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Today's Market View - Waning growth outlook helps gold prices

SP Angel - Morning View - Friday 15 03 19

Waning growth outlook helps gold prices

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African Battery Metals (LON:ABM) - Investment and Option Agreement with Katoro Gold

Alara Resources (ASX:AUQ) - €60m investment agreement with Al Hadeetha Resources

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GCM Resources (LON:GCM) - second joint venture with Power Construction Corp of China

Metals Exploration (LON:MTL) - Nomad resigns

Ormonde Mining* (LON:ORM) - Brookfield to buy out Oaktree in effort to rival private equity giant, Blackstone

Metals demand impacted in Europe as Brexit looms

- Vanadium prices appear to have softened in Europe by the slowdown in the Eurozone
- Confusion over the UK's exit process from Europe is likely to be a contributory factor to the European slowdown as trade with the UK may be impacted by the Brexit process.
- If the UK crashes out of Europe then the European Parliament is going to have to restructure and almost certainly delay a number of planned new infrastructure, construction as well as financial support for other European projects.
- Uncertainty over future financial contributions into the EU will lead to further caution at steel producers, traders and other materials suppliers.

Tanzania - changes to Mining Act waiting for Presidential consent

- Tanzania's Minister of Minerals is able to make new regulations under differing Acts of Parliament
- The minister has added a number of new regulations under the Tanzania Extractive Industries (Transparency and Accountability) Act 2015 known as 'TEITI'
- The new Mining Act Amendment Bill include the following points as summarised by Clyde&Co lawyers:
 - Additional requirement to obtain consent from the licensing authority
 - Restriction on import permit holders possessing and disposing of minerals and provision of minimum fines / an imprisonment term for contravention
 - Exceptions to the buying and selling of minerals at Mineral and Gem Houses
 - Requirement for broker licence applicants to specify the buying stations from which they intend to buy minerals

- Requirement to obtain a mineral import permit in order to import minerals
- Alteration to duration of mineral import permits and payment of prescribed fees
- Introduction of specific conditions when importing diamonds
- Mineral ores or tailings owned by small scale miners now to be a trading commodity in Tanzania

For further info see: <http://www.mondaq.com/x/787932/Mining/Regulatory+changes+in+Tanzanias+mining+sector>

Burkina Faso - Paris arbitration court dismissed a \$2.2bn claim lodged by Frank Timis' Pan African Minerals Group against Burkina Faso over control of the Tambao mine, one of the world's largest manganese deposits.

- Operations at the mine were halted in 2015 following a change in leadership in Burkina Faso and the Company then asked the International Chamber of Commerce's international Court of Arbitration to rule on its permit that was withdrawn.
- The court ruled "the termination of the contract by Burkina was valid and justified in law".

Dow Jones Industrials

+0.03%

at

25,710

Nikkei 225

+0.77%

at

21,451

HK Hang Seng

+0.73%

at

29,063

Shanghai Composite

+1.04%

at

3,022

FTSE 350 Mining

-1.10%

at

18,908

AIM Basic Resources

+0.28%

at

2,163

Economics

China - New foreign investment law may ease US concerns over investment into China

- The new legislation passed on the final day of the National Peoples Congress may resolve US concerns over investment into China.
- Interestingly, the new legislation comes into effect in 2020, which gives China time to change it if they don't reach a trade deal with the US.
- The legislation came in three months after its first draft was first proposed which is way faster than new legislation in the US and the EU and is quite fast for China as well, particularly given the nature of the legislation.
- US investments into China rose by 44% yoy in the first two months of this year. The move highlights the symbiotic relationship between US investors and Chinese industry where

China - "It is true that China's economy has encountered new, downward pressure," Premier Li Keqiang told reported on Friday.

- Chinese Premier reiterated the government stance on the readiness of authorities to provide support to the economy in the face of new pressures on growth.

Japan - The BoJ left monetary policy unchanged while flagging risks to economic growth momentum.

- The central bank maintained its short term interest rate target at -0.1% and a pledge to steer 10y bond yields to 0% target.
- "It is true Japan's exports and output are being affected by lean overseas growth... on the other hand, domestic demand continues to grow. We maintain our baseline view that the economy is expanding moderately... it is likely to take longer to achieve our price target," Kuroda said during the post-meeting news conference.

UK - MPs voted to delay Article 50 by at least three months yesterday.

