Hargreaves

Week in Mining

22 October 2011

Week in Mining Table of Contents	
Leader	Why Savers Drink Scotch
Markets	Home truths and China
Major Shares	Bottoming? Rio and Aluminium. Xstrata getting it wrong
Small & Medium Caps	A positive Mixed Bag. Beowulf Shines
Metals and Minerals	
Precious Metals	No Appetite for a Bounce
Bulk Minerals	Coal and Iron Ore Retreat
Exchange Traded Metals	Still seeking a base, but stockpiles fall.
Energy	Japan to Close Its Nuclear Option? Where Is Rio With Uranium? Coking Coal Prices to Fall. Coal of Africa on the UP. China wavering.
Gemstones	Coloured Stones Make Their Mark – Rio Output Flat – Indian Explorers Up and US imports Likewise – Alrosa's Profits Surge.
Countries	Mozambique riding high. Oz does carbon tax.
Zimwatch	Have a zimplat – no, have one of mine.
Watchtower	Diamond knickers.

Why Savers Drink Scotch.

There is a ghastly similarity between a mining conglomerate and a lifelong saver right now. Pity the poor saver. He is too old to work, but thought he had saved enough to live off his capital. Plus accrued interest, of course. Now none of us knows how long he is going to live, so you cannot divide the contents of your piggy bank by a defined number of years to arrive at an annual spending target. But interest makes up the variable. Except there is none, not any more. So it is down to spending your capital. That is, if you can trust the bank to look after it. At least zero interest equals zero inflation, or it used to do, but not any more. We have serious inflation now so we stand on the edge of the vortex. Now don't give me that bit about a vortex going clockwise in the northern hemisphere and vice versa in the south. We are all in this together. The only difference between Australia and Greenland is the weather.

So, where do the big miners fit in? Poor beggars are in a fix. Their latest sets of quarterlies are pouring in and very rosy they are, too. Record outputs, record sales and record prices. Christmas came early. But in the few weeks since the end of June, it has all gone awry. As we agonisingly report, down – and by as much as 30% -- are the spot prices of iron ore, uranium, base metals. Even the precious have peeled off, particularly platinum. Yet here are the household names from Antofagasta to Zimplats, sitting on their warchests. They are terrified to spend them because they cannot see how they might be replenished if they do. It is better than being flat broke, but only just. It has the makings of a hard winter in the northern hemisphere and a sticky summer in the southern one. Just one exception, though, the price of crude oil. It sits stubbornly above $100 per barrel as if it had been vaccinated. Surely it cannot hold out indefinitely? The war-inspired price spikes of yesteryear are gone. So, will oil crack, too? Don't bet against it. This cycle will run and some of the miners will become like old men, savings dwindling and non-existent interest rates.

Have another Scotch. It will look different in the morning.

The Markets

A week of home truths for the big miners as both the spot prices and demand outlook for industrial minerals took a knock. This has little to do with the Euro crisis, but much with China's slackening demand. The conglomerates fell in unison, paradoxically as the Q3 performances saw daylight and reflected the heady prices of only a few weeks ago. It was not echoed amongst the juniors, where there were more risers than fallers, but it will be a testing time when they come to the market for money, which they will.

Major Caps

Rio Tinto and Aluminium. As the world's largest miner, Rio only does big, unless it is a bit of judicious housekeeping. It also favours neat compartments. Thus iron ore, aluminium, copper, energy, diamonds. It is not; if it feels the situation lends itself, averse to pushing one at the expense of another. Thus the major move into aluminium with the purchase of Alcan in 2008. Then resource nationalism raised its ugly head. This has caused it to backtrack in South Africa and foray into Mozambique, take Hobson's choice in Australia and flip the dice in West Africa. It has a sizeable war chest, built upon underlying 2010 earnings of $14 billion (over twice 2009) but has made a major strategic decision: to shed 13 of its aluminium units, most but not all downstream of its smelters. The target price is $8bn. So why, where and what are they and who might buy them? Well it is not running away from known trouble spots. Six are in Australia and New Zealand, with others in France, Germany and the UK. They include a bauxite mine, an alumina smelter, two metal smelters and a power station. It speaks of streamlining and concentrating upon "tier-one" assets. Presumably this means metal refining but not at high cost plants like Lynemouth in the UK. They tell us they are in no hurry to sell which, in the current market, is probably wise. But it does seem to indicate they see the future for the primary metal price as bright. The jury is out on that one and demand, as ever, is the key. Arguably the best is over for aluminium, but that ignores the Asian market. China's growth in the metal's consumption compared with the world shows:

