

19:46 23 Aug 2016

Today's Market View - Fortescue, Rio Tinto, Vast Resources

Fortescue (ASX:FMG)- potential for Fortescue bonds to rise to investment grade status

Rio Tinto (LON:RIO) - 50th anniversary of Rio Tinto's first iron ore shipment from W Australia to Japan

Vast Resources (LON:VAST) - Improvements at both Pickstone Peerless and Manaila

Volatility returns to FTSE100 miners as majors stage dramatic recovery after yesterday's route

- The major mining stocks are recovering strongly from yesterday's route shaking off the negative effect of a stronger US dollar
- Eurozone PMI data may be supporting the rally alongside yield hunters and investors looking for US growth and more general economic recovery may be driving new demand for these stocks
- The return of such volatility reminds us a little of 2008 though we are not in the same sort of liquidity crisis and the swings are not so severe

Stronger US dollar continues to weigh on metal prices

- A stronger US dollar driven by renewed Fed comments on the potential to raise interest rates.
- The market rates the chance of a US rate rise in September at just 12% with greater potential for a rise in March 2017.

Funniest jokes from Edinburgh Fringe Festival

- No1. "My dad suggested I register for a donor card, he's a man after my own heart." - (Masai Graham)
- No2. "Why is it old people say 'there's no place like home', yet when you put them in one...". (Stuart Mitchell)
- No3. "I've been happily married for four years - out of a total of 10" - (Mark Watson)

Dow Jones Industrials -0.12% at 18,529

Nikkei 225 -0.61% at 16,497

HK Hang Seng 0% at 22,999

Shanghai Composite +0.16% at 3,090

FTSE 350 Mining +2.08% at 11,940

AIM Basic Resources +1.86% at 2,510

Euro Stoxx 600 index is up 0.8% led by financial stocks and miners with oil companies underperforming on lower Brent prices.

The US\$ index is off slightly and continues to trade in a 1% range over the last five days as investors are looking for clues on the pace of future monetary policy tightening.

Metal prices are little changed this morning.

Brent continued to decline on increased supply in Iraq and Nigeria concerns.

Chinese iron ore futures climbed 2% today following steel prices higher as mills bid the commodity higher amid improved profit margins.

Solar power attracted the lowest ever price in Chile during the latest set of auctions this week, Bloomberg reports.

- A 120MW plant contracted to supply power at \$29/MWh compared to \$38 for wind power, \$47 for natural gas fired facilities, \$57 for coal, \$60 for hydroelectricity and \$66 for geothermal.
- The contract beats deals recorded in Dubai and Mexico this year for a supply of solar power at \$30/MWh and \$35.5/MWh rates, respectively.
- The plant is set for completion in 2019 and to be located in the Atacama desert of northern Chile (Tarapaca region), one of the sunniest and driest places on Earth.
- Solarpack Corp operates four solar parks in Chile today with a total generating capacity of 37MW supplying the copper

Collahuasi mine among other parties.

US - Economic data:

Date	Index	Period	Actual	Expected (Bloomberg)	Previous
Tuesday	Markit Manufacturing PMI	Aug	52.6	52.9	
	New Home Sales	Jul (%mom)	-2.0	3.5	
Wednesday	Existing Home Sales	Jul (%mom)	-1.26	1.09	
Thursday	Jobless Claims		265	262	
	Durable Goods Orders	Jul (%mom)	3.5	-3.9	
	Durable Goods Orders (ex Transport)	Jul (%mom)	0.5	-0.4	
	Capital Goods Orders (ex Air)	Jul (%mom)	0.2	0.4	
	Markit Services PMI	Aug	51.8	51.4	
	Markit Composite	Aug	51.8		
Friday	GDP (Second reading)	Q2 (%qoq)	1.1	1.2	
	Core PCE (Second reading)	Q2 (%qoq)	1.7	1.7	

Source: Bloomberg

Japan - The manufacturing sector remained in the contraction territory in Aug, although the rate of losses slowed to the weakest in the last six months.

- One of the highlights of the report is a faster decline in final goods' prices.
- "Relatively weak client demand alongside a strong yen prompted firms to cut their selling prices at the sharpest rate since Oct/12 as part of efforts to attract new business," Markit said.

Eurozone PMI - Private sector growth hit the strongest rate in seven months suggesting the economy is on a way to post a 0.3%qoq/1.2%yoy growth in Q3/16 "with no signs of the recovery being derailed by 'Brexit' uncertainty", according to Markit.

