Hargreaves

Week in Mining

8 October 2011

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"Winston, you are drunk!"

"And you, Madam, are Ugly…." Exchange between Churchill & Lady Astor

This mining market is both drunk and ugly. It has not yet reached the hangover stage, but it will. Far too much has been forced down its throat, too fast. Remorse is bound to play more than a walking-on role after which it will be difficult to avoid self-pity. The prospect of missing one's stop and waking up in the small hours, cold, alone and in a railway siding also looms. What's more, the landlord has almost certainly cheated on the bill. This night out is costing far more than was budgeted.

Fortunately, we can pay, but why should we? There's a principle at stake here. Principles, the last refuge of a scroundrel, eh? They are in short supply right now. Like host governments changing the rules when you have done your dough and the refinery is about to go live. Trouble is, they have got their timing horribly wrong, just as the miners unions have. This market is sagging and falling minerals prices are hitting us full in the face. Yet the major operators are brimming with cash, which they will not spend unwisely.

We make no apologies for the Countries column being full to the brim this week. Resource nationalism is rapidly becoming the most important ingredient in the mining broth, which too many cooks are currently spoiling. They do so at their peril.

When Lady Astor continued to berate WSC, she spat, "You are very drunk."

To which he replied, "And you, madam, are very ugly, but I shall be sober in the morning."

The Markets

A sluggish FTSE100 was revived by the QE2 injection of £75 billion authorized by the Bank of England. In turn it arrested the fall of the major stocks but not the beleaguered juniors. Those which rose, like Kalahari, did so for individual reasons. The search for a trend, if successful, would prove rewarding, but is there one? We show here the position of the Footsie majors in January 2010, when the Index was again at this Friday is closing level of 5303, then when it peaked above 6000, in April 2011.

Table 1: Movement of Major Mining Shares and FTSE100 Index 2010-2011

		FTSE 100	Anglo	BHPB	Rio Tinto	Xstrata
1	23 January 2010	5303	2505p	1934	3292	1125
2	9 October 2010	5303	2330p	1867	3164	910
3	23 April 2011	6018	3162	2550	4403	(1550)
4	% Change 1-2	0	(8.1)	(3.5)	(3.9)	(19.1)
5	% Change 3-2	(11.8)	(26.3)	(26.8)	(28.1)	(41.3)

Source: *The London Times*

What can we derive? That on a like-for like basis across the index of 5303, mining shares fell -3.9%-19.1% when the index fell from its peak of 6018 to its current level of 5303 (-11.8%), mining shares fell further (-26.3%) to (-41.3%). So in conclusion? If the world economy continues to head into recession, major mining stocks will fare worse than the average. Conversely, if there is a recovery, they will rise faster. Commodity prices are telling us there is little fear of that in the short term.

Major Caps

The economic pause for thought has not halted China's forward march into Africa. Rumours that the major commodities group Jinchuan might be having second thoughts about its proposed takeover of Metorex (JSE, copper in Zambia with DRC affiliations) caused the latter to fall sharply. But the deal has been cleared by the authorities and the seller says it is still on. So, too, is the bid by China's Min Metals for Anvil Copper (DRC) of $1.28bn, 39% above the recent share price. Now we hear that the on-off bid by China Guangdong Nuclear Power, CGNP for Kalahari Resources in Namibia is back on. See Medium Caps. But there is labour strife at China's producing Zambian copper operations. The great republic is yet to get a grip on the African way of doing things. Its attempts to get a hold on the Congo should be an all-ticket affair.

Anglesey Mining (FTSE 42.5p, +3.0p Hi-Lo 93.9p – 35.8p) was a rare riser this week on the back of a first shipment of iron ore from Labrador Iron Mines, in which it holds a 33% stake. The 167,000 tonne cargo was bound for (where else?) China. Whilst LIM is at pains to tell us it is ever looking at other opportunities (eg its 100% ownership of Parys Mountain Cu, Pb, Zn deposit in Wales) we favour it for its LIM holding. This is not likely to produce dividends in the near future but could, allied with its London Main Board listing make it, one day, a takeover target.

Rio Tinto squared up to Mongolia over that country's attempt to change the terms of engagement over the giant Oyu TolGoi copper/gold J/V with Ivanhoe Mines of Canada (IVN.TO C$16.77; Hi-L CR28.98-12.85). Rio, as reported last week, had already negotiated terms with government on a carried interest. Government has conceded. If this is a victory it is one for realism. Let's hope it percolates the depths of Zim, Angola, DRC and Turgidstan.

