Hargreaves

Week in Mining

30 October 2011

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World's Economic Problems Solved! Euro Crisis a Mistake! Harvard Business School for Sale on E-Bay! Merkel and Sarkozy put Heads in Oven, but Cannot Afford to Turn on the Gas!

That the world would trace the roots of its recent economic problems from the inflation tree on the front of the White House lawn to the Oval Office was never in doubt. It was just the digging up that would be messy. So they cut the grass around it instead. American-driven fuel price inflation is the real culprit, not Greece, Italy or the Euro. If you have a commodity which represents in its various forms the cost of over 90% of the total raw materials basket and allow it to quadruple in 10 years, then almost double in one what else do you expect?

The Price of Crude Oil (Brent) $ Per Barrel

1976	1980	1985	1990	1995	2000	2005	2010	2011 (Oct)
12.80	36.83	27.56	23.73	20.67	28.50	54.52	79.50	112.0

Source BP

When oil and its stable mate natural gas, are in the grip of a manipulative cartel, OPEC, and together measure almost 60% of the total fuel mix, you have a problem. When a single nation with only 4.5% of the world's population, takes almost 25% of the available exports you have the United States and an even bigger problem. We can almost sideline the fact that the price of that great staple, iron ore, has almost doubled in two years prior to its recent pull back. It is but 3.2% of the basket. The prices of most industrial minerals have racked up in the past two years and are significantly ahead of their levels of 5 years ago. Yet in total they are only 14% of the market. It is comforting to blame China. Watching that growing child's appetite is a joy to behold but in truth this mess has little to do with China. It is about the price of oil and the voracious appetite of the world's leading economy, that of the USA.

Here is how it compares with two other rising stars, Brazil and China.

Consumption and Imports of Crude Oil. 2010

Country	Population (Millions)	Total Usage Mtpa	Usage Per Head Tpa	Imports Mtpa	Imports Per head Tpa
USA	307	850	2.77	456	1.49
Brazil	192	117	0.61	11	0.58
China	1331	429	0.32	235	0.18

Source: BP

Now America's oil demand has actually slowed down, being 4% lower that it was 10 years ago, but its domestic production has fallen commensurately. What has not slowed is its oil imports appetite. The role of the other minerals is minor in comparison.

The Mineral Commodities Basket. World Production and Value 2010					
Commodity	**Unit**	**Price $**	**Production**	**Value $bn**	**% Total**
Energy					
Crude Oil	MTonne	821	4,028	3,306	32
Natural Gas	Mtoe	821	2,858	2,346	23
Coal	Mtoe	821	3,356	2,755	27
Nuclear	Mtoe		626	514	5
Total Fossil Fuels				8,921	87
Hydro	Mtoe	821	776	637	6
Total Energy	Mtoe		12,002	9,558	93
Precious					
Gold	tonne	1,700/oz	2,550	93	0.9
Silver	Moz	33/0z	879	29	0.3
Platinum	Moz	1,670/oz	7.56	13	0.1
Palladium	Moz	650/oz	8.94	6	-
Total Precious				141	1.3
Non Ferrous					
Aluminum	Mt	2,200/t	39.7	87	0.8
Copper	Mt	7,600/t	19.2	146	1.7
Nickel	Mt	19,300/t	1.5	29	0.3
Tin	Mt	22,300/t	0.4	9	-
Zinc	Mt	1,840/t	12.3	23	0.2
Total Non-Ferrous				***312***	***2.87***
Iron Ore	Mt	140/t	2,430	340	3.2
Total				10,351	100.0

Source: BP, Deutsche Bank, Mining Journal
Mtoe = million tonnes oil equivalent

These are the 16 most used commodities which fill the minerals basket. Oil and gas alone account for 57%. Add coal, which is not so strategic and it become 84%. The entire energy suite is 93%.

Inflation is broadly defined as too much money chasing too few goods. This is not really so with oil. In 2010 the world reserves-to-production ratio for oil was 46 years, greater than copper at 32 years. The key player here is Saudi Arabia which has 76 years' supply but limits itself to 12% of total production. It has only two competitors, the Russian Federation (12.9%) and the USA itself (8.7%). So this is a strategic game, as the prices table shows. It is all about Middle East politics and the well founded belief that Uncle Sam's addiction to the gas pump is incurable. That it appears on the Congressional wish list below rare earths and greenhouse gas emissions says much for America's lack of international awareness. It is only a passing comfort that Sarah Palin can purportedly see Russia from her attic window. But in fairness US imports do come from a geo-political spread of locations.