- France takes the spotlight with the private sector growth reported to have accelerated at fastest rate in ten months in Aug.
- Better than forecast numbers from France have been driven by strong gains in the services sector compensating for continuing poor performance in the manufacturing sector.
- France Manufacturing PMI: 48.5 v 48.6 in Jul and 48.8 forecast.
- France Services PMI: 52.0 v 50.5 in Jul and 50.5 forecast.
- On a less positive note, the report highlighted the rate of growth in new orders remained marginal and was slightly weaker than in Jul.
- "The trend in incoming new business remains muted while firms indicated a return to job shedding in the latest month, suggesting that the recovery remains stuck in the slow lane," the report said.
- In Germany, growth slowed to the weakest in 15 months with both manufacturing and services sub-indices posting a decline in Aug.
- Germany Manufacturing PMI: 53.6 v 53.8 in Jul and 53.6 forecast.
- Germany Services PMI: 53.3 v 54.4 in Jul and 54.4 forecast.
- "The long standing theme of solid economic growth in Germany continued in Aug and based on the survey data available for the third quarter so far, we should expect further steady GDP growth. It is unlikely that the 0.7%qoq (Q1/16) pace from the beginning of the year will be repeated, however," Markit said.

Australia - Consumer confidence gained last week driven by the RBA to cut benchmark rates earlier this month.

Philippines - A Philippines Senator said the ore export ban is at least six years away from coming into force.

- "The industry is not that developed," the head of environment and natural resources committee said.
- Domestic processing "is something we should look forward to in the future."

UK - Second hand car sales rise 8% yoy to hit new record in H1

- The Society of Motor Manufacturers and Traders report an 8% increase yoy in second hand car sales to >4m vehicles
- The figures are interesting as the sales numbers are ahead of economic activity and other consumer confidence indicators.

- There may be an element of second hand sales catching up after falling through the 2008 financial crisis when government's stimulated new car sales through scrappage schemes and other incentives.
- Better fuel consumption and reliability may also help while consumers are also looking forward to buying a new range of Electric Vehicles in future years once battery capacity and reliability improves.
- We suspect the automotive industry is in for an interesting time as manufacturers bring in new ranges of Hybrid and pure EVs.

Currencies

US\$1.1331/eur vs 1.1296/eur yesterday. Yen 100.16/\$ vs 100.73/\$. SAr 13.504/\$ vs 13.597/\$. \$1.318/gbp vs \$1.312/gbp.
0.764/aud vs 0.762/aud. CNY 6.643/\$ vs 6.656/\$ unch.

Commodity News

Precious metals:

Gold US\$1,340/oz vs US\$1,334/oz yesterday -
Gold ETFs 65.3moz unch vs 65.2moz yesterday -
Platinum US\$1,106/oz vs US\$1,110/oz yesterday
Palladium US\$696/oz vs US\$708/oz yesterday
Silver US\$19.05/oz vs US\$19.00/oz yesterday

Base metals:

Copper US\$ 4,739/t vs US\$4,749/t yesterday -
Aluminium US\$ 1,662/t vs US\$1,661/t yesterday
Nickel US\$ 10,255/t vs US\$10,205/t yesterday - Metal Bulletin report that historic low Shanghai premiums for nickel will hit imports through the rest of 2016
Zinc US\$ 2,294/t vs US\$2,283/t yesterday
Lead US\$ 1,854/t vs US\$1,873/t yesterday
Tin US\$ 18,460/t vs US\$18,500/t yesterday -

Energy:

Oil US\$48.7/bbl vs US\$49.9/bbl yesterday
Natural Gas US\$2.656/mmbtu vs US\$2.630/mmbtu yesterday
Uranium US\$25.75/lb vs US\$25.75/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$59.7/t vs US\$59.5/t - Restocking by steel mills raise Dalian futures prices to new two-year high

- Better demand, rising prices and higher margins at China's steel mills are reported to be leading to the restocking of iron ore inventories in China. Port stocks have risen to 109mt from 107mt a week ago and around 82mt a year ago.

Steel rebar 25mm US\$404.8/t vs US\$400.1/t - January rebar prices rise 0.7% to \$389/t

- China ordered steel mills over four provinces and Shanghai to cut production from Aug 23 to Sep 9 to improve air quality for G20 Summit held on Sep4-5 in Hangzhou.
- The order is estimated to affect 1.1-3.3mt or less than 0.5% of total annual production.

Thermal coal (1st year forward cif ARA) US\$57.0/t vs US\$55.4/t yesterday -

Coking Coal - Premium 'spot' coking coal prices have risen >60% since February with contract prices following at a lesser pace

- Premium prices are now around \$115-130/t in China vs contract prices rising at around 13% to \$92/t
- Prices are being driven by new demand from Chinese steel mills and restocking as also seen with iron ore.

Other:

Tungsten - APT European prices vs \$185-200/mtu unch vs \$190-200/mtu -

Lithium batteries - MIT technology review

- Solid Energy Systems, a spin out from MIT to start sales of its new smaller smartphone battery early next year.
- The company intends on selling batteries for Electric Vehicles in 2018.
- Management claim their batteries offer the same capacity as conventional batteries at half the weight .

