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Today's Market View Including: Firestone Diamonds, Sundance Resources, Stratex International and Central Rand Gold

ECB - Era of negative interest rates begins as ECB cuts rate to -0.1% and heads into unconventional policy

- Banks will effectively have to charge clients for the luxury of depositing money overnight
- The threat of deflation and problems with Southern European economies have caused the ECB to lower its main interest rate into negative territory.
- Negative interest rates for overnight depositors interbank rate only
- Inflation is now down to 0.5% in the Eurozone with the threat of deflation looming over policymakers
- Deflation is potentially lethal for the indebted economies of Western and Southern Europe and this is the one problem policy makers agree you CAN throw money at
- Sadly the public are not able to borrow at negative rates but a negative interest rate requires banks to pay interest to the ECB if they deposit funds with the bank.
- The move is designed to push funds into riskier assets .
- The ECB will also make up to €400bn available for key sectors

Gold prices soar on ECB rate cut and signal for easy money in the Eurozone

India – rumour suggests India's 10% gold import duty to be cut by 2-5%

- Hardline federalism might need stimulation with new EU QE program to bond the European Federation
- Has Merkel effectively voted for Germany to bail out the PIGS?

Ecuador plans to change mining law and offer tax incentives to attract foreign investors

- The government of Ecuador appears to be pushing to raise funds following its gold swap arrangement with Goldman Sachs reported this week.
- Mining projects in Ecuador currently face taxes of around 51% according to Wood Mackenzie in a government commissioned study.
- We believe the government will continue to move to encourage mining companies to develop projects within the territory.

Ebola – Sierra Leone, 79 Ebola cases confirmed and suspected

- More than 200 people have now died of Ebola in Guinea.

- Fears are growing that the virus might mutate into something more contagious as the outbreak develops.

Lithium-ion batteries to move into conventional autos to displace lead demand. – Lead and Zinc market impact

- Ford and Samsung are looking to put lithium-ion batteries into cars in a new dual-battery system.
- The aim is to reduce the weight of the traditional lead acid battery as well as the alternator for recharging.
- Ford plan to add regenerative braking to the system to top up the Li-ion dual battery system requiring the use of a smaller alternator.
- Surely the system is just a small step away from a full hybrid-auto and as they say the system brings even more levels of hybridisation to their vehicles
- It does make us wonder if you might need to hit the breaks to get the airconditioning to work?
- The new batteries are reported to be some 5.4kg lighter than a conventional lead-acid batteries.
- Batteries make up around 77% of of total lead use with consumption expected reach 11,100t this year. We expect lead production to lag demand by around 50t this year rising to a deficit of 100t in 2015.
- If the automotive industry cut battery weights in half then demand for lead will collapse along with prices. The consequential impact on zinc which is often mined with lead will be interesting as the effective cost of producing zinc will rise. Either way we believe zinc prices should be set to rise.

Economic View

ECB - Governing Council cut refinancing rate 0.1pp to 0.15% (v 0.10% forecast) and took deposit rates into the negative (-0.10% from 0.00% and in line with estimates).

- The overnight lending facility rate has been cut to 0.40% from 0.75% and 0.60% forecast.
- The ECB has released its new inflation projections that show prices growth pace is likely to remain below target 2% by the end of 2016, with estimates downgraded from 1.7% to 1.5%.
- In addition, the Bank said it will carry a series of auctions to begin in Sep for €40bn worth of loans to be made available to lenders at low rates in exchange for yet unspecified commitments on lending to businesses.
- Interestingly, the euro finished the day stronger against the dollar despite an easing in monetary policy announced by the ECB.

IMF – cutting China growth forecasts to 7% from 7.3%

- The IMF has cut its forecasts based on concerns over the China property market and build up of credit
- The IMF has advised Beijing to reduce local government debt by around 1% of GDP each year or \$90bn per year for the next few years.

US – Non-farm payrolls are due today with estimates for a 215k reading, below record in more than two years increase of 288k.

- Weekly jobless claims have come mostly in line with estimates (312k v 310k forecast) with previous week's numbers revised marginally (304k from 300k).

Germany – Industrial production returned to growth in Apr (+0.2%mom v -0.6% in Mar). Estimates were for a 0.4%mom gain.

- A separate report showed trade surplus climbed to a 4-month high in Apr boosted by a 3.0%mom (v +1.3%mom forecast) increase in exports with imports nearly unchanged (+0.1%mom v +0.8% forecast)

UK – new car sales rose in May for 27th consecutive month

- New car sales rose 7.7% to 194,032 in May some 11.4% higher yoy.

UK - Newark Bi-election results

Conservatives (45%) win Newark Bi-election beating UKIP (26%) into second place with Labour (17.5%) third

- LibDems (2.59%) of the vote.
- The conservative party won a 7,403 majority over UKIP.