They might be considered as:

Safe: Canada (22%), Europe (6%)

Semi-safe: Mexico (11%), Former Soviet Union (6%)

Suspect: South and Central America (19%) [1)], Middle East (15%), North and West Africa (19%) [2)]

Note: [1)] includes Venezuela and Ecuador. [2)] Includes Libya, Syria, Angola. Balancing the mix calls for an awful lot of diplomacy, not America's long suit. It also necessitates the development of nuclear carrier fleets, armies and supporting hardware.

So could we hear it for US self-sufficiency? M-A-Y-B-E. Domestic reserves are low. Crude oil is 11.3 years, natural gas 12.6 years, Coal is vast, they speak of 240 years and shale gas is coming up on the outside. Uranium is an enigma.

The country already produces 31% of the world total nuclear electricity but is highly reluctant to expand. Neither can you run cars and planes or produce plastic out of uranium. So might we hear it for self control?

If they got themselves down to Germany's per capita usage of 1.40 tonnes oil per head, that would save 420 million tonnes of oil per year, almost the whole import quota. Just think, they would no longer need to be nice to the Middle East, Africa and South America. There would go 5 nuclear carrier fleets at one hit. If somebody sold this to Barak O, it could be his idea before the next election.

Then what would it do to the price of oil? Only 10 years ago it was $28 per barrel. At that price the Greeks could lie on the beach all day, Berlusconi go talent spotting again, Angela Merkel postpone World War Three and Dave Cameron sign up for the Euro.

Crisis, what Crisis?

The Markets: Major Caps

Anglo American is still in spending mode and of the Australian variety, even as that country catches a bad press on mining taxation (See Countries). Anglo's mineral of choice for a $10-15bn spree is coal and an expansion of its operations there. As our leading article starkly shows, if you are in the energy or steel business, you have little choice. This will all be in the high price metallurgical end. This does not stop hard-hitting CEO Cynthia Carroll slamming the country's proposed carbon tax. She urges them to take consultative approach to tax "fugitive emissions" for which there is as yet no technology to stop? Perhaps all mining CEOs should be obliged to spend a session as a politician and vice-versa.

Xstrata. As we noted last week, the big diversified miner made a monumental mess of its attempt to launch a share ownership scheme for employees in RSA. It is an idea ahead of its time in a country plagued by unemployment and power outages. They have a saying in Florida: when you are up to your armpits in alligators it is difficult to remember that your original intention was to drain the swamp. The ensuing strike is due to be settled in the next few days but the big miners ignore at their peril that they are facing in the NUM. Repent at leisure springs to mind.

Vale and Potassium. The mineral which is spelt with a P but whose chemical symbol is K, is an essential ingredient of the fertilizer mix. The stuff we use to make crops grow is the hottest commodity prospect today (see Bulk Minerals). Brazil is both a massive user and importer. Meanwhile it has vast deposits of its own, mostly in the form of the more recognisable mineral potash and mega corporation Vale is amongst those proving and developing them. This does not stop the mighty miner (Nº 4 in bauxite, Nº 9 in alumna, Nº 3 in nickel and Nº 1 in iron ore), venturing into Argentina. It will develop the Rio Colorado potassium deposit and deliver shipments by 2014. This is a c. $5bn project which targets 2.4Mtpy of K. By then an acute global shortage is forecast, so the timing could be right.

Still on Vale. The Q3 2011 profit fell by 18% to $4.84bn in Q3, blamed much on a fall in the value of Brazil's Real against the iron ore sales currency, the US dollar. The company fell into the trap of hedging against a rising local currency, only to see it fall. The temptation to hedge affects the largest and the smallest companies but unlike death and taxes can be avoided. The advice? Don't speculate on the price of your commodity or on someone else's currency. When you get your sales dollars, change them into your own currency and stick by it.

Chile Fronts up Anglo. We reported recently on how Chile unearthed a little nugget, a very juicy little nugget which allows it to buy a 49% interest in Anglo American Sur, which just happens to own Codelco, the country's and the world's largest copper mine, for over $8.0bn. It intends to exercise its right. Now that's a nice windfall for any company, but at the price of a half of 0.736Mtpy of copper per year. How will Chile meet the bill? Why, by raising $1.15bn via a 10-year bond at 4% and – wait for it – a $6.75bn bridging loan from Japan's Mitsui. Good to know who your friends are.

