Hargreaves

Week in Mining

26 November 2011

Treat Yourself to a Christmas Present.

Buying Christmas presents for other people is a drag, a bore and a 24-carat yawn, as is them buying for you. Never will you get your wear out of 27 silk ties, particularly that one that plays Jingle Bells every time you sneeze. Then that Fair Isle sweater with Rudolf the red-nosed bloody reindeer sniffing under your armpits. Fancy wearing that to the office. Giving money is pointless, too; it nets out to zero. So, why not treat yourself to a good book? A life-changing book. No, not Mein Kampf or How to Behave on a Blind Date. We recommend one which absolutely rubbishes human involvement in climate change. Long before you reach page 243, so might you. Just think what fun we shall all have debunking carbon swaps and emissions, tilting at windmills or getting electrocuted by a solar panel. This gem, with the eye-catching title, how to get expelled from school (all lower case, it is not sensationalist), is by a man who knows his onions, Professor Ian Plimer. By qualification, he is a longtime regular reader of The Week in Mining. In his otherwise free time, he is Professor at the University of Adelaide, of Earth Sciences at the University of Melbourne and has served on the campuses of Newcastle, England, New South Wales, Macquarie and New England. He is one of the world's best known geologists.

This book comprehensively rubbishes the concept of climate change being human induced on these counts:

- It has been going on all through the 4500 million years of the earth's existence. For 99.98% of that time, there were no people polluting.
- Geology shows conclusively that the Sahara has been cold and the poles hot.
- Archaeology proves that Greenland was indeed green and that grapes grew high in the Alps.
- Climate change continued to occur when the atmosphere contained much more carbon dioxide than it does today.
- Carbon dioxide is a ***good*** thing. We need it.
- Recorded, recent history bears testament to greater temperature swings than envisaged today.

So, why the sudden hype? **Greed,** political and financial. It is the in-thing to do. That the Australians (0.35% of the world's population and a penchant for calling a spade a shovel) have embraced it, whilst the Chinese (18% of the body count, but 7000 years of history) have not, is a moot point.

Many of us wonder furtively whether the whole ethic of humans affecting the climate is the greatest confidence trick since transubstantiation. Here is a man of credibility who tells us it is. You can still wear your Rudolph Reindeer sweater whilst reading this book or wondering who to strangle with your newest silk tie, but read it you should. It will gain credence. Professor Plimer treats us to a quote from the great 19th century historian, Thomas Macauley, who said, "On what principle is it that when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?"

<u>how to get expelled from school</u>. Ian Plimer. ISBN9781921421808. Connor Court Publishing Pty Ltd. PO Box 1, Ballan Vic 3342 Australia. Sales@connorcourt.com.

The Markets

This was a week in which messages were sent out; some by email, some by carrier pigeon, but they were ominous all. The FTSE was off by over 4% and most of the big mining stocks likewise. Their smaller fry were mauled, some of them. Traded metals fell but to a much lesser degree. Of the bulk minerals, iron ore has staged a manful recovery (let's hope it is not a mirage), uranium remains in the doldrums whilst potash – the ghost of Christmas yet to come – is rising in popularity. Glencore International (FTSE) is still finding its feet following its May 2011 floatation at 530p.

Major Caps

With quarterly results tucked away and both bonfire night and Thanksgiving over, there were few fireworks either side of the Atlantic. South Africa has Mr. Malema doing penance so it can get back to worrying about power shortages. Australia looks to have squeezed through its carbon tax and its increased iron ore royalties, whilst a whole clutch of countries thinks export royalties are the way to balance their national budgets: Ghana, Ecuador, Zambia, Zimbabwe. Little wonder that for the conglomerates, spreading the country risk is becoming the most important game in town.

Anglo American and Chile continue to spar with each other over Coldelco's claim to an option over 49% of Anglo American Sur. Latest word is that if they can't agree, El Presedente will arbitrate. Does he see himself as Solomon or Pontius Pilate? It does not stop Anglo promising that output from its expanded Los Bronces copper mine to top 400,000 tpy, from a 2011 231,000t. The redoubtable Mrs. Carroll, Anglo's not-shy CEO, mentions (in passing) that besides its copper operations in Chile, Peru and the USA, they have exploration in several other geographies. Anglo fell 6% on the week.