Table 2: Share Price Movements, Majors

Stocks	1 Oct 2011	8 Oct 2011	% Change	12 mo Hi-Lo	% Above Low
FTSE 100	5128.48	5303.4	3.41%	6,002-4,790	10.72%
Anglo American	2229.0	2330.0	4.53%	3,335-2,210	5.43%
Antofagasta	826.5	1063.0	28.61%	1,556-756	40.61%
BHPB	1738.0	1867.5	7.45%	2,585.5-1,678	11.29%
ENRC	576.5	629.0	9.11%	1,276-554	13.54%
Gem Diamonds	208.9	202.0	-3.30%	300-182	10.99%
Glencore International	402.9	422.0	4.74%	550-348	21.26%
Hargreaves Services	1010.0	1020.0	0.99%	1,072-550	85.45%
Kazahkmys	793.0	857.5	8.13%	1,634-793	8.13%
Rio Tinto	2888.5	3164.0	9.54%	4,592–2,751	15.01%
UK Coal	34.5	38.0	10.14%	83-32	18.75%
Vedanta	1101.0	1160.0	5.36%	2,958–1,101	5.36%
Xstrata	820.8	910.0	10.87%	1,514-820	10.87%

Source: The London Times and the FT

Share Price Movements, Small and Medium Caps

There was no sector-trend amongst the juniors last week, nor probably will there be this. Golds, gemstones, energy, industrial metals all rose or fell on individual merits rather than market direction.

Baobab Resources (AIM 17p, up 3.75p Hi-Lo 53.3p-9.5p) put on a spirited show following its update on results from its Ruoni South Tete Province, Mozambique exploration. The main titanium-ion project also contains 1% vanadium. The average grade of 30% iron concentrates is 64% iron and 5% T.02 which is an eminently marketable grade. Boabab has drilled over 40,000 meters so far this year and is moving to a scoping study. The initial target is 300 Mt iron ore. It has a high rate of drilling activity and keeps good company with Rio Tinto, Nippon Steel, Tata Steel and Jindal all active in the region. There are mega plans for Tete in terms of rail and river access to the Indian Ocean and a major cargo port for the building. Baobab remains on our wish list.

Goldplat (GDP: AIM 10.88p up 2.45% Hi-Lo 13.25p-8.0p) does not see its market rating match its company progress; our view not theirs. The innovative precious metals scrap recycling plants in South Africa and Ghana are well bedded in with plans to tap into the markets of Guinea and Burkina Faso. Its primary mine, Kilimapesa in Kenya is tiny, with a JORC resource of only 129,000 oz but the deposit is open and is being actively explored with permission to produce still awaited. The City of London likes Goldplat with a base case valuation of 18.2p.

Table 3: Share Price Movements, Small and Medium Caps

	Company	1 Oct 2011	8 Oct 2011	% Change	1 year Hi-Lo	% above low
AAU	Ariana Resources Plc	4.5	4.12	-8.44%	5.25-2.25	83.11%
AFCR	African Consolidated Resources	3.62	3.25	-10.22%	11.75-3.25	0.00%
AGQ	Arian Silver Corporation	18.38	20.25	10.17%	54.25-6.5	211.54%

AXM	Alexander Mining Plc	5.62	5.0	-11.03%	17.0-5.0	0.00%
BEM	Beowulf Mining Plc	24.5	24.0	-2.04%	74.25-3.5	585.71%
CGNR	Conroy Gold and Natural Resources	3.0	2.75	-8.33%	12.9-2.75	0.00%
CLF	Cluff Gold	93.0	88.75	-4.57%	125.75-64.5	37.60%
DCP	Diamondcorp	8.88	7.88	-11.26%	16.9-7.88	0.00%
DME	Discovery Metals Ltd	81.0	86.0	6.17%	96.0-37.25	130.87%
EUA	Eurasia Mining	0.97	0.95	-2.06%	1.75-0.75	26.67%
FDI	Firestone Diamonds	13.5	13.75	1.85%	36.5-22.25	1.85%
FML	Frontier Mining Limited	2.98	3.17	6.38%	8.5-3.05	6.38%
GDP	Goldplat	10.62	10.88	2.45%	13.25-8.0	36.00%
GEM	Gemfields	20.88	20.12	-3.64%	24.75-3.75	436.53%
HER	Herencia[3]	1.68	1.68	0.00%	4.0-0.5	236.00%
HMB	Hambledon Mining	3.25	3.12	-4.00%	8.25-3.12	0.00%
KAH	Kalahari	213.5	246.0	15.22%	301-142	73.24%
KDR	Karelian Diamond Resources	2.25	2.38	5.78%	5.25-1.0	5.78%
KEFI	Kefi Minerals	3.3	3.10	-6.06%	9.5-0.5	520.00%
KYS	Kryso Resources	17.62	17.38	-1.36%	19.5-12.5	39.04%
MWA	Mwana Africa	4.37	3.98	-8.92%	14-3.98	0.00%
NYO	Nyota Minerals	7.58	7.40	-2.37%	30-7.4	0.00%
ORE	Orogen Gold Plc	1.03	0.72	-30.10%	1.62-0.2	260.00%
PDL	Petra Diamonds	112.0	116.75	4.24%	189-60	94.58%
RLD	Richland Resources	8.25	9.38	13.70%	16.0-6.5	44.31%
SNRP	Strategic Natural Resources	15.88	15.12	-4.79%	27.75-8.25	83.27%
SXX	Sirius Minerals Plc	11.0	10.25	-6.82%	20.75-1.25	720.00%
TMC	Toledo Mining	23.5	21.25	-9.57%	34.25-20.25	4.94%
VGM	Vatukoula Gold	76.75	80.5	4.89%	227-82.0	4.89%
ZOX	Zincox	55.75	55.0	-1.35%	77-32.25	70.54%