Coming to London. The Square Mile is still the favourite rendezvous for the major miners. Russia's Polymetal is destined for the FTSE 100 with a price tag of c. $6bn and a free float of over 50%, two essential qualifications. Conditional trading opened Friday at 920p per share. The others are Polyus Gold and steel maker Evraz where Roman Abromovich, aka Chelsea football club, is the major shareholder.

Share Price Movements, Majors

Stocks	22 Oct 2011	30 Oct 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5488.65	5702.24	3.89%	6,002-4,790	19.04%
Anglo American	2220.0	2462.0	10.90%	3,335-2,210	11.40%
Antofagasta	1096.0	1255	14.51%	1,556-756	66.01%
BHPB	1897	2102	10.81%	2,585.5-1,678	25.27%
ENRC	658	700	6.38%	1,276-554	26.35%
Gem Diamonds	201.3	223.1	10.83%	300-182	22.58%
Glencore International	403.5	450.0	11.52%	550-348	29.31%
Hargreaves Services	1052.0	1125	6.94%	1,072-550	104.55%
Kazakhmys	856.5	1017	18.74%	1,634-793	28.25%
Rio Tinto	3151.0	3620	14.88%	4,592–2,751	31.59%
UK Coal	32.25	34.75	7.75%	83-32	8.59%
Vedanta	1167.0	1404	20.31%	2,958–1,101	27.52%
Xstrata	951.5	1132.5	19.02%	1,514-820	37.98%

Source: The London Times and the FT

The Markets: Share Price Movements, Small and Medium Caps

A good performance on the small board. Sirius (potash) rewarded its faithful followers after good drilling results. Double figure increases were also notched up by Ariana, ACR (Zimbabwe), Arian Silver, Frontier Mining (gold and copper), Hambledon Mining (gold and copper), Kryso (gold), Orogen Gold. The only faller of consequence, Beowulf (iron ore in Sweden) suffered mild profit taking following a spectacular rise of late.

Is there a sector message? Pundits and institutions alike have bemoaned that fact that for months if not years, gold shares have not tracked the gold price. Does this mean they are about to start? One week is by no means a measure, so we shall track it. Here is your starter pack:

FTSE Gold Share Index vs Gold Price. Month Ending

Date	Oct 2011	May 2011	Oct 2010	May 2010	Oct 2009	May 2009	Oct 2008
FTSE Index	2986	2591	3581	3197	2849	2788	1621
Gold Price ($/oz)	1718	1518	1333	1192	1034	950	726
Ratio	1.73	1.70	2.69	2.68	2.80	2.97	2.23

Source: *The Mining Journal*

The inference must be that at lower gold prices, quality and low cost are appreciated. Higher bullion prices are not yet trusted and dividends have not in any case kept pace.

Goldplat (AIM) moved up only a notch on good results from its Burkina Faso gold project at Nyieme. The reported 5m intersection from 14 to 18m at 1.24g/t is respectable. It brings the JORC resource to 28,000 oz indicated and 65,000 oz inferred. Not nearly enough for a mine, but a good start.

Arian Silver rose 19% following some good drill results at is San Jose property in Mexico. 3.5m from 325m down at 142g silver is mineable. The current N43-101 indicated resource is 8Mt running 117g/t silverplus minor lead and zinc. An inferred resource runs 17MT at 107g/t silver. We see this as a silver price related mover.

Boabab (BAO.L 20.88p; Hi-Lo 57.72-9,25p) hangs on in between high and low as it meticulously drills off and reports on its magnetite-titanium-vanadium deposit in the Tete District of Mozambique. This one continues to shape up with indications of a saleable concentrate resulting, hopefully a route to the Indian Ocean and a buyer in Asia.

South Boulder Mines (STB.AX A$2.22; Hi-Lo A$6.25-0.95) is doing potash in not the most blessed location, Eritrea. The initial plan is to produce 1.0Mtpy murite of potash for 11 years and by open pit, which helps the economics enormously. We need more information but potash is becoming a byword for paying attention, particularly if it is open pittable.