Lonmin, South Africa and the world's No.3 platinum miner, faces an NUM strike despite offering wage increases of 9-10% p.a. over 2 years. The readiness with which the union is prepared to down tools indicates that it is very smart or something else beginning with S. Is it choosing its fights? Does it have a strike fund? All these offers come with housing allowances and medical aid. Meanwhile power cost shortages and hikes loom large. Earlier this year State generator Eskom announced +20% p.a. tariff increases for the next two years to provide CAPEX alone. Now they speak of the price of domestic coal rising over 10% p.a. also. Chaps: something will have to give.

Glencore International (FTSE) is still finding its feet following its May 2011 floatation at 530p. Its current level of 399p (down 9% on the week) is no better or worse than its conglomerate brothers. But now its 'cornerstone' investors can sell their shares for the first time since the floatation. A clutch of household names holds 5% whilst employees including supremo Iran Glassberg (16%) speak for about 83%. The company can now issue new shares and make acquisitions. That is what a lot of people are in there for. Will it bid for Xstrata where is already holds 34.5% or vice-versa? The respective market caps are level at £27 billion.

Share Price Movements, Majors

Stocks	19 Nov 2011	26 Nov 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5363.0	5165.0	-3.69%	6,002-4,790	7.83%
Anglo American	2359.0	2215	-6.1%	3,335-2,210	0.23%
Antofagasta	1076.0	1044.0	-2.97%	1,556-756	38.10%
BHPB	1870.0	1759.5	-5.91%	2,585.5-1,678	4.86%
ENRC	638.0	600.5	-5.88%	1,276-554	8.39%
Gem Diamonds	219.0	203.9	-6.89%	300-182	12.03%
Glencore International	398.7	373.8	-6.25%	550-348	7.41%
Hargreaves Services	1170.0	1101.0	-5.90%	1,072-550	100.18%
Kazakhmys	862.5	805.0	-6.67%	1,634-793	1.51%
Rio Tinto	3276.0	3032.0	-7.45%	4,592–2,751	10.21%
UK Coal	32.0	30.5	-4.69%	83-30.5	0.00%
Vedanta	1010.0	928.0	-8.12%	2,958–928	0.00%
Xstrata	945.5	908.7	-3.89%	1,514-820	10.71%

Source: The London Times and the FT

Share Price Movements, Small and Medium Caps

There was blood in the gutters of AIM street and its international equivalents with the gold and diamond shares particularly savaged. Profit taking also affected the recent risers. The heavy fallers included **Cluff Gold** (-12.8%), **Discovery Metals** (-14%), **Firestone Diamonds** (-19%), **Frontier Mining** (-10%), **Karelian Diamonds** (Can it survive -20%?), **Petra** (-7.7%), **SNR** (-12.5%) and **Vatukoula Gold** (-15.5%).

The golds fell out of proportion to the price of the metal, a blow to those looking for a shares rerating. We explain – or hope we do – the logic behind this in Precious Metals. Again no pattern by commodity emerged.

Nyota Minerals (See below), moving towards mining at its Ethiopian prospect, held an upbeat AGM with a positive statement which told us that Tulu Kapi now has a resource of 15Moz, capable of sustaining 100,000-115,000 oz/yr at a gold price far below current levels. The DFS is well underway to deliver in Q2 2012. This is an exciting new mining province (see Bulk Minerals). A licence to mine has been applied for and we see prospects well above the current share price level of 6.43p.

Guyana Gold Fields. (GFIJ.J R13057; Hi-Lo 14543-9505) This is one to watch on several counts. Its Aurora gold prospect in Guyana, South America is shaping up at 5.7Moz, 300,000 oz/yr from a 9500 tpd mill. It has excellent open pit grades of 20Mt at 3.34g/t plus underground of 27Mt @ 4.9g/t Au. A combined capital cost of $750M for the two would be daunting, so a number of options are being explored. Our money would be on the open pit to produce the capital for the deep mine.

Petra Diamonds (See below) has been knocked since its announced intention of stepping from AIM to London's big board, timed for Dec. 8th. Its progress was clinically planned. First it worked Arab on oil money, then moved in to pick up most of De Beers surplus-to-requirements big but old mines in RSA and Tanzania. Using a lower cost base than the No.1. (not difficult) it has made a success of these and now targets 5Mtpy from a resource base of 300M carats. Petra maintains high ethical standards at its operations and only operates in countries which observe Kimberley Process protocols.