Source: The London Times and the FT

Metals and Minerals

Exchange Traded Metals

Table 4: Metal Stocks in LME Warehouses

Metal	**30 Sept 2011**	**7 Oct 2011**	**% Change**
Aluminium	4,569,075	4,548,725	-0.45%
Copper	470,700	467,100	-0.76%
Lead	373,425	380,400	1.87%
Nickel	97,164	94,266	-2.98%
Tin	21,165	20,290	-4.13%
Zinc	824,125	807,925	-1.97%

Source: Mining Journal

Table 5: Commodity Price Movements

Commodity		**30 Sept 2011**	**7 Oct 2011**	**% Change**
Aluminium	$/tonne	2,206	2,176	-1.36%
Copper	$/tonne	7,131	7,249	1.65%
Lead	$/tonne	2,060	1,945	-5.58%
Nickel	$/tonne	18,300	18,705	2.21%
Tin	$/tonne	20,845	22,715	8.97%
Zinc	$/tonne	1,905	1,845	-3.15%
Gold	$/ounce	1,629	1,640	0.68%
Silver	$/ounce	30.46	31.5	3.41%
Platinum	$/ounce	1,526	1,505	-1.38%
Brent Crude Oil	$/bbl	104.85	106.7	1.76%
Platinum/Gold	Ratio	0.94	0.92	-2.13%

Source: The Times of London

Bulk Minerals

Manganese makes its move. With an annual demand of almost 13Mt, manganese, the essential steelmaking material (19%) is truly a bulk mineral. It is also essential in aluminium alloying (41%) and die casting (32%). These applications define its end uses countries, particularly China, USA, Japan, but these are not where the majority of reserves or production live. They are in the Ukraine (22%), RSA (18%) and Gabon (15%).

South Africa has a well-developed production base of 2.2Mtpy, 17% of total, based on the well delineated Kalahari field but requires more rail capacity and power. A relative newcomer to the game is United Manganese of the Kalahari (UMK) which is 51% black owned, the remaining 49% belonging to Renova of Russia. Of the target 2.7Mt ore in 2012, a half will be trucked by road. The USA has long recognised the dangers attaching to its domestic deficiency of the ore, whilst China dominates the production of the major final product, electronic manganese metal. The criticality has once more reached the US Department of Defence, but if they take their usual 15 years view on these matters, they will need to continue being nice to China. Ore is not such a problem. RSA alone has plans to up output by 12Mtpy, which is adding to downward price pressures.

Iron ore too, continues to fall, as Chinese demand softens but developments must continue. Both London Mining (LOND.L 315p; Hi-Lo 438-276) and expect to bring their mines in Sierra Leone on stream by year end. After years of bitter civil war, that country is due to hold Presidential elections in 2012. Being nice to foreigners will be a starter course at the least.

Table 6: Iron Ore CFR Tianjin Port 2011. 62% Fe fines US$/dmt

9 September 2011	23 Sept 2011	30 Sept 2011	7 Oct 2011
$179.5	$174.1	$171.3	$170.0

Source: The Steel Index

That the downward price pressure on iron ore will continue is not doubted by Sydney based Resource Capital Research (RCR). They are forecasting today's price, c. $170/t for spot, itself down from $192 in February, to fall to c. $160, 8% further. Mitigating it could be weather related supply disruptions and delays to expansions. RCR notes that Chinese domestic supply rose by 23% in Q3, buoyed by high prices. They look for prices about $130t in 2013 – 2015 but that is a bit bleak compared with the recent past. Worse, they seek $86/t post 2016. The movement in international, non-conglomerate stocks shows this:

Table 7: International Iron Ore: Related Shares, Price Movements

Share	African Minerals (£)	Cliffs N.R. ($)	Ferr-Expo	Fortesque (A$)	Kumba (R)	Merafe (R)	MMX (BR)
8 Oct 2010	4.15	66.29	3.33	5.53	368	1.50	12.97
5 Oct 20101	3.87	58.41	2.95	4.55	437	0.91	7.04
% Change	(6.3)	(11.9)	(11.4)	(17.7)	18.8....	(39.3)	(45.2)

Source: Mining Journal

Precious Metals

A minor rally in Gold only underscored the continued pressure on PGMs and the reversal of the Pt:Au ratio. From a onetime 2.0: 1.0 in platinum's favour it is now 0.92:1.00 and no reason for a reversal soon. Johnson Mathey no less, warned of a Pt surplus growing into 2012 and perhaps beyond. This did not deter the miners from expanding throughout the Bushveld and from sending a clear message to Uncle Bob that they needed his sources no matter at what cost. None of this was lost on South Africa's increasingly powerful union the NUM. It sought and got double digit annualised wage increases, locked in for 2-3 years. Let's look at what this means: Direct wages on those labour intensive mines can be easily 30% of the operating cost. The indirect-cost overspill hits power and supplies as those workers want increases too. So 40% on the op. Cost bottom line. Over 2 years that is 80%. Many of those mines have a breakeven in excess of $1000/oz, of which 80% is $800. If that is squeezed by 2 years x 10%/year that is $160/oz. So the breakeven before taxation becomes $1160. It makes the prospects of a dividend remote, particularly in a falling market. Mines Minister Shabangu says not to fear nationalisation. At this rate there maybe no alternative. We are not alone in voicing pessimism. Liberium Capital says the (RSA) sector has fallen below the marginal cost of production. The metal price has fallen 25% in Rand terms since Sept 21st. It has also removed its 'buy' recommendation from Aquarius (FTSE, JSE), the world No.5. Congratulations Anglo, Impala, et al; in times of war they shoot you for self inflicted wounds.

Gold has resumed its self-appointed role as the arbiter of real value and put its ratio to PT and AG into perspective once more.

Table 8: Gold, Silver, Platinum Prices and Ratios

Date	09 Oct 2010	09 Oct 2010	09 Oct 2011
Gold $/oz	1344	1472	1640
Silver $/oz	23.23	40.48	31.50
Platinum $/oz	1711	1812	1505
Ratio PE/Au	1.27	1.25	0.92
Ratio Au/Ag	57.9	26.36	52.10

Source: The London Times

The Central Bank Gold Agreement is in the second year of its third term. Under it, the Central Banks of the member countries subscribe physical gold into the pot and can sell, collectively, up to but not more than, 400 tonnes per year. For a long time they have been heavy sellers but this year have sold just 1.1 tonnes. The proceeds largely went into the US Government fixed income bonds, but all that changed with the Lehman Bros-triggered economic collapse. Yet whilst the European banks have not been sellers, emerging countries have been open market buyers and the rest is history. But the emerging countries e.g. China and India hold a far lower proportion of their total reserve holdings in gold than do developed nations. Their buying is likely to continue, underpinning the gold price. The third agreement runs until 2014. Whether there will be a fourth remains to be seen, but the open market is huge and liquid, so it will hardly matter, other than for transparency.

Table 9: World Official Gold Holdings 2010-11 (Tonnes and % of Reserves)

USA: 8134 (73%) S	Swiss: 1040 (24%)	Portugal: 382 (82%)
Germany: 3407 (68%)	Japan: 765 (3%)	UK: 310 (17%)*
Italy: 2452% (67%)	Russia: 669 (6%)	Brazil: 34 (<1%)
France: 2435 (66%)	Holland: 613 (55%)	Canada: 3 (<1%)
China: 1054 (2%)	India: 558 (8%)	Chile: 0.2 (0%)

Source: World Gold Council

* Thanks, Gordon.

Venezuela. We ran a competition some weeks ago on just how Venezuela would repatriate its $11 billion of gold currently held abroad, a move it has decided upon. It's about 250 tonnes. Replies ranged from inventive to unprintable and involved insurance scams, piracy and methods highly personal. Fact is, the gold will arrive by sea in the next 6 weeks, from England, France, USA, Switzerland and Canada. More intriguing is why Herr Chavez has decided to do it. Watch this space.