Share Price Movements, Small and Medium Caps

	Company	22 Oct 2011	30 Oct 2011	% Change	1 year Hi-Lo	% above low
AAU	Ariana Resources Plc	4.63	5.38	16.20%	5.25-2.25	139.11%
AFCR	African Consolidated Resources	2.63	3.25	23.57%	11.75-2.63	23.57%
AGQ	Arian Silver Corporation	21.0	25	19.05%	54.25-6.5	284.62%
AXM	Alexander Mining Plc	5.13	5.38	4.87%	17.0-5.0	7.60%
BEM	Beowulf Mining Plc	45.75	39.75	-13.11%	74.25-3.5	1035.71%
CGNR	Conroy Gold and Natural Resources	3.13	3.13	0.00%	12.9-2.75	13.82%
CLF	Cluff Gold	87.0	93.25	7.18%	125.75-64.5	44.57%
DCP	Diamondcorp	6.38	6.5	1.88%	16.9-6.38	1.88%
DME	Discovery Metals Ltd	86.5	91.5	5.78%	96.0-37.25	145.64%
EUA	Eurasia Mining	0.83	0.80	-3.61%	1.75-0.75	6.67%
FDI	Firestone Diamonds	14.25	14.38	0.91%	36.5-22.25	6.52%
FML	Frontier Mining Limited	3.6	4.18	16.11%	8.5-3.05	40.27%
GDP	Goldplat	11.13	11.63	4.49%	13.25-8.0	45.38%
GEM	Gemfields	21.63	20.0	-7.54%	24.75-3.75	433.33%
HER	Herencia[3]	2.0	2.53	26.50%	4.0-0.5	406.00%
HMB	Hambledon Mining	3.63	4.13	13.77%	8.25-3.12	32.37%
KAH	Kalahari	233.0	233	0.00%	301-142	64.08%
KDR	Karelian Diamond Resources	2.38	2.38	0.00%	5.25-1.0	5.78%
KEFI	Kefi Minerals	3.08	3.10	0.65%	9.5-0.5	520.00%
KYS	Kryso Resources	20.5	24.5	19.51%	19.5-12.5	96.00%
MWA	Mwana Africa	4.13	4.15	0.48%	14-3.98	4.27%
NYO	Nyota Minerals	7.98	8.38	5.01%	30-7.4	13.24%
ORE	Orogen Gold Plc	0.67	0.75	11.94%	1.62-0.2	275.00%
PDL	Petra Diamonds	118.0	121.5	2.97%	189-60	102.50%
RLD	Richland Resources	9.75	9.88	1.33%	16.0-6.5	52.00%
SNRP	Strategic Natural Resources	16.5	16.75	1.52%	27.75-8.25	103.03%

SXX	Sirius Minerals Plc	11.5	16.25	41.30%	20.75-1.25	1200.00%
TMC	Toledo Mining	22.75	24.5	7.69%	34.25-20.25	20.99%
VGM	Vatukoula Gold	78.0	82.0	5.13%	227-76.75	6.84%
ZOX	Zincox	52.5	52.0	-0.95%	77-32.25	61.24%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

Call it a bounce if you like, but traded metal prices reacted as did the shares and exchange rates to the launch of that new confection, Euro Fudge. Even the numbers celebrated: copper transiently above \$8000/t, lead nudging \$2000 again, nickel \$20,000. Will it last? It must come hard to realise your immediate future will be decided on how they behave on a beach in Greece or the shipyards of Shanghai but these are the drivers. There is no mood for hitting the high notes again but a least the dance floor feels less slippery.

Aluminum nudged up the statutory 5%. It is behaving like a cult religion, whose followers seriously believe in life hereafter. That they include Rio Tinto, Alcoa, Anglo must be noted, but let's look at the facts. The malleable metal is in oversupply. Its warehouse stocks of almost 5 million tonnes equate to 45 days total world usage, compared with less than 9 days for copper. Its end uses are under threat too. Transportation takes almost 30% and that includes the skin and framework of aircraft. The recently flown Boeing 787 Dreamliner uses an awful lot of carbon fibre instead. The metal is also expensive to produce, being highly energy intensive. This prompts producers to ship the raw material, bauxite, to places where hydro-electricity abounds like Canada and the US Pacific northwest. That it has prompted Alcoa, the world's 3rd largest smelter, to look at Angola (see Countries), smacks of suicide. Slightly less self destructive is an MOU signed between tiddlers **Belzone** (AIM) and **Anglo Aluminum** (TSX-V) in Guinea. That country holds the world's largest reserves of bauxite and has massive hydro potential.