Lithium recycling - Fungus able to recycle lithium

- A new study claims that three strains of fungus are able to extract lithium from used batteries and electronic waste.
- The fungi generate organic acids which effectively leach metals out of crushed battery cathodes.
- Extraction rates of up to 85% have been observed for lithium and 48% for cobalt due to the generation of oxalic and citric acid produced by the Fungi.

Electric Vehicles - Optimal Solar cell / battery combination developed for EV charging

- Researchers reckon they have developed an optimal Solar Cell / battery combination for charging EVs.
- The team from Case Western Reserve University used four perovskite solar cells in series to directly photo-charge lithium batteries with a 7.8% efficiency which they reckon is the most efficient configuration reported to date.
- Perovskite cells are able to convert a broader spectrum of sunlight to electricity than more common silicon cells.
- The real trick will be to consistently mass produce the cells to reliably work in the real world environment, which is where the difficulty comes in.
- The 'Immortus' electric car which is covered in high power solar cells already has an unlimited range on a sunny day so long as you don't drive it in the shade.

Company News

Fortescue (ASX:FMG) - potential for Fortescue bonds to rise to investment grade status

- You've got to give them credit. Fortescue have worked with their assets to lower production costs to such an extent such that rising iron ore prices could now allow the company's 'junk' grade bonds to rise again to investment grade paper.
- Fortescue has cut its debt by \$2.9bn to \$5.2bn in a year and the CEO reckons the bonds are already in the investment grade category on a number of metrics.
- The bonds are rated at BB -ve by S&P, BB+ by Fitch and Ba3 by Moody's.

Rio Tinto (LON:RIO) - 50th anniversary of Rio Tinto's first iron ore shipment from W Australia to Japan

- Yesterday was the 50th anniversary of Rio Tinto's first iron ore shipment from W Australia to Japan - first shipment was sent on MV Houn Maru from port of Dampier to Yawata Iron and Steel Company.
- Rio Tinto says "Ahead of this milestone, thousands of Australian contractors and suppliers laid almost 300 kilometres of railway, moved 12 million cubic metres of earth and rock and installed 300,000 tonnes of plant and equipment.
- The company also built the towns of Dampier and Tom Price, and dredged a port to accept the largest ore carriers of the day."
- "Over the past 50 years Rio Tinto has invested more than \$37 billion to grow our Pilbara operations. We now employ 12,000 people who operate our network of mines, rail and ports, and sell our iron ore to customers all around the world."

Vast Resources (LON:VAST) 0.3 pence, mkt Cap £9.8m - Improvements at both Pickstone Peerless and Manaila

- Vast Resources has reported improved quarterly production at its 50% owned Pickstone Peerless gold mine in Zimbabwe and operational improvements to the 50.1% owned Manaila (MPM) polymetallic mine in northern Romania, although these improvements have yet to flow through to increased production.
- At Pickstone-Peerless, where Vast Resources poured its first gold in September 2015, the plant is now operating at steady state production consistently treating around 20,000 tonnes per month. As a result, gold production increased by 62% to 4,542oz during the quarter bringing production for the first half of 2016 to 7350 oz. Although the company has not disclosed the grade of the ore treated or the recovery rates, cash costs are reported to have fallen by 24% during the quarter to \$695/oz bringing the average for the first half to \$778/oz.
- The company comments that it will require modifications to its processing plant in order to treat sulphide ore when the existing oxide resource is depleted although there is also a "Potential development of a satellite open pit mine at the nearby Giant Mine ("GGM") which has a JORC-compliant inferred resource of 500,000 oz of gold."

- At Manaila in Romania, although the plant was able to process 33% more ore during the quarter (29,830 tonnes compared to 22,510 tonnes in Q1), a combination of mechanical breakdowns, the treating of a high pyrite content ore which reduced recovery rates and "experimentation with reagents and the process flow sheet to produce separate copper and zinc concentrates" caused an overall reduction of 12% in the metal concentrate production to 727 tonnes. The company also discloses that concentrate grades were lower suggesting that there will be a double impact on revenues.
 - We note that the fine tuning of the plant at Manaila has cost some production efficiencies in the current quarter but is clearly aimed at longer term sustainable improvements - an optimist might conclude that the first hints of these gains may be manifested in the reported 3% decrease in operating cost per tonne milled to \$33/tonne, which is to some extent masked by the impact of lower recovery rates delivering a 45% rise "to US\$1341 per tonne of concentrate produced."
 - The company has previously announced the granting of a prospecting licence over the Faneata tailings dam at the Baita Blai polymetallic mine. Vast Resources is planning a limited, "825m auger exploration programme to upgrade the mineralised tailings dam to LORC compliant Mineral Resource". The work, which will also provide sample material for metallurgical testing is expected to "commence when the expected MPM revenue stream is achieved."
- Conclusion: The Zimbabwe gold operations appear to be performing well, but progress with the rehabilitation of the Romanian polymetallic assets seems to be taking longer and, perhaps proving more difficult, than hoped. There are, however, indications of some positive outcomes and we look forward to further progress reports in the coming months.

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