Hedging, which is selling your product forward at a price fixed today is popular when you think the future price might fall. As a technique it was long in vogue with gold but fell into disrepute when the metal price went up...and up...and up. So they all stopped doing it, unscrambled their books and took the loses on the chin. Now darn it, gold has fallen from a short high of over $1900/oz and nobody is calling the bottom, so they are hedging again. The global hedge book stood at 5Moz (188t) at the end of June. Investors don't like hedges nor do they like currency speculation. It is not why they invest in miners.

Silver has had a fairground experience over the past year. The traditional ratio to gold of 50-60 to 1.0 shrank to nearer 20:1.0 and we heard it for $200/oz not even the wild low $40's we have seen. Now it looks to have settled, with the smell of burnt flesh still in the air. One securities firm opts for $36.11/oz average this year; now there's precision for you. The same source goes for $39 in 2012 and $30 in 2013. If they are using a crystal ball we bet it's made in China.

Vietnam is a Communist State but anyone who has sailed its major artery, the Mekong River, can only be impressed by its vibrancy. Its unfortunately named currency the Dong has been poorly managed (down 25% against the US dollar in 3 years). The people are traders at heart and have a love affair with gold which the authorities have tried to suppress. So an effective two-tier market sprang up, with the metal domestically fetching a major premium to the international price. Recognising the inevitable, the Central Bank has allowed 5 domestic banks and the Saigon Jewellery Company to reopen off shore gold trading and allow supplies to the domestic market. Welcome to the club boys.

Exchange Rates

The UK. The Bank of England could stand it no more. Still lighting candles in thanksgiving for not having strayed into the Eurozone it saw its recovery prospects dimmed in the shadow cast by its neighbours Greece, Spain and Italy. Britain's banks are badly exposed to the borrowings of those countries and economic growth forecasts are hanging onto a pathetic 1% pa, if that. So the normally taciturn Governor describes us as being in the greatest mess in history. (Let's hope he means of the world) and lets loose £75 billion of money into the system. The first reaction was for Sterling to strengthen against the dollar and Euro. If the medicine works it will prod up inflation and interest rates but he must have thought about that. It propped up a sagging stock market and rallied the major mining shares. Why that, when the latter rely on the world appetite for minerals? Both price and demand remain short term bearish, China's growth projections are closer to 6% than 10% and that country has inflation problems of its own. Yet as we show in 'Markets', the fall of the miners since the index peak of April 2011 was much greater than the index itself and fell over a 21-month period whilst the index end-to-end registered no change. So exchange rates should not be favouring minerals producers should they? These were little changed on the week, bar the $/ Rand which slipped 2% and the $/Brazil Reale with was down a full 5%.

Table 10: Exchange Rate Movements

Currency	1 October 2011	8 October 2011	% Change
£:US$	1.56	1.56	0.00%
£:€	1.16	1.16	0.00%
£:SA Rand	12.52	12.29	-1.84%
US$:Aus$	1.03	1.02	-0.97%

£:Aus$	1.60	1.59	-0.63%
US$:Br Reale	1.86	1.76	-5.38%
US$:C$	1.04	1.03	-0.96%
US$:€	0.75	0.74	-1.33%
US$:SA Rand	8.04	7.87	-2.11%
US$:Rupee	49.98	49.16	-1.64%
US$:HK$	7.85	7.78	-0.89%
US$:UAE Dirhams	3.67	3.67	0.00%
US$:Israeli Shekel	3.75	3.70	-1.33%
US$:Japanese Yen	77.08	76.76	-0.42%
US$:Thai Bhatt	31.09	30.99	-0.32%
US$:Yuan	6.39	6.39	0.00%

Source: Financial Times

Energy

Uranium. The spot price remained relatively static, as shown. The only market buzz of consequence was an unknown source (says Reuters) telling them that the Chinese bid for Kalahari Resources will be renewed, at 230p now the statutory 3 month break required by the UK authorities has passed. The bidder, State owned CGNPC is expected to pitch in again at 270p. It earlier tried 290p, pre-Fukushima. Kalahari closed up 15% at 246p. Kalahari holds 40% of Extract Resources, the developer of the major Husab U_3O_8 deposit in Namibia. Look out for a renewed bid back at 290p.

The **Coal Market** is relatively slack in line with weakening Chinese demand for most commodities but we are told (Norway's Bank Pareto Securities AS) that China's coal demand has actually picked up on lower prices and portside inventories. This is borne out by the Baltic Dry Index, a measure of commodity shipping costs, being at this year's high. The culprit? Shipping thermal coal to China.