Copper. China will increasingly matter if the market ever resumes a semblance of normality. At the first China Metal Forum in Sweden organised by Raw Materials Group (RMG), a spokesman for Beijing-based consultancy Antaike said his country's use of copper will not peak until 2020. They speak of 7% p.a. annual economic growth. In 2010, China topped the consumption table at 7.4Mt, or 39% world demand. At 7% pa growth for the next 8 years, that becomes 12.7Mt, a 28% increase in present world supply. Whether we like it or not, a lot of that will have to come from the DRC and Zambia.

The case for copper is strengthened by worldwide disputes affecting the industry. They are hitting Chile (34% of world production), Peru (8%), Zambia (5%) and Indonesia (5%). In that country the giant Grasberg copper, gold mine of Freeport McMoran (Nº 2 producer at 10% world output) has been forced to declare force majeure on shipments because of very serious labour problems. These have escalated into violence and sabotage. These are pay-related problems. Grasberg is the world's second largest copper mine.

Metal Stocks in LME Warehouses

Metal	21 Oct 2011	28 Oct 2011	% Change
Aluminium	4,569,875	4,554,450	-0.34%
Copper	450,850	434,675	-3.59%
Lead	387,925	388,375	0.12%
Nickel	88,488	88,128	-0.41%
Tin	17,800	16,590	-6.80%
Zinc	792,650	784,875	-0.98%

Source: Mining Journal

Commodity Price Movements

Commodity		21 Oct 2011	28 Oct 2011	% Change
Aluminium	\$/tonne	2,110	2221	5.26%
Copper	\$/tonne	7,862	7981	1.51%
Lead	\$/tonne	1,841	1986	7.88%
Nickel	\$/tonne	18,670	19695	5.49%
Tin	\$/tonne	21,750	21910	0.74%
Zinc	\$/tonne	1,793	1906	6.30%
Gold	\$/ounce	1,638	1736	5.98%
Silver	\$/ounce	31.2	34.96	12.05%
Platinum	\$/ounce	1,511	1648	9.07%
Brent Crude Oil	\$/bbl	110.4	109.6	-0.72%
Platinum/Gold	Ratio	0.922	0.95	3.04%

Source: The Times of London

Bulk Minerals

Iron ore continues to grab the headlines for, as far as the producers are concerned, the wrong reasons. The spot price has now collapsed in a straight line from $171/t to $116/t or 32% in a month, a full 19% last week. The immediate reason is given as Chinese steel mills working off inventories. The country takes some 600Mt, or two-thirds of the global seatrade, according to Australia's Fortescue metals, a major supplier on pricing mechanisms. The annual contract by which majors Vale, Rio Tinto and BHPB has long supplied the market, were becoming un-workable and have since been replaced by quarterly ones. In times of both feast and famine the spot market, whilst only a fraction of the total, can greatly distort the price. It is not unthinkable that, given the volume of new supplies in the pipeline, an LME-style clearing house might be established. Rio is already warm to the idea and Vale, the largest producer, is in talks with its clients about changes. As Harrison said "if it can happen it will".

Potash and its stable mates continue to grab the headlines. We note under Majors that Vale of Brazil, in addition to being active in its homeland, is venturing into Argentina on a potassium project. Prospector **Sirius Minerals** (See Small Caps) sprang to life this week with its maiden drilling results from a potentially mega potash resource in North Yorkshire, England. It was rewarded by a 40% share price rise and in our opinion should be like Thursday's child, far to go. This field is huge, one of the world's largest and already hosts the Boulby Mine, which lies adjacent to the Sirius ground. This will be a tough development but, barring red tape, should be an ultimately rewarding one. The field is known to extend beneath the North Sea into Germany where it supports a major industry. The drill holes have encountered a total thickness of 81M in three seams, all of a quality proven at Boulby. This will be a deep underground operation, subject to tough working conditions and strict planning regulations. It sits below a national park. We doubt it will see production before 2015 but is moving into a tightening market.

Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt			
7 Oct 2011	**14 Oct 2011**	**21 Oct 2011**	**28 Oct 2011**
$170.0	$157.5	$142.6	$116.9

Source: The Steel Index

Precious Metals

Platinum put on a better show as US trade figures improved and the Euro fudge-eating contest entralled the market. Yet the all-important RSA producers are in a corner. Costs, mostly self-inflicted wounds, are catching up on them rapidly. There should be a health warning which says that if you cannot make a profit – and pay a dividend – at over $1600 an ounce, think of something else to do.

Aquarius Platinum (AQP.L 194.9p; Hi-Lo 424-157p) posted a thumping $91.8M loss in Q3, having succumbed to ailments including a weakening rand (down 20% against the dollar), and lower production. They also cite poor safety standards, industrial relations practices and truly nasty underground stability problems. Were it not serious it would echo. Q: What do you give a man who already has everything? A: Penicillin. The world Nº 4 still holds out its projection for 2012 to 545,000 to 560,000oz PGMs. In Zimbabwe (its problems don't stop do they?) Aquarius says it will submit its indigenisation plans by December.

Two platinum miners affected by strikes involving the NUM and the labour contractor, JIC, Eastern Plats and Royal Bafokeng, have settled on a 2-year wage agreement. Terms, ominously, are not disclosed. In the same breath the world's Nº 1 gold producer, Barrick, tells us its costs have risen 10% largely due to wage increases.

China is now the largest market in gold bars and coins, overtaking India in Q1 2011. Chinese investors bought 93.5t, a 55% increase on Q4 2000 and double that of the year before. That trends towards 15% of newly mined world total. (Reported by Gold Editor).

Exchange Rates

Exchange Rate Movements			
Currency	**22 October 2011**	**29 Oct 2011**	**% Change**
£:US$	1.59	1.61	1.26%
£:€	1.15	1.14	-0.87%
£:SA Rand	12.89	12.45	-3.41%
US$:Aus$	0.97	0.93	-4.12%
£:Aus$	1.54	1.51	-1.95%
US$:Br Reale	1.78	1.69	-5.06%
US$:C$	1.01	0.99	-1.98%
US$:€	0.71	0.71	0.00%
US$:SA Rand	8.08	7.71	-4.58%
US$:Rupee	50.02	48.76	-2.52%
US$:HK$	7.78	7.76	-0.26%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.64	3.59	-1.37%

US$:Japanese Yen	76.13	75.76	-0.49%
US$:Thai Bhatt	30.80	30.54	-0.84%
US$:Yuan	6.38	6.36	1.26%

Source: Financial Times

Energy

As our leading article spells out, there are only two commodities which really matter: energy minerals and the rest. Of the fuels, coal stands out on account of its abundance, geographical spread and relative cheapness. It counts a reserves-to-production ratio of 118 years worldwide, compared with 46 years for oil. So there is a scramble to tie up supplies of the right quality in the right place at the right price. Australia's Macarthur Coal seemed to fit the takeover parameters particularly since the joint bidders – at a $5bn price tag – were the world's largest steelmaker, India's Arcelor Mittal, and America's biggest coalminer, Peabody. However, half way down the aisle AM has fled, leaving Peabody alone but defiant. It will go solo it says, with a mixture of cash and debt. That will put its debt ratio at c. 50% and it still sees the bid succeeding at c. $16.25 per share. It should, since coal shares have taken a hammering in the past few months.

Spot Uranium Price, $/lb U_3O_8

31 Dec 09	31 Dec 2010	7 Oct 2011	14 Oct 2011	21 Oct 2011	28 Oct 2011
$44.0	$66.0	$52.75	$52.75	$52.75	$51.75

Source: Mining Journal

Gemstones

This run-up to Christmas, the all important season, has been mirrored only once in recent years, the pre-Christmas 2009 when the recession really hit home. By the same time in 2010 we were all smiles again. By mid 2011 we thought it already was Christmas but now we really don't know. It will prove a critical time for many small and medium-sized explorers and miners. Rough prices at the tender since mid-year have been seriously disappointing, with parcels failing to make their reserves. Big stones particularly really big ones, are making record prices. The major coloured stones are still witnessing strong demand but smalls are soft. Shares are riding the storm.

Big board LSE **Gem Diamonds** put on 11% to 233p, coincidental with news of its selling its whopper, Letšeng Star, a 550 carat rough of the highest quality, for $16.6M. It is the 14th largest ever recovered. Gem D had clearly linked in the sale to a share of profits from the subsequent value of the cut stones produced. Now whilst this is a nice problem to have, the sudden arrival of $16.5M into the cash account is an analyst's nightmare. Whoppers arrive with unpredictable regularity from the Letšeng Mine in Lesotho. The H1 cash generation was $111.3M, compared with like 2010 of just $27.2M. The company also has mines in Botswana and Australia. We are keeping this horse in the stable and well fed.