Goldplat (See below) plugs away, trading within a narrow band but itching to be in primary mining. Thus its Kilimpesa gold mine in Kenya, which has just received a 21 year mining licence, the first since the country achieved independence in 1963. This will initially be a small underground operation but exploration continues. The company has three Brownfield gold development projects in Kenya, Ghana and Burkina Faso and looks to delineate 1.0Moz of resources by Q1 2012.

Allana Potash (AAA.TO C$1.12; Hi-Lo C$2.43-0.46) is determined we shall know it is around. We note it more fully in Bulk Minerals. Likewise Stonegatte Agricom and a small company call BHPB, again making waves in the fertilizer business.

Share Price Movements, Small and Medium Caps

	Company	19 Nov 2011	26 Nov 2011	% Change	1 year Hi-Lo	% above low
AFCR	African Consolidated Resources	2.63	2.5	-4.94%	11.75-2.5	0.00%
AXM	Alexander Mining Plc	5.25	5.13	-2.29%	17.0-5.0	2.60%
AGQ	Arian Silver Corporation	19.63	19.5	-0.66%	54.25-6.5	200.00%
AAU	Ariana Resources Plc	4.88	4.88	0.00%	5.25-2.25	116.89%
BEM	Beowulf Mining Plc	17.75	17.5	-1.41%	74.25-3.5	400.00%
CLF	Cluff Gold	83.75	73.0	-12.84%	125.75-64.5	13.18%
CGNR	Conroy Gold and Natural Resources	2.88	3.25	12.85%	12.9-2.75	18.18%
DCP	DiamondCorp	5.75	5.45	-5.22%	16.9-5.45	0.00%
DME	Discovery Metals Ltd	85.0	73.0	-14.12%	96.0-37.25	95.97%
EUA	Eurasia Mining	0.70	0.70	0.00%	1.75-0.70	0.00%
FDI	Firestone Diamonds	12.25	9.88	-19.35%	36.5-9.88	0.00%
FML	Frontier Mining Limited	3.40	3.05	-10.29%	8.5-3.05	0.00%
GEM	Gemfields	24.38	24.88	2.05%	24.75-3.75	563.47%
GDP	Goldplat	12.0	11.75	-2.08%	13.25-8.0	46.88%
HMB	Hambledon Mining	3.88	3.63	-6.44%	8.25-3.12	16.35%
HER	Herencia[3]	2.03	2.03	0.00%	4.0-0.5	306.00%
KAH	Kalahari	216.0	224.25	3.82%	301-142	57.92%
KDR	Karelian Diamond Resources	2.0	1.59	-20.50%	5.25-1.0	59.00%
KEFI	Kefi Minerals	2.78	2.71	-2.52%	9.5-0.5	442.00%
KYS	Kryso Resources	30.38	28.63	-5.76%	31.88-12.5	129.04%
MWA	Mwana Africa	4.0	3.90	-2.50%	14-3.90	0.00%
NYO	Nyota Minerals	7.05	6.43	-8.79%	30-6.43	0.00%
ORE	Orogen Gold Plc	0.72	0.76	5.56%	1.62-0.2	280.00%
PDL	Petra Diamonds	107.5	99.25	-7.67%	189-60	65.42%
RLD	Richland Resources	9.25	9.13	-1.30%	16.0-6.5	40.46%
SXX	Sirius Minerals Plc	32.0	29.5	-7.81%	22.75-1.25	2260.00%
SNRP	Strategic Natural Resources	14.0	12.25	-12.50%	27.75-8.25	48.48%
TMC	Toledo Mining	22.38	22.75	1.65%	34.25-20.25	12.35%
VGM	Vatukoula Gold	77.5	65.5	-15.48%	227-65.5	0.00%

ZOX	Zincox	57.63	56.13	-2.60%	77-32.25	74.05%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

So the LME components all slipped another notch this week, a habit they have fallen into of late. It means the table below is indicative. It mirrors the recession and its short-lived recovery.