- PM May said an extension to 30 June is possible if MPs back her deal in a vote next Tuesday.
- If Parliament rejects the deal for a third time now then she is planning to seek a longer extension that may risk Brexit altogether.
- Any extension will need to be agreed by the other 27 EU member states.
- The pound is rangebound this morning as the market seeks clarity on the government's next course of action.

US - President Trump expressed optimism about striking a deal with China which should be wrapped up within four weeks.

- "We are doing very well with China talks... we'll have news on China probably - one way or the other, we're going to know over the next three to four weeks," Trump told journalists yesterday.
- The rhetoric marks a change in sentiment from a relatively subdued stance yesterday when markets pulled back at one point on reports that the Trump/Xi meeting will not be taking place this month and will need to be delayed to April at least.

The US Securities and Exchange Commission is going after Volkswagen and its former CEO Martin Winterkorn over diesel scandal.

- The regulator argues the Company and the management were aware that 500,000 vehicles in the country exceeded legal limits on vehicle emissions during the time of raising capital in debt markets and thus mislead investors.
- The Company issued more than \$13bn in bonds and asset-backed securities between April 2014 and May 2015.
- "By concealing the emissions scheme, Volkswagen reaped hundreds of millions of dollars in benefit by issuing the securities at more attractive rates for the company, according to the complaint," the SEC said.
- The Company denied all allegations saying no one involved in the issue of securities knew of the emissions issue.
- The lawsuit follows on the Company's pleading guilty in a case brought by the US DOJ in January 2018 that cost VW \$2.8bn in criminal fines.
- The stock is little changed this morning having come off 1.7% on Thursday.

Currencies

US\$1.1332/eur vs 1.1285/eur yesterday Yen 111.64/\$ vs 111.36/\$ SAR 14.423/\$ vs 14.350/\$ \$1.332/gbp vs \$1.314/gbp 0.707/aud vs 0.706/aud CNY 6.716/\$ vs 6.711/\$

Commodity News

Precious metals:

Gold US\$1,304/oz vs US\$1,303/oz yesterday

Gold ETFs 71.7moz vs US\$71.7moz yesterday

Platinum US\$834/oz vs US\$835/oz yesterday

Palladium US\$1,560/oz vs US\$1,546/oz yesterday

Silver US\$15.37/oz vs US\$15.34/oz yesterday

Base metals:

Copper US\$ 6,437/t vs US\$6,432/t yesterday

Aluminium US\$ 1,911/t vs US\$1,899/t yesterday

Nickel US\$ 12,980/t vs US\$13,055/t yesterday

Zinc US\$ 2,798/t vs US\$2,830/t yesterday

Lead US\$ 2,102/t vs US\$2,115/t yesterday

Tin US\$ 21,275/t vs US\$21,240/t yesterday

Energy:

Oil US\$67.5/bbl vs US\$68.0/bbl yesterday

Natural Gas US\$2.854/mmbtu vs US\$2.835/mmbtu yesterday

Uranium US\$27.40/lb vs US\$27.65/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$84.4/t vs US\$82.1/t

- Iron ore futures in Dalian slipped from the highest levels in more than 3 weeks as domestic Chinese production looks to ease any shortfall caused by disruption in Brazilian supplier, while uncertainty remains over faltering global growth.
- Futures have climbed more than 26% this year on bets alternative sources of ore will be insufficient to match lost production from Vale's deadly dam disaster, but Chinese mines are expected to boost output by as much as 22mt this year to boost chances.
- "Inventories at ports have risen for the past five weeks, going against expectations of a fall following the disruption in Brazil," Australia & New Zealand Banking Group Ltd also report.

Chinese steel rebar 25mm US\$616.5/t vs US\$616.6/t

Thermal coal (1st year forward cif ARA) US\$75.2/t vs US\$74.8/t

Coking coal futures Dalian Exchange US\$188.0/t vs US\$196.7/t

Other:

Cobalt LME 3m US\$31,000/t vs US\$32,000/t

China NdPr Rare Earth Oxide US\$43,539/t vs US\$43,554/t

- China has emerged as the world's top importer of rare earth metals as the requirement for high-tech application, including EV permanent magnet motors accelerates. China has been the world's biggest rare earths exporter for years, raising shipments overseas by 4% year-on-year to more than 53,000t in 2018, and the status as a top importer is significant.