Richland Resources (AIM) also held its ground, up 1.1p to 9.88p as it adds to its control of the Tanzanite industry and adds sapphires in Australia whilst looking to broaden into the wider coloured gemstone scene. So too does **Gemfields** (See Small Caps), a surprising 1.6p faller to 20p. its approach to marketing is bold and innovative and could serve as a model for the industry.

Richland gave us an update (Oct 24) which underscores its determination to become a leader in coloured stones. As well as adding to the list of 'sightholders' who get first pick of its Tanzanites, it reveals excellent Q3 results. The sale of almost 600,000 carats of rough realised $4.7M, up almost a quarter on 2010. It also progresses with its entry into the Tsavorite market. This is a company on a mission.

Rough diamond demand will be about 25% down in Q4 2011 on last year, says the Israel Diamond Institute. Blame is laid at the US door, where demand for smaller, cheaper stones is well down. This anomaly represents a shift in the market. The USA cheaper end downturn is offset, but only partly, by increased Indian and Chinese demand. Tellingly, the Diamond Trading Company Botswana (DTCI), a 50/50 De Beers, Botswana Government affair, is limiting its next sight to $300M, down from $440M previously. In tough times it is right for the big boys to take the lead.

Argyle Pinks. Of the regularly offered and prized coloured diamonds, Argyle pinks, from the Rio Tinto mine of the same name, in Australia, stand out. They are but a fraction of the output which still does more than 20Mcts/yr from underground. Prices of the 55 pinks offered were not disclosed but say observers, the stones were "heavily contested", especially by the Japanese and Chinese.

Namakwa Diamonds (NAD.L 8.25p; Hi-Lo 66-7.6p) reports on its full year to August 31st 2011. There was a gross loss of $1.92M, slightly down on the $2.18M deficit of like 2010. Production was 128,191cts (82,925cts) whilst cash in hand shrank to $2.26M ($13.98M). Operational problems abound. In Lesotho, build up to steady-state production is still being achieved with $12.5M of CAPEX still required. South African activities suffered severe operating losses as did those in the DRC, although recoveries were markedly higher. These latter operations were sold post year end. This company has realised – hopefully not too late – that small ventures should not spread themselves too thinly nor venture into the DRC. If they stick to the KAO pipe in Lesotho they may survive.

Not all is gloom. Botswana exported $530M of diamonds in August 2011, 52% more than like 2010. Mr. Malema of South African Youth League thinks its government should be overthrown in favour of the Zim Model. It takes all sorts.

Countries

Alcoa and Angola. Can America's largest aluminum refiner be so desperate that it is thinking of building a 750,000 tpy smelter in one of the world's least friendly mining jurisdictions? Even as the road south is clogged up with escapees? Where corruption is a national sport? Now the trick with aluminium smelting is that it is the most ravenous user of power, so it needs the cheap variety like hydro. The Angolans are said to be 'studying' the building of some hydroplants and have their eyes on aluminum smelting. Fortunately for Alcoa's shareholders, they talk of the first metal being poured in 2020. Time allows for a change of heart. But the ruling Dos Santos family has been in charge since 1979 and shows no inclination to change its stance. Brazil has spare hydro power, too.

Australia's Taxation. The key mining country dismisses criticism of its carbon and mining taxes via its Resources Minister, Martin Ferguson telling us there are still $150 bn of projects in the pipeline. Perhaps he is a believer in Hobson's Choice. Take it easy Mr. F. before you start to make Guinea look good. Anglogold says you are now high sovereign risk. So there.

South Africa. If there were points for trying, Mines Minister Susan Shabangu would be right up there. Even as disaffected youth goes on the rampage, she promises "bold, new RSA mine law reforms" to strengthen yet simplify the granting of both prospecting and mining licenses. She also (at the Perth, Australia Commonwealth Forum) again spoke out strongly against nationalisation. We continue to view her as prime Presidential material, rather than incumbent J. Zuma's choice, Mr. Malema.