Table 11: Spot Uranium Price, $/lb U_30_8

31 Dec 09	31 Dec 2010	9 Sept 2011	23 Sept 2011	30 Sept 2011	7 Oct 2011
$44.0	$66.0	$50.5	$54.0	$52.5	$72.75

Source: Mining Journal

Gemstones

The market has softened, certainly for the bellwether, diamonds. Smalls hit a surplus some time ago and now sizes – one carat plus – are weakening. It does not betoken a merry Christmas. The shares, as shown are putting on a brave face:

DiamondCorp (-11%) Firestone Diamonds (+2%) Gemfields (-4.2%) Karelian (+5.5%)

Petra (+4.5%) Richland (+13.6%) Gem Diamonds (-3.3%)

As ever, share prices are driven by individual news items:

- **DiamondCorp** is pressing ahead with the underground development of its Lace Mine in South Africa. This is capital intensive but produces large stones.
- **Petra,** currently on AIM, has announced plans to step-up to the big board and become a 5Mcpy producer. It is well backed and has never lacked ambition.
- **Rockwell** has appointed the not-unknown Mark Bristow as Non-Executive Chairman.
- **Rappaport,** the fount of all knowledge tells us this:
    - Polished prices dropped by 8.6% in Q3 with Indian suppliers cash strapped and willing to discount.
    - Belgium's polished exports were up 30% year-on-year in September by price, but were down 9% on volume. This is a rapidly changing market.

Gemfields (see Small and Medium Caps) turned in a cracking set of full year results to June 30, 2010. Highlights included:

- Profits up 729% to $21.45M
- Sales up 101% to $40.16M
- Production up 90% to 33Mct
- Current inventory worth $18.67M
- Cash-in-hand $13.6M versus $2.88M

Production is also being stepped up at 50% owned Kariba amethyst mine. The company is en route to acquiring a 75% stake in the Montepuex ruby deposit in Mozambique. Gemfields is a company on a mission and not overpriced at this level.

Countries

The outpouring of new mining legislation from Albania to Zimbabwe is reaching epidemic proportions. So the World Risk Survey in Resources Stocks Magazine this month is timely. In rating the top 30 miners, it collates the contributions of over 1000 mining professionals worldwide and is published here. There are some surprises. The risks analysed are financial, sovereign, land access, green tape, land claims, red tape, social, infrastructure, civil unrest, natural disasters and labour relations, eleven in all. Each is weighted on a 2, 3, or 4 scale in increasing order to give a total risk score of zero (lowest) to 34 (highest). Finland comes first and Papua New Guinea last. No survey of course can be comprehensive. Geology surely rises above all. As the late and unlamented financier Bernie Cornfield said: "if you want to make money, go where the money is". Thus Finland has a dearth of minerals, to which aspiring diamond hunters will testify. P.N.G is bristling with goodies but a reputation for head hunting. It is understandable that the heaviest weighting (4) goes to financial, sovereign and land access risk. The last is highlighted in the opening up of iron ore and bauxite deposits in West Africa where developing hopefuls throw in almost casually the need for a 240 kilometre rail link, an airstrip and a deep seaport. Add regime changes of depressing regularity and the odd border war and one can see why the DRC and its ilk all weigh below the 30th parallel.

Of real surprise, Canada lost its top spot to register 9th with increased red tape and First Nation status dragging it down. Mongolia (44th) took a hit not just on infrastructure but government-inspired rule changing.