- The country imported 41,400t of rare earth oxides and oxide equivalents in 2018, up 167% year-on-year, as a crackdown on illegal production reduced domestic output, according to a report by consultancy Adamas Intelligence.
- Shipments were primarily in the form of mineral and chemical concentrates from Myanmar and the United States, Adamas managing director Ryan Castilloux reported.
- Rising Chinese imports are set to be a long-term trend, boosting the significance of global rare earth development projects including Mkango Resources' Songwe Hills rare earth project in Malawi.

China Lithium carbonate 99% US\$9,750/t vs US\$9,753/t

- Major Lithium Americas Corp. has announced plans to accelerate the doubling of its Argentina mining project as producers broadly struggle to keep up with booming demand for essential EV materials.
- Lithium Americas is constructing the Cauchari-Olaroz mine in Argentina's Jujuy province with joint venture partner Ganfeng Jiangxi Ganfeng Lithium Co Ltd., which acquired 37.5% of the project in October. The decision to advance the JV and increase capacity before the project starts producing in the second half of 2020 could be close.
- "Ganfeng's entrance has accelerated the development of the project and the conversations around possible expansions," Gabriel Rubacha, president of South American operations at Lithium Americas said in an interview. "We remain convinced that the project has greater potential and the decision to develop the expansion could be taken sooner rather than later."
- Established producer have faced setbacks ranging from technical glitches to bad weather, creating a significant shortfall for the battery metal now expecting to reach 1mtpa by 2025, from 300ktpa now.
- Lithium Americas' \$425m project could alleviate some of the tightness. Argentina's most advanced lithium greenfield project is expected to bring in production capacity of 25ktpa from the second half of 2020. A second phase of the project could take capacity to 50ktpa, Rubacha said.
- Market volatility has hurt juniors looking to capture growing demand, with prices for lithium carbonate produced in South America have fallen 17% to the lowest in 18 months since reaching a record high of \$15,750/t in May last year, according to Benchmark Mineral Intelligence. The role of established majors will be fundamental to the accelerating EV battery industry.

China Ferro Vanadium 80% FOB US\$73.0/kg vs US\$73.5/kg

China Antimony Trioxide 99.5% EU US\$6.9/kg vs US\$6.9/kg

Tungsten APT European US\$271-282/mtu vs US\$270-280/mtu

Battery News

Tesla Model Y SUV has 7 seats and 300 mile range

- The new Tesla Model Y, SUV based on the Model 3 platform has a range of up to 300 miles, 0-60 mph in 3.5 seconds and seven seats.
- The starting price for the 'standard range' will be \$39,000 or probably allot more if you want to buy one in the UK.
- It will cost more if you want the beefed-up battery pack and is likely to be a hit with airport taxi drivers.
- Tesla Models are now: S,3, X, Y

Company News

African Battery Metals (LON:ABM) 0.5p, Mkt Cap £1.6m - Investment and Option Agreement with Katoro Gold

- African Battery Metals has signed an investment and option agreement with Katoro Gold to acquire 35% of Katoro's Haneti nickel project in Tanzania.

- The cost is £125,000 to ABM subject to due diligence.
- Katoro also holds a 100% interest in the Imweru and Lubando gold projects in Tanzania which in total host a JORC compliant gold resource (inferred and indicated) of 754,980 ounces of gold.
- African Battery Metals was recently reborn with the backing of Paul Johnson, formerly of Metal Tiger and Andrew Bell of Red Rock Resources and Jupiter Mines.

- The company has some £860,000 cash and no material debt

*SP Angel act as broker to African Battery Metals

Alara Resources (ASX:AUQ) A\$0.03/s, mkt cap A\$18m - €60m investment agreement with Al Hadeetha Resources

(Alara - 70%, Al Hadeetha Investments LLC - 30%, of 'AHRL' Al Hadeetha Resources LLC.) + (Alara - 50% with right to increase to 70%+, Al Tamman Trading Establishment LLC - 50%, of Daris Resources LLC)

- SAMA Global Investment of Qatar is investing €60m into Al Hadeetha Investments LLC for the development of the Washihi-Mazzaza.
- The Al Hadeetha Copper Project1 involves the construction of a 1mtpa copper concentration plant to support an initial 10-year mine life.
- The team are also planning several other copper projects to follow in Oman
- Savannah Resources* also have projects in the area

*SP Angel act as Nomad to Savannah Resources

BlueRock Diamonds* (LON:BRD) 0.26p, Mkt Cap £1.7m - Permission for continuous operations

- BlueRock Diamonds reports that it has received the required permissions to move to continuous, 365 day operations at its Kareevlei diamond mine in the Kimberley district, South Africa.
- Commenting that it was "finalising its preparations" for continuous operations BlueRock Diamonds said that although this "is slightly later than had been anticipated, it has not had any material impact upon published guidance for production volume in Q1 2019 of between 35,000 tonnes to 45,000 tonnes. The production volume for the first quarter is expected to be nearer the upper end of this range."
- Guidance on the full year production "will be released in due course".
- CEO, Adam Waugh, said "The move to 365-day operations is a significant step in our drive to increase production volumes and move towards profitability".