Africa and Transport. Should the continent's mining industry continue to expand, its transport network will continue to creak. Capacity has almost been reached on South Africa's major corridor from the Witbank area to Richards Bay port on the Indian Ocean. Botswana is moving rapidly into bulk minerals as is Namibia and one day too will Zimbabwe. The choice is road or rail with the latter the clear winner on both capital and operating cost grounds. At least one major new line is planned from Botswana to the Atlantic west coast and one from Mozambique's Tete region to the Indian Ocean. South Africa's Transnet is studying a line via Swaziland to relieve the existing corridor and perhaps shift 95 million bulk tonnes per year within 5 years.

Argentina, that elongated, struggling southern South American country, has strong claims to be in the top club. Long independent (since 1816), three tenths the size of the US with 40 million people and a GDP of $14,000 (China is $8,000, India $2,000) it is rich in minerals and has much oil potential. It produces close on 1.0% world output and exports over 40% of that. Its politics are a problem and it stages spasmodic yet spectacular economic crises. Newly re-elected left wing President Christina Fernandez is looking to please her supporters and shore up the bank balances by insisting the oil, gas and mining companies repatriate their export dollars and take local currency. It makes for a superb black market.

BHPB, the world's second biggest miner, says China can maintain its forecast 7%-8% annual growth. This was in response to a differently held view that a "hard landing" looms and the country will stall in 2013/14.

Tanzania is to benefit by the building of its first ever copper smelter, a 300,000 tpy job, costing $500M and paid for by a Dubai, based company, City Energy and Infrastructure. It is a bold idea, but just a few hurdles to leapfrog. Tanzania doesn't produce much copper ore and has a critical power shortage. But, says CEI, we will build a 150-250-MW coal fired power station. Tanzania does have coal reserves but they need proving-up. Now CEI (who are they?) go on to say they will look at setting up a sugar factory… and so we go on…. The well-meaning people who want to help Africa may eventually do more harm than good. If you are a miner or a refiner, stick to what you know, or the Madonna-style embarrassments of being all things to all people will end up in the lake.

Mongolia, we ignore at our peril. That land of legend, surrounded by China and undertones of Crocodile Dundee, has arrived on the mining scene. Dare we say its government is being pragmatic? Might we also venture it could just be a tad lucky? Rio Tinto (and Ivanhoe) landed on their feet with the massive Oyu Tolgoi copper deposit and fought their corner for a commercial deal. Now comes the huge Tavan Tolgoi coal deposit, all 7.5bn tonnes of it. That is more than Canada, Columbia, Indonesia or Poland can lay claim to and they all fancy themselves in that fossil fuel market. Now it is early days for the government to have hard-and-fast policies but big deposits concentrate the mind. Interested parties include Russia, China, Japan, the USA with Peabody Coal a front runner. The country is run by a coalition parliament and has a vocal group of environmentalists. Doesn't take long for word to get around, does it?

Zimwatch and the RSA Factor

South Africa's President, Jacob Zuma, is surely earning his keep these days. He is itching to crack heads together in neighbouring Zimbabwe, but pressing commitments at home (unemployment, Malema, nationalisation, power crises) and abroad (Commonwealth Conferences et al) have made him postpone yet again. He also has to concern himself with re-election before the end of 2012. First he has to discipline Mr. Malema, whose behaviour does not befit the democracy. He may boot him out of the ruling ANC Party. Now he runs a teensy risk here. Julius M might swing the youth vote behind him in a breakaway party. They can vote at 18 in RSA, the median age is 24 years, so he could probably call upon 5 million eligibles. Most of them are out of work and you know how easily led you are at that age. How will it affect JZ and the advice he gives the Zim Parliament regarding elections? We suspect statesmanship will be his ace, although he must know that a stable Zimbabwe will drain yet more mining investment away from his own dithering domain.

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

Don't miss this week's great competition! Yes, we still have some of crisp and crackly trillion dollar Zim notes that Uncle Bob wrapped last year's Christmas present in. (Never knew before that Smith and Wesson made cameras). One of them (a note not a camera) will be awarded to the reader who can tell us why they will be dancing on the streets of Niamey this week. Clues: think West Africa and think people. Additional clues will be provided (at a cost of $100 each, US variety) by email.

Forward Diary

1 November 2011:	Mining Journal Silver Day
2 November 2011:	Gem Diamonds Trading Statement
	Antofagasta Trading Statement
	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
30 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