Table 12: 2011 World Risk Survey: Countries with Least Risk

Rank	Country	Financial Risk	Sovereign Risk	Land Access	Green Tape	Land Claims	Red Tape	Social Risk	Infra-structure	Civil Unrest	Natural Disasters	Labour Relations	Total
Maximum Risk Rating		4	44	4	3	3	3	3	3	3	2	2	
1	Finland	0	0	1.6	1.2	0.6	1.2	0.6	0.6	0	0.4	0.8	7
2	Chile	0.8	0.8	0.8	0.9	0.6	1.2	0.6	1.2	1.2	0.8	0.8	9.7
3	Burkina Faso	1.6	1.6	0.8	0.6	0.6	1.2	0.6	1.8	1.2	0.4	0.8	11.2
=4	Botswana	0.8	1.6	0.8	1.2	0.9	1.2	1.2	1.2	1.2	0.4	0.8	11.3
=4	Sweden	0.4	0.8	1.6	1.8	1.2	1.5	0.9	1.2	0.3	0.8	0.8	11.3
6	United States	1.6	0.8	1.6	1.2	0.6	1.65	1.2	1.2	0.3	0.4	0.8	11.4
7	Australia	0.8	1.6	1.6	1.2	1.8	1.2	1.2	1.2	0	0.4	0.8	11.8
8	Brazil	1.2	1.2	1.6	1.2	1.2	1.35	0.6	1.2	0.9	0.6	0.8	11.9
9	Canada	1.6	0.8	1.6	1.2	1.2	1.8	1.2	1.2	0.6	0.4	0.8	12.4
10	Argentina	1.6	1.2	1.2	1.5	1.2	1.5	1.5	0.9	0.9	0.6	1	13.1
11	United Kingdom	1.6	1.6	1.6	1.2	1.2	1.2	1.2	1.2	1.2	0.8	0.8	13.6
12	New Zealand	1.6	1.6	2.4	1.2	1.2	1.2	1.2	1.2	0.6	1.2	0.8	14.2
13	Namibia	2	2.8	1.2	1.2	1.2	1.2	1.2	1.5	0.9	0.4	0.8	14.4
14	Norway	0.8	1.6	2.4	1.8	1.8	1.2	1.2	1.8	0.6	0.8	1.2	15.2
15	Liberia	2	2	0.8	1.2	1.2	1.2	1.8	2.1	1.5	0.8	0.8	15.4
16	Ghana	1.6	1.6	1.6	1.5	1.65	2.1	2.1	1.5	0.9	0.8	0.9	16.3
17	Eritrea	2.4	2.4	1.2	1.2	0.9	2.4	1.5	2.1	2.1	0.6	0.4	17.2
=18	Mali	1.6	2.4	1.6	1.8	1.8	2.4	1.2	2.4	1.2	0.8	0.8	18
=18	Morocco	2	2	2.4	1.5	1.5	2.1	1.8	1.5	1.8	0.6	0.8	18
20	New Caledonia	1.6	2.4	2.4	1.2	1.2	1.8	1.8	1.8	1.8	1.2	1.2	18.4
=21	Vietnam	1.6	2.8	2.4	1.5	1.2	2.4	1.8	1.8	1.5	1	0.6	18.6
=21	Greenland	2.4	1.6	2.4	1.8	1.8	1.8	1.8	2.4	0.6	0.8	1.2	18.6
23	China	2.4	2.4	2.4	1.2	1.8	2.4	1.8	1.2	1.8	0.8	0.8	19
=24	South Africa	1.6	3.2	2.4	1.8	1.8	2.4	1.8	1.2	1.2	0.4	1.6	19.4
=24	Tanzania	2.4	2.4	2.4	1.8	1.8	1.8	1.8	1.2	1.8	0.8	1.2	19.4
=24	Turkey	2.4	2.4	2.4	1.2	1.8	1.8	1.8	1.8	1.8	1.2	0.8	19.4
27	Kenya	2.4	2	2.4	1.8	1.8	2.1	2.1	1.8	2.1	0.6	0.6	19.7
=28	Colombia	2.8	2	1.6	1.5	1.8	2.1	2.1	1.8	2.1	1	1	19.8
=28	Mexicoa	2.4	2.8	2	1.2	1.5	1.8	2.1	2.1	2.1	0.8	1	19.8
=30	Peru	2.4	2	1.6	1.8	1.8	2.4	1.8	2.4	1.8	0.8	1.2	20
=30	Papua New Guinea	2.4	2.4	2.4	1.2	1.8	1.8	1.8	2.4	1.8	1.2	0.8	20

Source: Resources Stocks Magazine

Investment rule-changing. It takes only a tweak for a country to have its rating upped or downed. Australia had been 3rd in 2009, fell to 26th when the Kevin Rudd Government waded into taxation in 2010 but has recovered to 7th. This is all very well for league tables, but spooks an investor halfway through a multi-billion dollar CAPEX programme. Another unnerving feature is when a country moots increased taxation and a general tightening of investment terms then makes a Horlicks out of their implementation. Anglos' Cynthia Carroll, no less, warned Namibia, Ghana and Tanzania amongst others that they risked economic suicide by more taxes on mining. She could have stressed tax dithering as a major factor. Thus Mongolia, which slid to 44th place. It has been increasingly favoured on account of its positive geology and sitting close to big brother China. (A bit like Canada's proximity to the USA; it cuts down on defence bills).

Compounding the choice is where states and provinces do their own thing within a country. Australia, Canada and the USA are the prime examples. Competition – which is usually a good thing – proliferates but the have-not states make a strong case for a share-out of profits with the haves. Australia is in the thick of this right now with Canada coming up on the rails. Canada's Nova Scotia province heads the nice list followed by 4 of Australia's six states. The United States ranks 6th overall in the ratings and is making noises towards the resurgence of domestic mining. At states' levels that should be fun.