Conclusion: The permission to implement 365-day working at Kareevlei should be an important move towards the profitable operation of the Kareevlei mine.

*SP Angel acts as Nomad & Broker to BlueRock Diamonds

GCM Resources (LON:GCM) 30.5p, Mkt Cap £30m - second joint venture with Power Construction Corp of China

- GCM Resources which holds the Phulbari coal project in Bangladesh has announced it has agreed a second joint venture with the Power Construction Corp of China, known as POWERCHINA. POWERCHINA is a central government owned key enterprise of the People's Republic of China,
- The agreement is to develop an additional 2x1,000MW coal-fired power plant at the site of the Pubari.
- GCM reports that partners have been found for 6,000MW of power plants.
- If the Bangladesh government grants a license to mine coal at Phulbari it would be a complete U turn on its past policy at the mine
- The Bangladesh State Minister for Power, Energy and Mineral Resources said in 2015 that "the government

was not interested to extract coal from the deposits in the north Bengal region using open-pit method."

- An open cast mine at the site might lead to the forced displacement of some 230,000 people in Bangladesh making the project a significant issue for the World Bank and other interest groups.

Conclusion: Any attempt to build an opencast coal mine at Phulbari in Bangladesh is likely to be followed by bloodshed and violence as seen in the massacre in 2006 when around 50,000 people took to the streets to demonstrate against the mine leading to the killing of three people and the wounding of hundreds more.

Metals Exploration (LON:MTL) 0.6p, Mkt Cap £11m - Nomad resigns

- Canaccord Genuity has resigned as Nominated Adviser to the Company starting from 14 April 2019.
- Should the Company be unable to find a replacement by that time trading in MTL shares will be suspended.
- If no replacement is found in one month after the April deadline, the Company's AIM listing will be cancelled.
- The Company is currently in discussions with a replacement Nomad although no agreement has yet been finalised.
- The team has been trying to restructure its outstanding loans owed to HSBC and BNP Paribas as well as shareholders lately while operations continued to lag behind budgeted levels.
- Unless the Company refinances outstanding debt or is granted a standstill from its lenders, \$44.1m are due for repayment to HSBC/BNP by 31 March 2019. The Company had \$1.8m in cash as of YE18 and confirmed recently that it does not have the resources to complete those payments.

Ormonde Mining* (LON:ORM) 4p, Mkt Cap £19m - Brookfield to buy out Oaktree in effort to rival private equity giant, Blackstone

(Oaktree Capital currently hold 70% of Ormonde Mining's Barruecopardo tungsten project)

- Brookfield Asset Management has agreed to buy a majority stake in Oaktree Capital in a ~\$4.8bn deal billion deal.
- Brookfield and Oaktree have a mere \$475bn of assets under management vs Blackstone \$472bn.
- Oaktree Capital currently hold 70% of Ormonde Mining's Barruecopardo tungsten project in Spain which is currently commissioning and is perilously close to tungsten production.
- See <http://ormondemining.com/timeline-in-pictures/>
- It is typical for asset managers to review management and assets in this sort of combination
- We suspect Oaktree will be looking to do more with their stake in Ormonde Mining going forward
- Open-pit mining of tungsten ore started in January with ore used to commission the crushing, screening and to prepare fine ore for the commissioning of the process plant.
- The process plant has already treated some ore as part of the "hot-commissioning" which "will continue during the remainder of February and into March."
- Wet and dry commissioning of the process plant should now be mostly complete, with ore now being introduced to the process plant.
- Tungsten APT 88.5% WO3 prices moved slightly higher yesterday in China rising 0.6% to \$268-277/mtu (Fastmarkets MB).
- APT prices in Europe also rise by 0.5% to \$271-282/mtu last week (Fastmarkets MB).

Conclusion: Commissioning at Barruecopardo should be near completion though no date has been set. Barruecopardo should be in a good position as spring approaches and we look forward to positive news as the mine and plant approach commercial production.

*SP Angel acts as Broker to Ormonde Mining

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