Table: Consumption of Primary Aluminium 1950-2010

	Million Tonnes					Annual % Change			
	1950	1970	1990	2005	2010	1951-70	1971-90	1991-05	2006-10
World	1.58	9.98	19.09	31.26	39.70	9.6	8.4	3.4	7.8
China	0.1	0.18	0.86	7.12	15.80	25.0	8.1	15.1	17.0

Source: Mining Journal

This is a continuing trend which bodes well for the price. None of the sales will impact on Rio's dominant position in the market which is:

Bauxite 30.5Mt (Nº 1) 21% world output.

Alumina 9.12Mt (Nº 3) 10.5% world output.

Aluminium 3.8Mt (Nº 2) 9.0% world output.

We might conclude that this is, for Rio, a spring cleaning operation and the elimination of high cost and low margin businesses. It does not immediately need the cash but we must not rule out some fancy footwork. A takeover of Ivanhoe Mines (it already owns 49%) and the major CAPEX looming is a possibility. So too is expansion in Mozambique. Yet the top of the market Alcan purchase still weighs heavily on the balance sheet and the aluminium return on assets is a shadow pro rata of those of iron ore or copper.

BHPB is a shade behind competitor Rio Tinto in market capitalisation (per The Sunday Times, BHPB is £41 bn versus Rio's £48 bn) but that just makes it try harder. We reported last week on the massive Olympic Dam, Australia, expansion. In the same country's Pilbara region it also steams ahead in iron ore. It now counts 10% of world output compared with Rio's 14% but continues to pile it on. Q3 production climbed 24% to almost 40Mt with shipments an annualised 173Mt, a 28% improvement. Last year Rio did 171Mt. The Samarco, Brazil project is also moving up from a present 8.3Mtpy to 30.5Mtpy by 2014. Thermal coal increased year-on-year by 8% with 18.46Mt in Q3 2011. Metallurgical coal production fell 10% year-on-year to 9.29Mt. Oil Shales now feature, following the decision to move into that sector. Production in the quarter was 51.4M barrels of oil equivalent. Oil and related products will play an increasing role in the future. Not all is happiness. Copper production fell 24% quarter-on-quarter with lower grades and industrial action at the major Escondida, Chile operations and planned outages in Chile and at Olympic Dam. The period saw copper prices (2011 $/tonne):

End July: $9,744

End August: $8,907

End September: $6,975.

So two months prime prices were lost. The other base metals too, fared badly: Lead (-19%), Zinc (-42%), Silver (-25%). Declining ore grades are blamed.

Xstrata can't get it right for getting it wrong. With Glencore, its 32% shareholder, itching to open its wallet and Xstrata itself cash rich, it should be teaching the Cheshire cat a few tricks. But it is treading water in RSA of all places. It floated a share ownership scheme for employees, which is a progressive notion. But the union says it does not treat all employees equally and it mutters about the black-white divide. This sounds like an idea ahead of its time. Whatever, both company and NUM are digging-in and we hear of the union being hell bent on "bringing Xstrata to its knees." Strikes are becoming all too commonplace where the NUM has clout, but it has chosen the wrong economic climate. This is driving down the Xstrata share price and could leave it vulnerable to Glencore and its bank balance.