LME Metal Price Movements December 2009-November 2011 ($/tonne)

Metal	31.12.09[1]	20.06.10[2]		30.12.10[3]		02.07.11[4]		24.11.11[5]		Δ Dec 09-Nov 11
Aluminum	$2,208	$1,945	-12%	$2,447	26%	$2,486	2%	$1,992	-20%	(10)
Copper	$7,346	$6,604	-10%	$9,425	41%	$9,405	0%	$7,175	-24%	(2)
Lead	$2,395	$1,801	-25%	$2,525	40%	$2,636	4%	$1,956	-26%	(18)
Nickel	$18,480	$19,450	+5%	$24,285	25%	$23,100	-5%	$17,145	-26%	(7)
Tin	$16,725	$18,025	+8%	$26,900	49%	$25,800	-4%	$20,700	-20%	24
Zinc	$2,570	$1,810	-30%	$2,378	31%	$2,338	0%	$1,903	-19%	(26)
Recession Sets In > > > > > > > > > >				**Short Lived Recovery> > > > > > >**				**Reality?**		

We have just experienced five, six months trading periods of long term importance.

[1] Saw the end of several years' growth and the onset of the banking crisis.
[2] Saw a sharp fall in the major base metals, but a perceived tightness in tin and nickel.
[3] The assumed economic recovery and the growth of Chinese demand.
[4] Consolidated and the feel-good conglomerates earnings factor.
[5] The Euro crisis and fear of deep recession.

And now? The bulk metals still have their noses ahead of the sell-off of June 2010 but have now been falling consistently for some weeks. Whilst the Euro crisis remains, so will the downward pressure.

Aluminium outlook grim. Fund manager Perpetual says that about a third of the world's aluminium metal is being produced at a loss. The power input costs of the energy intense metal remain high but the selling price remains depressed. At below $2000/t it is lower than the levels of 5 years ago, whist warehouse stocks are at an all time high. The impact will fall on the big producers, Rio Tinto, Alcoa, BHPB, Dubal and the major Russian and Chinese smelters. Rio has already instigated a programme of selling six producing units, including three smelters and will largely concentrate on its Canadian assets with their link to cheap hydro power.

Nickel is nobody's child right now. From a heady $24,000/t in late 2010 it is now below $18,000/t, a fall eclipsing even copper (23%) and in a small backwardation across its LME 15-month trading range. Even so, insiders tell us that a dominant long position, held by Barclays Capital, may persist to end February 2012. Then?

How have the shares fared:

Nickel Share Price Movements

	Nov 2009	Nov 2011	% Change
Aneka Tambang (Rp)	2375	1620	(32)
ENK (£)	0.10	0.13	30
Norilsk Nickel ($)	143.2	167.60	17
Sherritt Int (C$)	6.95	5.10	(27)
Toledo (p)	25.00	23.25	(17)

Copper. Rio Tinto and China's State owned Chinalco have formed a J/V to hunt for minerals in China, initially targeting copper, with coal and potash to follow. Cutting down on import dependency is the obvious thrust. Chinalco will hold 51%. China has diverse geology which is yet to achieve its minerals potential. In landmass (9.6M km²) it equals the USA but its copper consumption, 7.4M/yr, (39% of world) dwarfs its production at 1.16Mtpy (7% world). Despite its massive presence coal, it is still heavily import dependant.

Relative Positions in Coal, USA, China, Russia. 2011

	USA	China	Russia
Reserves (all types)/bn tonnes	237	114	157
% World Total	28	13	18
Production (Mt/y)	552	1800	149
% World Total	15	48	4

Consumption	525	1713	94
% World Total	15	48	3
Net Imports (Exports)	(12)	66	(58)
% World total	(1.6)	9.3	(8.1)

Source: BP

LME Tin Stocks are getting at c. 13,000 tonnes uncomfortably low. They are effectively 13 days world consumption compared with 43 days for aluminium. The price, at c. $21,000 is level across the next 15 months and down 13% on its peak of c. $27,000 a year ago. Most tin is exported from source (73%) with Indonesia accounting for 37% of trade movements. That country is a bit jittery right now, so tin could get exciting.