US\$1.3636/eur vs 1.3613/eur yesterday. Yen 102.31/\$ vs 102.47/\$. SAR 10.655/\$ vs 10.726/\$. \$1.681/gbp vs 1.676/gbp

Commodity News

Precious metals:

Gold US\$1,255/oz vs US\$1,243/oz yesterday –

Platinum US\$1,451/oz vs US\$1,429/oz yesterday – "It's the fight we had to have", CEO of Anglo American Mark Cutifani said commenting on the situation with protests at platinum operations in South Africa. "What's being asked, for us is unsustainable. And at the same time, the productivity in the platinum sector is one tenth the productivity in the Australian mining sector and we are paying one fifth of the wages."

Palladium US\$841/oz vs US\$834/oz yesterday –

Silver US\$19.13/oz vs US\$18.78/oz yesterday

Base metals:

Copper US\$6,735/t vs US\$6,782/t yesterday – Board of directors at Codelco votes to sack Chief Executive Officer Thomas Keller.

- The dispute is reported to have emerged after clash over cost cuts.
- "What we have now in terms of workforce, health benefits and pay isn't consistent with the profitability promises we made," CEO said.
- Copper cathode import premiums in China slide to US\$80-95/t versus US\$90-100 a couple of day ago and US\$120/t last week as a probe into commodity financing deals cools demand.

Aluminium US\$1,849/t vs US\$1,845/t yesterday –

Nickel US\$18,900/t vs US\$19,081/t yesterday –

Zinc US\$2,081/t vs US\$2,078/t yesterday

Lead US\$2,092/t vs US\$2,103/t yesterday

Tin US\$23,080/t vs US\$23,200/t yesterday

Energy:

Oil US\$109.1/bbl vs US\$108.0/bbl yesterday

Natural Gas US\$4.724/mmbtu vs US\$4.678/mmbtu yesterday

Thermal Coal US\$80.0/t vs US\$80.2/t (05/06/14)

Coking coal US\$120/t unch vs US\$120/t (04/06/14) Quarterly seaborne benchmark -

Uranium US\$28.65/lb vs US\$28.25/lb (05/06/14) -

Tungsten - US\$376.0/mtu unch vs US\$376.0/mtu (05/06/14) APT European

Iron Ore US\$94.3 vs US\$94.6 (04/06/14) 62% Fe spot (cfr Tianjin) - Plans to build a bridge between Russia and china over the Amur river would boost trade in the region as well as significantly cut transportation costs for commodities exporting companies.

- Late in May the Russia-China Investment Fund reaffirmed plans for a railway bridge that would connect Heilongjiang province to Russia's Jewish Autonomous Region.
- The bridge is estimated to have a capacity of up to 21mt.
- IRC, an iron ore concentrate and ilmenite producer in Russia, may see its transportation costs reduced significantly from current US\$35/t for the delivery of the Kuranakh product should the bridge be built.
- Regarding the K&S I project currently in development in the Jewish Autonomous Region, railway costs may fall from forecast US\$21/t for delivery to the border in the Far East Primorskiy Region to c. US\$7/t for delivery of c. 200km to a proposed bridge location.
- On a separate note, the Bank of China is limiting the amount of financing available for new iron ore deals as part of a probe on the irregular financing of imported commodities (MetalBulletin).

Company News

Central Rand Gold (LON:CRND) – Finance director resigns

- Patrick Malaza, finance director of Central Rand Gold has resigned. The move follows the previous resignation of Mike Salamon a former NED
- Redstone Capital have potential to convert their convertible note to gain 67.28% of the company.
- Central Rand Gold's statement comments "Patrick's resignation enables the Company to reallocate duties within the finance team. This will provide an opportunity for emerging talent within the finance team to assume more responsibility and also contribute to the future success of the Company. Further, the reallocation of duties will result in a significant reduction in remuneration costs".

Firestone Diamonds (LON:FDI) – Share Consolidation

- Following the completion of the placing, open offer and subscription, the share capital has been reorganised.

- The consolidation will result in 308,992,814 shares (previously 2,336,174,902 shares).

Mandalay Resources – to acquire Elgin Mining for around C\$70m for its Bjorkdal Gold mine in Sweden

- Mandalay Resources run by Brad Mills, former ceo at Lonmin is to acquire Canadian listed Elgin Mining for its assets in Sweden.
- Elgin runs the 44-49,000ozpa Björkdal gold mine which was formerly owned by Minmet of London
- The offer is for C\$0.37 cash or 0.4111 of a Mandalay common share per Elgin share, subject to pro ration.
- The transaction value Elgin at around C\$70m representing an approximate 85% premium to Elgin's closing price of \$0.20/s on 3 June..
- Elgin's full-year production guidance for Björkdal in 2014 is 44,000 to 49,000 ounces of gold at US\$886 to US\$982/oz cash cost and US\$1,088 to US\$1,207/oz all-in cost.
- Mandalay's total gold equivalent production guidance for 2014 combined with Elgin increases to 152,000 to 167,000 gold equivalent ounces.
- In connection with the transaction, Mandalay has agreed to provide a convertible bridge loan of approximately \$5,000,000 to Elgin which will be used to repay an existing bridge loan from Sprott Resource Lending Partnership. The Bridge Loan bears an interest rate of 10%pa.