Share Price Movements, Majors

Stocks	15 Oct 2011	22 Oct 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5466	5488.65	0.41%	6,002-4,790	14.59%
Anglo American	2361.5	2220.0	-5.99%	3,335-2,210	0.45%
Antofagasta	1118.0	1096.0	-1.97%	1,556-756	44.97%
BHPB	1947.0	1897	-2.57%	2,585.5-1,678	13.05%
ENRC	662.5	658	-0.68%	1,276-554	18.77%
Gem Diamonds	198.0	201.3	1.67%	300-182	10.60%
Glencore International	422.5	403.5	-4.50%	550-348	15.95%

Hargreaves Services	1080.0	1052.0	-2.59%	1,072-550	91.27%
Kazakhmys	900.0	856.5	-4.83%	1,634-793	8.01%
Rio Tinto	3345.5	3151.0	-5.81%	4,592–2,751	14.54%
UK Coal	34.75	32.25	-7.19%	83-32	0.78%
Vedanta	1213.0	1167.0	-3.79%	2,958–1,101	5.99%
Xstrata	974.1	951.5	-2.32%	1,514-820	15.92%

Source: The London Times and the FT

Share Price Movements, Small and Medium Caps

A mixed bag, but generally positive. **Beowulf** (iron ore in Sweden) has friends in high places. Top performer for the second week running, having now gained 91% in that time.

Kryso Resources (gold in Tajikistan) was also 14% positive, despite a stagnant metal price. Its recent H1 report showed further encouraging drilling results and a solid cash position.

The gemstone miners were a mixed bag. **Richland Resources** (Tanzanite and sapphire) regained its composure with a 7% gain to 9.75p. **Gemfields** (emeralds, rubies) put out a superb set of results (see Gemstones) but failed to impress the market, remaining flat at 21.6p. Likewise **Petra Diamonds** lost ground. The golds suffered with the turgid metal performance, **Cluff, Firestone** and **Karelian** all being moribund. Clearly, also **DiamondCorp,** fresh from a successful fundraising, slipped a full 21% despite an upbeat press release. **Africa Consolidated Resources** took another knock, now at 2.63p as its presence in Zim is presumably affected by the Zimplats statement (see Zimwatch). **Mwana Africa** (gold in Zimbabwe) put out an encouraging quarterly statement with output trending above its targeted 50,000 oz/year. It gained a further 3.5% to 4.13p. **Sirius Minerals,** facing a long haul in its quest to open North Yorkshires' second potash mine, announced some management strengthening and was rewarded with a 4.5% rise to 11.5p. See also Bulk Minerals.

Share Price Movements, Small and Medium Caps

	Company	15 Oct 2011	22 Oct 2011	% Change	1 year Hi-Lo	% above low
AAU	Ariana Resources Plc	4.38	4.63	5.71%	5.25-2.25	105.78%
AFCR	African Consolidated Resources	3.12	2.63	-15.71%	11.75-2.63	0.00%
AGQ	Arian Silver Corporation	24.62	21.0	-14.70%	54.25-6.5	223.08%
AXM	Alexander Mining Plc	5.25	5.13	-2.29%	17.0-5.0	2.60%
BEM	Beowulf Mining Plc	35.62	45.75	28.44%	74.25-3.5	1207.14%
CGNR	Conroy Gold and Natural Resources	3.0	3.13	4.33%	12.9-2.75	13.82%
CLF	Cluff Gold	89.0	87.0	-2.25%	125.75-64.5	34.88%
DCP	Diamondcorp	8.12	6.38	-21.43%	16.9-6.38	0.00%
DME	Discovery Metals Ltd	88.75	86.5	-2.54%	96.0-37.25	132.21%
EUA	Eurasia Mining	0.82	0.83	1.22%	1.75-0.75	10.67%
FDI	Firestone Diamonds	14.5	14.25	-1.72%	36.5-22.25	5.56%
FML	Frontier Mining Limited	3.42	3.6	5.26%	8.5-3.05	20.81%
GDP	Goldplat	11.25	11.13	-1.07%	13.25-8.0	39.13%
GEM	Gemfields	22.12	21.63	-2.22%	24.75-3.75	476.80%
HER	Herencia[3]	2.0	2.0	0.00%	4.0-0.5	300.00%
HMB	Hambledon Mining	3.62	3.63	0.28%	8.25-3.12	16.35%
KAH	Kalahari	248.5	233.0	-6.24%	301-142	64.08%
KDR	Karelian Diamond Resources	2.38	2.38	0.00%	5.25-1.0	5.78%
KEFI	Kefi Minerals	2.88	3.08	6.94%	9.5-0.5	516.00%
KYS	Kryso Resources	18.0	20.5	13.89%	19.5-12.5	64.00%
MWA	Mwana Africa	3.99	4.13	3.51%	14-3.98	3.77%
NYO	Nyota Minerals	8.11	7.98	-1.60%	30-7.4	7.84%
ORE	Orogen Gold Plc	0.65	0.67	3.08%	1.62-0.2	235.00%
PDL	Petra Diamonds	122.25	118.0	-3.48%	189-60	96.67%
RLD	Richland Resources	9.12	9.75	6.91%	16.0-6.5	50.00%
SNRP	Strategic Natural Resources	16.0	16.5	3.13%	27.75-8.25	100.00%
SXX	Sirius Minerals Plc	11.0	11.5	4.55%	20.75-1.25	820.00%
TMC	Toledo Mining	21.88	22.75	3.98%	34.25-20.25	12.35%
VGM	Vatukoula Gold	89.0	78.0	-12.36%	227-76.75	1.63%
ZOX	Zincox	55.38	52.5	-5.20%	77-32.25	62.79%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

