's Ambassador has condemned this, pointing out that the 600 farmers busy in 2000 are down to a handful. Were he of sound mind, RM would surely not alienate one of his few remaining allies, those closer to home than Singapore. Yeah, life gets tough for a boy named Sue, or Saviour, or Morgan, or Obert, or Gideon. Robert even.

The Watchtower

Commodity Demand. A and NZ bank out of Shanghai makes the point that the Chinese are using commodity price dips to bulk up purchases. This is despite a narrowing of the trade surplus, a sign, says the bank, that heavy fixed assets investment continues apace. A week-long national holiday also starts in October. September intakes saw copper rise 11.8% over August and oil, against expectations, rose 2.5%. Coal imports for September were 20Mt.

And Now Some Things You (Might) Need to Know

The SOTBO* award this week goes to a report by Mineweb, quoting "industry analysts" as saying that declining demand for metals in recent months will likely hurt mining company profits. Wish we had thought of that. And the hardest hit minerals and companies?

Major Mineral Price Movements 2009-2011

Mineral	Iron Ore	Copper	Aluminium	Coal Index	Gold	Platinum
14 Oct 2009	$102	$6,196	$1,834	$64	$1,052	$1,347
14 Oct 2010	$153	$7,709	$2,162	$89	$1,373	$1,713
14 Oct 2011	$158	$7,500	$2,170	$112	$1,673	$1,550
% Change						
2009-10	50%	24%	18%	39%	31%	27%
2010-11	5%	(3)%	0%	26%	22%	10%
2009-11	37%	21%	18%	75%	59%	15%

Source: Mining Journal

The above spells out the magnitude of the gains over a one and two year period. The majority of the major companies are riding high on the proceeds bar the platinum miners who blew them on overgenerous wage demands, and a blind faith in the price.

Major Companies and Their Share of World Output %

Iron Ore:	Vale (24%), Rio (14%), BHPB (10%), Arcelor Mittal (4%),
Copper	Codelco (12%), Freeport (10%), BHPB (8%), Xstrata (6%), Rio (5%), Anglo (4%).
Gold:	UCRusal (10%), Newmont (6%), Anglo (5%), Goldfields (4%), Goldcorp (3%), Newcrest (3%).
Platinum:	Anglo (36%), Impala (25%), Lonmin (12%), Norilsk (11%), Aquarius (4%).

Source: Deutsche Bank

*Statement of the Blinding Obvious

Forward Diary

14 October 2011:	Mining Journal Copper Day
17 October 2011:	Stellar Diamonds Final Result
20 October 2011:	BHPB AGM
21 October 2011:	Polo Resources AGM
1 November 2011:	Mining Journal Silver Day
2 November 2011:	Global Mining Finance New Frontiers Conference (Africa, Eastern Europe and Asia)
3 November 2011:	Objective Capital Industrial Metals, Minerals & Mineable Energy Investment Summit
4 & 5 December 2011:	Mining Journal Canada and Australia Days, respectively
6-7 December 2011:	Mines & Money, London

David Hargreaves
15 October 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.

Thanks to its growing band of professional informants it brings you the inside before it becomes the outside, on companies, commodities, markets, economic and political trends. Please email your request to David Hargreaves: mine2mkt@gmail.com

David Hargreaves delivered a talk, “Why not to invest in Diamonds” to Min South on Thursday October 13th. If you would like a copy of the notes, please email mine2mkt@gmail.com.