A trigger point for changes is ever the discovery of a world-class minerals deposit in an otherwise struggling country. To government types more versed in political opportunism than mining economics it is manna. Problem is, by the time the bread of Heaven hits the ground it is often stale. Mongolia has seen this and dropped the claim to squeezing even more generous terms out of Rio Tinto/Ivanhoe for the Oyu Tolgoi project than already on offer. Congratulations; pragmatism will pay off.

America Stirs. We debate much on when China will make its move to become the world No.1 and indeed whether India might pip to the post. This column is betting on neither to make a move this time around and may be not next time. Reminiscent of the 1970's, the USA has weakened to its vulnerability to the supply of minerals in which it is domestically deficient. This gives it three choices: 1) to stockpile as it used to do; 2) to secure from safe sources abroad; 3) to produce domestically, regardless of cost – to an extent. It is early days for this unfolding plot, but unfolding it is. Rare earths are now a target and manganese is mooted. Nickel will not be far behind. The US rates No.6 in the investment wish list but its red tape is No.13. The country which beat the USSR to the moon has the capacity to alter all that. Even so, it remains a major producer of key minerals:

Table 13: USA World Rank in Minerals Production

Minerals	Oil	Gas	Coal	Gold	Silver	Copper	Zinc	Lead	Al	Moly
Country Rank No	3	1	2	2	7	4	4	3	6	2
% Total	9	22	15	10	5	7	6	9	4	24

Source: Deutsche Bank, BP

The **Democratic Republic of the Congo**, DRC is making a big push-on paper at least – to move its mining industry towards its massive, undoubted potential. It notes this will create a mega surge in power demand. No surprises there. It goes on to say its hydro potential, perhaps 100,000 Mw, is enough to supply most of Africa. All it needs do now is stamp out corruption; stop the fighting on its eastern borders, offer an economic investment code and stick to it then get used to competing in the market place. Hey look, a pig on wings!

South Africa or Do You Believe in Fairies? We are serious fans of RSA's forthright Mines Minister Susan Shabangu, usually. But not if the reports we hear of her telling us the nationalisation debate is not hurting investment. We have Anglo, Rio Tinto, Goldfields and BHPB all having voted with their feet and until this most important issue is addressed the drift will continue. It maybe coincidental that the giant Richards Bay coal export terminal is using only 67% of its capacity, or it might be indicative.

China's march into Africa continues. Clearance has been given for the takeover of **Metorex** (JSE) by CGNPC and **Minmetals Resources** has made an agreed $1.28bn bid for **Anvil Mining** (TSX) at $8 per share, almost a 40% to its previous close. This despite Anvil's seat of operations being the DRC. Minmetals is China's largest metals trader.

African Rail Infrastructure. Some mega projects are planned out of central Africa to both east and west coasts. On arrival at the seashore they will need ports. One site indentified north of the Zambezi river mouth eyes a potentialising to 100Mtpy or Richards Bay size and would take the coal from Mozambique's Tete Province. They speak of a DFS being completed by July 2012.

Zimwatch

The September deadline for naughty foreign company directors to report to Harare Prison has passed without incident. Or disclosure. Uncle Bob has been out of town, of course. Now back, he has the Archbishop of Canterbury for dinner, hopefully well cooked.

The Watchtower

All eyes on **Kalahari Resources** (see Energy) as China's CGNP prepares a revised bid. Kalahari's attraction is the giant Husab uranium deposit in Namibia, where it owns 40% of operator Extract Resources. Rio Tinto owns 15% plus the big but aging Rossing Mine next door. Will Rio counter bid? It has the money but does it have the appetite?

Mozambique is to start shipping coal again for the first time in 20 years. First Vale, followed by Rio Tinto. South Africa's Richard's Bay terminal is running well below capacity, its Waterberg coalfield developing but slowly and Botswana is building up a head of steam. The heavy end of the resources game in Southern Africa is much about coal.

India has an energy crisis. 400M of its 1200M population have no access to electricity at all and coal is the only short-medium term fix. Its domestic shortfall is c. 150Mt, heading for 300Mt by 2016-17. It has its eyes on Australia.

Forward Diary

10 October 2011:	Columbus Day, US Bank Holiday
12 October 2011:	Fresnillo Trading Statement
	Hargreaves Services PLC Ex Dividend (10.4p)
13 October 2011:	Rio Tinto Trading Statement
14 October 2011:	Mining Journal Copper Day
1 November 2011:	Mining Journal Silver Day
3 November 2011:	Objective Capital Industrial Metals, Minerals & Mineable Energy Investment Summit
4 & 5 December 2011:	Mining Journal Canada and Australia Days, respectively
6-7 December 2011:	Mines & Money, London

David Hargreaves
8 October 2011

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