Metal Stocks in LME Warehouses

Metal	19 Nov 2011	26 Nov 2011	% Change
Aluminium	4,561,050	4,565,300	0.09%
Copper	399,625	395,975	-0.91%
Lead	375,800	369,975	-1.55%
Nickel	83,220	88,476	6.32%
Tin	14,145	13,230	-6.47%
Zinc	751,825	742,900	-1.19%

Source: Mining Journal

Commodity Price Movements

Commodity		19 Nov 2011	26 Nov 2011	% Change
Aluminium	$/tonne	2,085	1,992	-4.46%
Copper	$/tonne	7,582	7,175	-5.37%
Lead	$/tonne	1,996	1,956	-2.00%
Nickel	$/tonne	17,925	17,145	-4.35%
Tin	$/tonne	21,400	20,700	-3.27%
Zinc	$/tonne	1,925	1,903	-1.14%
Gold	$/ounce	1,727	1,691	-2.08%
Silver	$/ounce	32.17	31.76	-1.27%
Platinum	$/ounce	1,598	1,541	-3.57%
Brent Crude Oil	$/bbl	107.1	107.6	0.47%
Platinum/Gold	Ratio	0.925	0.91	-1.62%

Source: The Times of London

Bulk Minerals

Spot coal, uranium and iron ore cargoes slipped a notch last week, but the least trackable of the bulk minerals, fertiliser, is receiving mega attention. This one will run. Now we have mostly heard of potash and have a sort of idea what it is and does, but phosphates? Who or what the devil are they? It would pay us to find out, because potash alone has an annual street value that compares with other commodities as follows:

Comparable value of Popular Minerals/Annual usage in $billions:

Potash/$36 billion	Uranium/$3 billion	Lead/$8 billion	Zinc/$24 billion	Silver/$26 billion	Nickel/$30 billion

Now its demand profile is much rosier than its metallic neighbours because it makes plants grow. The world population is growing rapidly so we shall need more food.

"More cars and washing machines, too," we hear you say.

Ah yes, but in a downturn you make the old one last longer. You cannot do that with food. So, how does potash make things grow? Well, plants need three key elements in the soils in which they grow: potassium (K), nitrogen (N), and phosphorus (P). So proprietary fertilisers are known as NPK. They also need a variety of trace elements, like selenium and cobalt and aluminium, which all conveniently occur in the potash rock. This rock is usually found in thickish hot seams at uncomfortable depths in the earth. It has to be mined at considerable cost. It is also quite selective about where it sits, like Canada and Russia. Finding a deposit on the surface reduces costs considerably. One such is in Ethiopia, being developed by **Allana** (AAA.TO C$1.12; Hi-Lo C$2.43-0.46) which hopes to be in production by 2014. Also active in the area are BHPB, Ethiopian Potash and the Australian, South Boulder. BHPB also has a massive development in Saskatchewan, Canada. Much activity is also underway in Brazil, a major fertiliser user. Current usage worldwide is about 60 million tonnes per year with a forecast growth rate of around 5%. An ever-tightening market looks likely until 2014-15, when some of the new projects should bear fruit. We shall progressively track the investment opportunities in both potash and phosphates. There will be lots.

Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt			
4 Nov 2011	**11 Nov 2011**	**18 Nov 2011**	**25 Nov 2011**
$122.9	$137.7	$147.4	$140.4

Source: The Steel Index

Precious Metals

Can demand rise yet the price fall? Sure can. We have been warning for some time that in a severe recession the flight into tangibles will be halted because people will not be able to afford them. So platinum and silver, very much the industrial components of the precious metals trio, are already feeling the strain.

Prices and Ratios of Precious Metals 2008 – 2011

Date		27.12.08	31.12.09	30.12.10	25.10.11
Gold	$/oz	838	1104	1408	
Platinum	$/oz	856	1470	1745	
Silver	$/oz	10.70	16.58	30.44	
Pt/Au	Ratio	1.02	1.33	1.24	
Au/Ag	Ratio	78.3	66.6	46.3	

What does it signify? That what goes up might just come down. All three metals are already well below their 2011 highs and platinum is in surplus. The flight from currencies has been the driver for all three above, but a realisation is surely dawning: there is no alternative to the US dollar in volume. We have:

GDP Values of the Major Countries ($Trillions)

	World	E.U.	USA	China	India	Japan	Germany	Russia	UK
$Trillion	$78.3	$15.6	$15.2	$11.2	$4.4	$4.4	$3.0	$2.4	$2.2
Percentage	100%	19.9%	19.4%	14.3%	5.6%	5.6%	3.8%	3.1%	2.8%

Whilst the EU/Eurozone one is normally the strongest bloc, it is currently struggling to stay alive and would hardly put itself up as the world reserve currency right now. China is wisely content to maintain a fixed parity to the dollar. The others do not have the volume singly and the possibility of their combining is non-existent. So George Washington it is. Now a strong dollar rarely betokens strong gold. So let's beware the runaway prophets. Not that this will necessarily stop them, GFMS, no less, says investment demand will push silver over $50/oz by late 2012. So far this year it has been a not-so-shabby $36. It admits there will be a production – to – consumption surplus, but investment will take up the slack. It forecasts 278Moz from that sector in 2011. Other commentators warn that silver's very volatility holds its back. It topped $50/oz earlier this year yet slid over $20 in one trading hit. Not good for the digestion.