Given China's reduced growth figures, the Eurozone crisis and America's unemployment this is no time to stick your head out of the commodities trench, even with a tin hat on. The immediate question is will metals fall further and if so by how much? As ever there is some selectivity for grassroots reasons. True, short term price and demand go hand-in-hand but beyond them troll those dreadful creatures, the fundamentals. And so:

Table: Exchange Traded Metal Price Movements 2005 – 2011 ($ Per Tonne)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc
Aug 2005	1850	3802	894	15017	7087	1323
Aug 2007	2458	7395	3185	27673	15080	3019
Aug 2008	2705	7648	2111	20338	19975	1799
Aug 2009	1883	6261	2020	19338	14200	1818
Aug 2010	2105	7625	2129	21453	21548	2148
Aug 2011[1]	2410	9101	2559	21773	23988	2208
Oct 2011[2]	2171	7305	1890	18930	21550	1832
% Change						
2005 – 2007	33	95	256	84	113	128
2007 – 2011 (1)	(2)	23	(20)	(21)	59	27
2007 – 2011 (2)	(10)	(1)	(41)	(32)	(10)	(39)

Source: Mining Journal [1]to August 2011 [2]to October 2011

The overall pattern saw the boom of 2005-7, driven by the promise of Asia, particularly China, becoming a consumer of unparalleled proportions. It has, but the industry responded with increased production and exploration. So real prices are well below 2007 levels in most cases. But a combination of ever rising production costs and resource nationalism is beginning to bite. Come the recovery, metal prices will be early out of the trap.

Copper and Grasburg. Copper, more than most minerals, owes the bulk of its output – all 20 million tonnes per year – to some massive mines, like those of Chile, Bingham Canyon, Palabora. One such is the Grasberg Mine of Freeport McMoran in Indonesia. It is rated at c. 700,000tpy metal equivalent and makes its host country the world's No.5 producer at over 850,000tpy (5% total) and its operator the No.2 at 1.5Mt, (10%). Now Grasberg is plagued by labour disruptions of a most serious kind. Deaths have resulted, blockades are commonplace and the vital concentrate pipeline has been cut. Freeport has been using temporary, non-unionised workers which has inflamed the situation. Force majeure appears inevitable. One observer even likened it to Bougainville, similarly a huge copper and gold mine which ceased operations in PNG over 30 years ago, never to reopen. The Grasberg site and its support employ 23,000 workers. This will act, for all the wrong reasons, as prop under the copper price.

Aluminium. We deal with the changing fortunes of the metal at length under Major Caps. With perhaps unfortunate timing, two UAE based groups announced mega plans to invest in smelter where? Indonesia. Emirates Aluminium goes for $4bn and Ras Al Khanma Investment Authority $5.5bn in the Kalimanton region. This follows a decision by India's State run National Aluminium Co. (NALCO) to invest $46M in a smelter, also in Kalimanton. Indonesia bristles with coal and is the world's No.3 bauxite producer at 23Mtpy (11.5%). Now it needs some infrastructure, to get its corruption down and persuade its people to put their spears down.