Sundance Resources (ASX:SDL) – Appoints EPC Contractor for Mbalam-Nabeba Iron Ore Project

- Sundance has appointed Mota-Engil Africa to act as EPC contractor for its Mbalam-Nabeba Iron Ore Project.
- Standard Bank has been appointed to advise on funding and to be the lead debt arranger for the US\$3.5bn rail, port and mine infrastructure.
- The infrastructure required includes a 510 km railway from the Mbarga Mine in the Cameroon to the Mineral Terminal Facility at Lolabe.
- A 70 km rail spur line from Nabeba Mine in the Republic of Congo to the Cameroon railway.
- A 35 mtpa deep water Mineral Terminal Facility including stock yards capable of loading 'China-max' vessels (very large ships with dwt of 400,000 tonnes).
- Discussions are said to be advanced with a variety of funding partners such as the Export Credit Agencies, Development Funds and commercial banks.

Conclusion: It is interesting to see this announcement from Sundance who have ambitions to build a large scale iron ore project in West Africa. With iron ore prices falling below US\$95/t, it has been easy to dismiss a number of iron ore projects coming out of West Africa. High infrastructure costs make IRRs less compelling at these prices. However, there is an argument that at these prices, the first mines to go to balance the supply coming out of the Pilbara will be the high cost Chinese mines.

According to Bloomberg analysts, 189 Mt of 60% of Chinese iron ore mined may be producing at a loss when iron ore prices fall below US\$100/t. Should state owned high cost mines close out of China, there may be more of an incentive for Chinese money to find its way to funding West African iron ore to diversify their reliance on the seaborne iron ore dominated by the majors.

The involvement of the South African/African entities is also interesting as it is likely to attract export/import funding

which should help to make the funding terms more attractive.

Mota-Engil itself is an international Engineering and Construction business with the multiple disciplinary capability required to build this project. Environmental and social challenges remain and with the outbreak of Ebola in Sierra Leone demonstrating the challenges of operating in these countries. Mota-Engil has been working on the Hwange Colliery near the well know Hwange National Park in Zimbabwe and in Mozambique and Angola.

The recent sell off in iron ore will continue to have losers in this space including the existing junior producers unless they can demonstrate that they can come down the cost curve. In addition, projects without high quality DSO or good metallurgy, high grade end products, will struggle. Sundance Resources may still be able to get their project off the ground.

See link to our Iron Ore Review published in February this year below on the supply coming out of the Pilbara and the implications for the West African Iron ore juniors.

[Click for SP Angel Iron Ore review](#)

Stratex International* (LON:STI) – Tanzanian drill program offers potential along strike from the Bulyanhulu gold mine

- Stratex report progress in drilling at their Tembo Gold investment in Tanzania.
- Tembo Gold Corp drilled a first drill hole into the main corridor at the 'Buly Trend' along trend from the Bulyanhulu Gold mine.
- Induced Polarisation 'IP' results show a strong chargeable and resistive zone which is associated with gold recovered in artisanal workings at the Ngula 2 target.
- Grab samples show grades of 27-38g/t and reflect the following of artisanal workings along narrow quartz veins as sampled by the Tembo team. Critical is whether the veins being mined reflect a system with company-scale economics rather than artisanal economics!
- The IP survey shows an anomaly along the trend of artisanal workings suggesting potential for a gold bearing structure at depth particularly when considered along with the intensity of deformation as seen in past drilling.
- Drilling results to date are modest but are also encouraging given the strength of the shear zone intersected. The team now need to identify the more mineralised portions within the shear using recently identified IP anomalies. While this presumes that the 'IP' chargeability is related to the disseminated sulphide, which might not be the case, the geological setting is appropriate and the team should know by end-month if the 'IP' anomaly and gold bearing mineralisation tie up.
- The team's first drill hole is designed to test the anomaly near surface and also the deeper offset anomaly at 400-500m depth.

Conclusion: The C\$5.95m co-investment in Tembo by Stratex, the New Africa Mining Fund II (C\$2.5m) and Concept Capital Management (C\$1m) should enable a series of well considered drill programs along strike from the Bulyanhulu gold mine. Tanzania hosts a number of larger, higher grade gold mines and while new discoveries are rare the careful investigation of the strike along from the Bulyanhulu gold mine looks like a good idea. We look forward to the results of the first drill program

*SP Angel acts as broker to Stratex

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