India should buy more gold. The inhabitants of the world's second most populous country (it will overtake China soon) are very fond of gold. They took $11bn worth in Q3 2011, level with China and 27% of world total. But not so it's Central Bank. It has told the Government to buy more. There is certainly scope. To perspectivise it: National stocks stand at 558 tonnes, less than 2% of world bank holdings. For almost 20% of the world's population that is hardly flying the flag now is it? Even China has almost double that whilst the USA wallows in over 8000 tonnes. Meanwhile India's Rupee has fallen massively against the dollar and it now at its lowest for 32 months.

Europe and Gold. Is it indicative that Europe bought more gold than either the US or China last year? It is hard to lay that at the doorstop of anything other than the Euro crisis. But with belt tightening its only choice we cannot see the trend continuing; bar a currency collapse, of course.

Shares versus Bullion? Only the market will answer the plaintive call for a rerating of gold shares relative to the gold price. So heavyweights like Soros and John Poulson are buying the stocks. Just one teensy problem, would you buy a share when its underlying commodity might go down as easily as go up? Historically, the boys have a case.

Performance of Gold Shares versus the HSBC Gold Index

	25.11.11	15.11.11	8.11	3.11	1.11	7.10	7.9
Gold Price $/oz	1691	1743	1625	1436	1381	1200	936
HSBC Global Gold	256	278	284	280	273	227	186
Ratio Gold v Index	6.6	6.27	5.72	5.13	5.06	5.29	5.03

Source: Mining Journal

The trend is not dramatic but obvious. The current price level for gold is not trusted. Dividend growth is not keeping pace with earnings and even learner ore grades are being pursued.

Central Bank Buying. WGC tells us the national banks bought c. 150 tonnes of gold in Q3 2011 but nobody knows which ones. Clearly only those who can afford it, by virtue of their FOREX reserves. Top of the pops is China, with $3.2 x 10^{12}$. Before we get excited, that would buy them about 600 tonnes, to bring their total to c. 1700 tonnes, or a half of what Germany holds and about a fifth of Fort Knox levels. It would also curtail their shopping trips to Africa. Nor might it provide the insurance cover many think that brings. Portugal (the P in P11GS) has 82% of its foreign reserves in gold but has just had its government bonds reduced to junk status.

Christmas has come early to India. Beside ATMA dispersing little bars of bullion they now throw out diamond jewellery. It will be interesting to learn what the buyback arrangements are.

Minor Metals

Minor Metals

Minerals	Unit	Dec 2008	Dec 2009	Dec 2010	June 2011	Oct 2011	11 Nov 2011	18 Nov 2011	25 Nov 2011
Antimony	$/t	$4,000	$5,800	$12,000	$17,500	$13,500	$12,800	$12,800	$12,800
Bismuth	$/lb	$7.75	$6.80	$9.00	$11.75	$12.20	$11.80	$11.60	$11.60
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	108.44	106.94	106.32

Source: Mining Journal

Exchange Rates

The US dollar dominated again last week and no reason for it not to do so again this. There are reasons a-plenty. The Eurozone was hit by a succession of poor results in government bond market auctions and ratings agency downgrading. Italy saw its short term offering, six months and two years only get away at c. 7% rates, the highest since the Euro was launched. Germany's 10-year rate rose above that of the UK for the first time in two years whilst Hungary saw its sovereign rating downgraded to Ba1 (below investment grade) by Moody's. The dollar was remarkably strong against the commodity weighted currencies.

The obvious downside for miners is that they produce in their domestic currencies but sell in dollars. Movements over 3 years have been significant.