Metal Stocks in LME Warehouses

Metal	14 Oct 2011	21 Oct 2011	% Change
Aluminium	4,551,675	4,569,875	0.40%
Copper	453,100	450,850	-0.50%
Lead	388,325	387,925	-0.10%
Nickel	91,020	88,488	-2.78%
Tin	19,035	17,800	-6.49%
Zinc	798,885	792,650	-0.78%

Source: Mining Journal

Commodity Price Movements

Commodity		14 Oct 2011	21 Oct 2011	% Change
Aluminium	$/tonne	2,170	2,110	-2.76%
Copper	$/tonne	7,500	7,862	4.83%
Lead	$/tonne	2,007	1,841	-8.27%
Nickel	$/tonne	18,850	18,670	-0.95%
Tin	$/tonne	22,045	21,750	-1.34%

Zinc	$/tonne	1,901	1,793	-5.68%
Gold	$/ounce	1,673	1,638	-2.09%
Silver	$/ounce	31.97	31.2	-2.41%
Platinum	$/ounce	1,550	1,511	-2.52%
Brent Crude Oil	$/bbl	114.9	110.4	-3.92%
Platinum/Gold	Ratio	0.926	0.922	-0.43%

Source: The Times of London

Bulk Minerals

Potash. Brazil is serious. One of the world's largest countries is also one of its most intent on agriculture. It is not just foodstuffs for a burgeoning population and but soya and related crops for non-oil fuels and preserving the world's largest forests. Brazil has domestic resources of both potash and phosphates. It is getting serious about defining and developing them, but this will not be in time to prevent a growing shortage and thus import requirement over the next 5-10 years. Government has pledged up tot $5 bn from 2011 through 2014 for the fertiliser industry and has roped-in its two largest resource companies, Vale and Petrobras, to assist. Agriculture represents a third of the country's economy and is growing. It currently imports 53% of its potassium and 92% of its phosphate requirements. Active there is Canadian junior **Eagle Star Resources** (EGE.TV) in the NE State of Paiui.

Iron ore is neither winning friends nor influencing people. The spot price took another downward lurch this week and is now down 15% in three weeks. It bodes ill for the next round of contract negotiations. Also makes the Indians look flat with their mega-export royalties hike of 30%.

Coking Coal prices, too, are under pressure. See Energy.

Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt			
30 Sept 2011	**7 Oct 2011**	**14 Oct 2011**	**21 Oct 2011**
$171.3	$170.0	$157.5	$142.6

Source: The Steel Index

Precious Metals

Gold increasing its lead over platinum this week was like telling someone he is less worse than the competition. The downward drivers are twofold: the agonising wait to see if a formula, even a temporary one, will be derived for the Euro crisis and how serious will be China's appetite loss. Normally, these might propel prices up, but this market is in neutral and the motor is parked. That platinum and silver fell further than gold can be partly at least blamed on their industrial uses. Yet for the miners, the show must go on.

Anglo American Platinum (Amplats), the world's largest producer of that metal says it is on target to hit 2.6Moz sales in 2011, up from 2.2Moz in 2010, but says its unit costs will be higher. No surprises there. If you will push out 10% wage increases, even as the metal price falls, arithmetic will not cushion a hard landing.

It must be catching. **Eastern Platinum** (ELRq.L 43p; Hi-Lo124.5-38p) says its production has been halved to 210oz/day as a result of an NUM-led strike. It seems the union demanded 20% wage increases but the mining contractor JIC only offered 13%. Only.

China's Gold Output rose 6% in August to 31.89t and was up 3.87% to 226.39t for the year-to-date. Thus a trend of 340t for 2011, compared with 341t in 2010, leaving the USA, 285t, trailing at Nº 2.

Russia's Central Bank says it will keep buying gold to add to its foreign exchange reserves for the near future. At the last count it held 668.6t, in Nº 9 slot but that was only 5.5% of total reserves. Even Britain (16.6%) can do better, despite Gordon Brown's best endeavours. The USA holds 8,134t or 72.8%.

One of the great mysteries of the market is just how much palladium Russia really has. It has always been assumed to be a lot. As late as last year, they sold 31 tonnes, almost one million ounces of which about 130,000 oz was probably from stockpile. Now they say they will sell two more tranches of 4.5 tonnes each then, finito. If they stick with that, it could harden the Pt/Pd ratio, currently 2.5 in favour of Pt.