Exchange Rate Movements

Currency	19 Nov 2011	26 Nov 2011	% Change
£:US$	1.58	1.55	-1.90%
£:€	1.17	1.17	0.00%
£:SA Rand	12.94	13.16	1.70%
US$:Aus$	0.99	1.03	4.04%
£:Aus$	1.57	1.59	1.27%
US$:Br Reale	1.78	1.88	5.62%
US$:C$	1.02	1.05	2.94%
US$:€	0.74	0.75	1.35%
US$:SA Rand	8.19	8.50	3.79%
US$:Rupee	51.34	52.24	1.75%
US$:HK$	7.79	7.80	0.13%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.72	3.79	1.88%
US$:Japanese Yen	76.90	77.68	1.01%
US$:Thai Bhatt	30.80	31.37	1.85%
US$:Yuan	6.35	6.38	-1.90%

Source: Financial Times

	Australia	Brazil	Chile	India	RSA
One $ US	A $	R $	Peso	RS	R
November 2008	1.52	2.13	671	49.5	9.85
November 2011	1.03	1.88	526	52.2	8.50
% Change		-12%	-22%	+5%	-14%

Energy

Spot Uranium Price, $/lb U_3O_8					
31 Dec 09	31 Dec 2010	5 Nov 2011	12 Nov 2011	19 Nov 2011	26 Nov 2011
$44.0	$66.0	$52.00	$52.75	$55.25	$52.25

Source: Mining Journal

Gemstones

One thing the gemstone trade can guarantee is that if it is not busy now, in the run-up to Christmas, it never will be. But the retail mood is sombre. The miners have been staring at what the rest of us now know since mid year, when the price of most commodities peaked. In the diamond cartel days, the CSO would have instructed its members to slow down production, then restricted supplies to the market and the price would have been maintained. Now De Beers is on demob leave. The largest single miner, **Alrosa** of Russia, took the initiative and cut back in Q3 by about 20%. Thus 26.238Mct in the first nine months, but only 6.912Mct in Q3. It reports bustling sales, up 27%, year-on-year, to $3.56bn. Alrosa does not speak of altering prices for the balance of the year. **Debswana**, the joint and massive De Beers/Botswana Government miner and marketer, has cut staff by 15% to make itself leaner and keener. It employs 4200 people. Not all is gloom; online retail sales are expected to increase 15% to $37.6bn for the Christmas season. **Lonrho Mining** persists in Angola, not a place for the fainthearted. It has been rewarded with a 53.25ct stone from its Lulo, alluvial project. The hunt is now on for the mother lode, the kimberlite pipe which spawned the rock.

Botswana's diamond exports fell 44%, year-on-year in September 2011 to $166.8M. **Canada** is Nº 4 in world diamond mined output and like the rest of the dirty who delve, wants to beneficiate at source. It could create "thousands" of jobs says Diamond Bourse of Canada G M Adam Shubinsky. Just one teensy problem Adam my boy. Most of Canada's diamonds come from North of the 54° where all winter long, with the temperature 60° below, you pray for summer. All summer long, as the mosquitoes and black flies absorb you into the food chain, you pray for winter. To compensate, they pay a mine storekeeper more than it costs to run an entire cutting factory in Mumbai or Jaipur. Canada should not count on displacing India or China overnight.

The shares were a mixed bag, down for choice. **Gem Diamonds** (FTSE) had fallen for 3 straight weeks, shedding 13% in the process. **Karelian Diamonds** (AIM), hangs on by its bootlaces at 1.59p. **Petra**, too, is being mauled despite its vigour. At 99p it lost 7.7% last week.

Firestone Diamonds (See Small Caps) put out an impressive annual report on its activities in the safe havens of Lesotho and Botswana. In the current climate it could not prevent it from slipping over 19% to 9.88p. Come a recovery – and there will be one – this company should motor.

Countries

It was a bad week for the Roots – Running Out Of Things Society. Mozambique finally moved to join the top table at mining poker. It has a good hand to play.