Exchange Rates

Exchange Rate Movements			
Currency	**15 October 2011**	**22 October 2011**	**% Change**
£:US$	1.58	1.59	0.63%
£:€	1.14	1.15	0.88%
£:SA Rand	12.42	12.89	3.78%
US$:Aus$	0.97	0.97	0.00%
£:Aus$	1.53	1.54	0.65%
US$:Br Reale	1.74	1.78	2.30%

US$:C$	1.01	1.01	0.00%
US$:€	0.72	0.71	-1.39%
US$:SA Rand	7.87	8.08	2.67%
US$:Rupee	49.02	50.02	2.04%
US$:HK$	7.78	7.78	0.00%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.66	3.64	-0.55%
US$:Japanese Yen	77.37	76.13	-1.60%
US$:Thai Bhatt	30.78	30.80	0.06%
US$:Yuan	6.38	6.38	0.63%

Source: Financial Times

Energy

Nuclear Choices. We attracted a bit of finger wagging last week for suggesting that the future for nuclear energy is not as bright as the lights it powers. Now, if we believe Reuters, the Energy Minister of Japan says his country will certainly reduce its nuclear capacity and might abandon it altogether, like Germany and Switzerland. That combined would be 17% of current total capacity. Its replacement would need 104 million tonnes of oil (3% of world total), a similar amount of coal or 3 trillion windmills. So we see a consumption pattern of:

Table: World Consumption of Nuclear Energy (Millions of Tonnes of Oil Equivalent

Area	2000	2005	2010[1]	2010[2]	Growth % (1)	2000-2010 (2)
World	584	627	626	522	7	(11)
USA	180	186	192	192	7	7
European Union,	214	226	208	176	(3)	(18)
Germany, Japan, Switzerland	117	109	104	0	(11)	0

Source: BP [1]with Germany, Japan, Switzerland [2]without Germany, Japan, Switzerland

It hardly fills one with enthusiasm for uranium mining does it, particularly looking at the new mines coming on stream and developments planned. So will the Chinese come back for Kalahari Minerals and if so at what price?

Where Sits Rio? The £42bn market cap company only does big, usually. Its uranium comes largely from the giant but ageing Rossing, Namibia deposit where last year net earnings slipped into the lead even though sales advanced. So we still think it might have a go at the Husab deposit next door. Rio already owns a piece of the developer Extract Resources and the market would welcome such a move rather than have it grabbed up by those nasty Chinese type people. Right now Rio has made a friendly offer for Canadian Uranium explorer Hathor at C$4.15 per share (£360M) which is not a lot in relative terms but puts rival bidder Cameco (C$3.75) in its place.

Cameco is Canada's largest uranium miner but should beware, if Rio is on the prowl. Caveat too, in the Province of Saskatchewan, where First Nation Rights are reaching epidemic proportions. One source suggests they bus them in at critical points in a negotiation.

Coking Coal Prices are not immune to the fall. Says Wood MacKenzie, they could be down to $240/t by Q4 2012 from above $300/t of late. The company has also downgraded its world economic growth forecast for 2011 from 3.1% to 2.8% and for 2012 from 3.7% to 3.8%. That looks like a bit of fine tuning but it is the direction which counts. Still China with a dearth of domestic supplies will be the driver.

Supplies are improving. Australia has recovered from the worst of the Queensland floods and South Africa's Vele Mine (**Coal of Africa**) has at last overcome its environmental problems and been given the go-ahead. This has given CoAL a welcome lift on the AIM market (CZA.L 54.25p; Hi-Lo 111.5p-43.5p).

Spot Uranium Price, $/lb $U_3 0_8$

31 Dec 09	31 Dec 2010	30 Sept 2011	7 Oct 2011	14 Oct 2011	21 Oct 2011
$44.0	$66.0	$52.5	$52.75	$52.75	$52.75

Source: Mining Journal

Gemstones

That the diamond market has dipped since August cannot be denied but results coming in from the first half are bubbling. Their coloured competitors too are pushing for a place. Only three quoted companies of consequence represent the coloured sector: Gemfields, Richland and True North. Yet all three are fighting their way to the front. **Gemfields** (See Small Caps) is arguably the largest in emeralds via its Kagem, Zambia mine, to which it has added amethysts in Zambia and now rubies in Mozambique.

Rio Tinto relies on diamonds for only 2-3% of its earnings (2010) but remains the world's 3rd largest producer from its mines in Canada, Australia and Zimbabwe. Its Q3 output of 3,534,000 carats comprised:

Argyle Mine, Australia (100% owned) 2,302,000cts, down 5%.

Diavik Canada (60%) 1,160,000cts, up 8%.

Murowa, Zimbabwe (78%), 72,000cts, up 78%.

But for the first nine months, output overall fell 18% to 8,766,000cts. Rio looks for 13,000,000cts for the year, a 6% fall on 2010. We await confirmation on the ZIM Government claim that the company has given 51% of its shares in Murowa and that these “will be given to the people”.

India’s polished diamond exports rose 4% year-on-year in September to $2.49bn whilst polished imports fell 22% to $134bn. Rough diamond imports fell 4% to $936M whilst rough exports rose 48% to $147M. the net diamond account showed a deficit of $4.798bn in the first nine months against $1.541bn in like 2010. Locals are clearly buying more.

The **United States,** still the world’s largest diamond buyer, saw polished imports rise year-on-year to $1.64bn in August 2011. Rising prices (up 46%) accounted for much of its volume of imports falling 16% to 1.068Mcts in the month. The net diamond account rose 1% to $2.68bn in the first eight months.

Alrosa of Russia, the world’s largest diamond miner, reports a 5-fold increase in net profits to $841M in Hi 2011. Sales increased only 3%. A combination of cost cutting and price increases did the rest. Of exports Belgium accounted for 47%, India 11% and Israel 8%. Production at 19.326Mct, was up 10%. The company reports *in situ* reserves of 1.2bn cts, enough for 32 years output.

DiamondCorp (See Small and Mid Caps) deserves success for its tenacity in the re-development of the Lace Mine, underground in South Africa’s Free State Province. It has recently raised £2.05M (R24M) for working capital and to pay off debt. This was done by a placing of 31.6M new shares at 6.5p, an 8.77% discount to the recent price. The debt allotment is £1.9M. Lace will support a +25 year mine life.

Not to be outdone, **Rockwell** (RDI.TO C$0.57; Hi-Lo C$1.05-0.38) which we noted last week, has raised C$7.8M via a private placement, largely targeted on the installation of a bulk x-ray plant at its Saxendrift, South Africa mine, plus the final commissioning of the plant at the newly acquired Tirisano Mine. Settlement was via 1.0M shares, mostly on the TSX at C$0.75 per share.

Gemfields Goes Big. The AIM-listed emerald miner is arguable already the world’s largest of the precious stone. It did 33Mcts in the year to June 30th 2011, up from 17.4Mct in like 2010, whilst reducing its cost of sales. It has also changed its method of sales to mirror the ‘sights’ held by DeBeers for diamonds. In addition to an office in its mining country, Zambia, the company has also opened outlets in the other two major locations, Brazil and Colombia. The Kagem mine presently produces 20% of the world’s output but the aim is 40% followed – there’s ambition for you – by 60%. The company reported an after tax profit of $35M at year end (from $2.6M) with cash of $13.6M ($2.9M). Led by the resourceful Ian Harebottle, Gemfields is expanding in both its range of gems and its locations. It is acquiring 75% of the Montepuez ruby deposit in Mozambique and has prospecting areas in Madagascar. We feel that once the market understands both the company and its products better, there will be considerable upside in the shares.

Countries

No revolutions this week. Zimbabwe’s P.M. says the indigenisation laws are too strict, Guinea is using the money it arm-wrested out Rio Tinto for infrastructure, Mozambique is poised for massive growth. Australia’s Lower House has passed its carbon tax and China warns of tough months ahead.

Zimbabwe. Prime Minister Morgan Tsvangarai says the ownership rules on foreign companies are too onerous. He does not see elections before H2 2012 and thinks the minimum 30% local threshold too high. Comforting thoughts, but has he the power to turn them into deeds?