It sits well geographically with a long Indian Ocean coastline and borders on RSA, Zambia, Zimbabwe, Malawi and Tanzania. Both its size, at 0.8M km² about ²/₃ that of South Africa and odd shape probably owe much to its colonial Portuguese past rulers having discovered sleepy tonic. Independent since 1979 it endured a long civil war, aided and abetted by the Soviets but has now convinced investors that as a democratic republic with huge, untapped mineral wealth it is a good place to go. Given that its neighbours all have well aired growing pains it has attracted majors including Vale, BHPB and Rio Tinto. Now it seeks to allay concerns that it will behave as erratically as many fledgling mining democracies. There are major prizes for doing so. The country has vast resources of coking coal, gold, tantalum, diamonds, rare earths, iron ore and bauxite. It houses a major aluminium smelting complex. Like its neighbours it lacks oil and gas but has major river systems and much scope to develop transport routes to its ports. To consolidate and improve its investment profile it intends to submit a new mining law by year end. It currently has a middle-of-the-road taxation system of 35% corporation tax plus a production tax currently levied at 12% on diamonds and 3% to 8% on other minerals. Mining currently accounts for less than 5% of GDP but plans are afoot to make it a mainstay, particularly using coal as a spearhead. A major obstacle is the time taken to process paperwork from exploration to production. This might improve sooner rather than later. The mines minister, Esperance Bias, is of the female persuasion.

If she takes a leaf out of the book of South Africa's redoubtable Susan Shabangu, she will transform the Mozambiquan. Economy. Transport from the mines to the coast will loom large. Recent painful lessons have been learnt from majors squabbling about sharing rail facilities, particularly in Australia and West Africa. Vale, no less, is in favour of sharing. This will feed through into port and shipping facilities. The game is on. Amongst the non-conglomerates involved is **Baobab** (BAO.L 14p; Hi-Lo 57.72-10.08p) nursing along an iron-vanadium-titanium project in the key Tete Province.

South Africa, BHPB and who pays what for power. The Republic's power problems are acute with State generator Eskom's generating capacity both running at low efficiency and failing to expand to meet the growing demands of the country's mining industry. Tariffs are being hiked in excess of 20% per year, ostensibly to provide new capital. Yet some industries designated as "key" are receiving low, differential rates which are not pleasing the populace. Further, such rates are not disclosed and there is a clamour for them to be so. In the firing line is BHP's big Hillside aluminium smelter at Richard's Bay. Its price-for-power formula involves 3 key elements: the LME metal price, the Rand/Dollar exchange rate and the US producer price index. All a bit complex when you use domestic coal and labour to switch the lights on. Right now Eskom is losing money on its aluminium contracts. The Hillside unit plus its sister Mozal use some 5.7% of Eskom's output. The metal is in world oversupply and some sources predict wholesale shutdowns in early 2012.

Ghana. Nice place, a bit sticky, sea levelish with a mosquito problem only kept at bay by Tsetse flies, but for years it has run a good mining show. Gold is the bedrock but good reserves of bauxite, diamonds and minor metals are exploited. Unusually for much of Africa, the country has natural gas yet can generate 95% of its electricity needs from hydro. OK so far? It is perceived to be a good investment destination because of a competitive investment code. This has attracted in **Newmont**, **Anglo Gold Ashanti**, **Goldfields** and the expanding **Goldplat.** Ghana looks for 9.4% GDP growth in 2012 following an exceptional 13.6% in 2011. Still ok? Well it is about to increase taxes because, it tell us the IMF says it is a good idea. So up will go corporate tax from 25% to 35% plus (wait for it) a 10% windfall profits tax. It is mostly about the gold price going up. These are still not punitive rates but the fight for your mining investment dollar is intensifying. Ask a Tsetse fly. The local miners union is all for it but the Chamber of Mines is not.

Zambia. The country's decision to double its export royalty rate on copper from 3% to 6% is ok says the World Bank. It's a strange phenomenon about statutory monoliths (World Bank, IMF, Bob Geldof) knowing so much about mining. The bank says it won't hurt the industry unless the price of copper goes down. They get paid to say that. They are now wholeheartedly supported by Vale, First Quantum, Barrick Gold, Vedanta and Metorex (soon to become Chinese).

Watchtower.

There was no outright winner in our guess the gold price fix competition for Friday November 25th which was, of course, $1688. So, the closest was Mrs K. Elser of Grand Cayman, BWI at $1685. To her go our congratulations and the 1924 Greek Government Refugee Bond. Will there be a 2012 one?

Forward Diary

28 November 2011:	Anglogold Ashanti Ex-Dividend
30 November 2011:	Harmony Gold AGM
4 & 5 December 2011:	Mining Journal Canada and Australia Days, respectively
6-7 December 2011:	Mines & Money, London

David Hargreaves
26 November 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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