Guinea has not had a revolution in months although domestic fisticuffs remain a national pastime. This is a continued concern for those who are itching to get at its mega resources of gold, iron ore, diamonds and bauxite. The Government recently persuaded Rio Tinto to pay a dowry of $700M over the huge Simandou, iron ore project. That sum is 75% of the domestic budget and about $250M will be spent on a much needed improvement of roads, electricity, health and the justice system. It’s a gesture but in a country of just under 153,000 square miles, 10.6M people and a GDP of only $1,000 per capita, it will be spread thin.

Mozambique remains high on our wish list. Minerals prospecting and development activity continues apace and transport routes to the Indian Ocean are being accorded priority. Frost and Sullivan Research tell us the minerals project pipeline is $11.6bn, with coal alone accounting for 61% or $7.1bn. The target is 20Mtpy by 2015. There are currently 12 projects at the feasibility stage, one at BFS and 5 under construction. We can expect the GDP of its 22.9M people to increase steadily if the politics remain on the level. Power, infrastructure and skills will be stretched, but that is what growth is all about. Companies involved include Vale, Rio Tinto, Arcelor Mittal and that rising star, Baobab Resources. The reporter goes on to say there are no BEE requirements, little on repatriation of profits or restrictions on foreign ownership. Long may it last.

Australia and Carbon. The world (at least its concerned segments) have decided carbon is a bad thing, particularly in its gaseous, CO_2 form. So legislation is pouring forth to control its arisings. The only way to do that is to tax it of course. Hence we must all do our bit. Australia, that land of lovely people, is right up there. Its lower parliamentary division, The House of Representatives, has passed a set of bills to put in motion a carbon tax. If you emit the gaseous substance, you naughty miners, power generators or flatulent bovines, you will pay A$23/t (about the same in US$) and it will drop your income head or GDP by about $5000. That's a lot in these hard times and in comparison with the likes of China, India and other overpopulated regions is akin to doing something foolish against the wind. But wind is what the paranoia about carbon has behind it.

China's Falling Output. That rising star only marginally concerns itself with the Euro debt crisis and US unemployment. It has problems of its own. They are growing pains, unavoidable in a teenager, even an economic one. Slowing export demand is hand-in-hand with lower domestic expectations in what has been an unstoppable surge. Steel output, the most important feature, fell 3.5% to 56.7Mt in September over August. Power generation was at a four-month low. Oil demand rose by 1% year-on-year. (It doubled between 2000 and 2010 and rose 10% in 2010 alone). This should concern us all but most of all the Chinese. Perhaps those African companies and countries that see the No.2 nations as their salvation, should grab it whilst the going is good. That we might see the Yuan replacing the US dollar as the reserve currency retreats further.

Zimwatch

Zimplats. How Cheap is cheap? In the Zim version of Monopoly, Zimplats is not going to gaol, but the locals have shaken a double-six, gone past 'go' and certainly collected $200. Not Zim dollars, either. They company has ceded 7% of its equity into a 'community share ownership trust'. The value is stated as US$10 millions. Now the company plans to step-up production to 360,000 oz platinum per year by 2014. Let's put it on a multiple of 10 times revenue with the metal at $1500 per ounce. That's $5400 millions, so 7% is $378 millions, not $10 millions. So, it's a cosy deal. They will buy it out of the money Zimplats (which means daddy Impala will lend them). But they msut wiat three years before dividends start to flow. Now there are deals and there are deals and this is a deal? We can't wait to learn who will be the beneficiaries.

And Now Some Things You (Might Not) Need to Know

There are some things the Brits do better than most. Like never coming second, it's first or last for the boys in blue. Then innovation. We invent most things, but let others exploit them because the pubs are open. But where you really see us showing Johnny Foreigner a clear pair of (what's the word?) is in pretension. No, not designing concrete structures, but doing OTT*. Thus one of our leading department stores, Selfridges, is launching the world's first range of diamond knickers. Each pair comes with a certified sparkler stitched in and yours for only £225, knickers included. So, if you thought that what you had in your panties was valuable before, just think of it now. Thank you, Carole Midgley, London Times.

*OTT = Over the Top

Forward Diary

25 October 2011:	Aquarius Platinum Interim Results
26 October 2011:	Impala Platinum Holdings AGM
27 October 2011:	Kazakhmys Interim Results
28 October 2011:	Goldplat 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
25 November 2011:	Nyota Minerals AGM
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.

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