

# Commodities in a meltdown, but coal, uranium offer some hope

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**From super-cycle to commodity meltdown was the way one group of analysts titled a report last week. “Sentiment toward commodities as an asset class has rarely, if ever, been more negative,” added Capital Economics.**

Copper has hit a six-year low and closed on Friday at a dispiriting \$US5238 a tonne, down 6 per cent on the week and with Goldman Sachs forecasting the red metal reaching \$US4500/tonne by the end of 2016. Nickel took another hit, ending at \$US11,255/tonne while lead shed more value to close at \$US1716/tonne.

Aluminium continues to weaken. ANZ says demand in Europe has failed to pick up, underlying Chinese demand is weak, which meant the Chinese exports of the metal soared 44 per cent in the first half of the year.

Analyst Daniel Hynes says the cuts to power tariffs and weak domestic coal prices has meant Chinese aluminium smelters have been able to weather lower metal prices and keep their heads above water. Interestingly, the Baltic Dry Index, the measure of bulk commodity freight costs and therefore a gauge to what is happening to iron ore and coal, has seen a sharp rebound, almost doubling since its February 30-year low (although still woeful by historical standards).

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But Capital analyst Caroline Bain sees little comfort, suspecting that while the index may be pointing to an upturn on trade volumes, it may not necessarily lead to higher prices for bulk commodities “given that the markets are currently awash with supply, amid subdued demand”.

But some good news from consultancy McKinsey & Co. Giving its energy crystal ball a good rub and trying to predict the scene in 2023, its team have two pieces of good news for Australian miners.

One, coal: “Coal will grow more slowly but will remain huge”. It goes on: “The king of fossil fuels is still top of the heap in Asia and will probably remain the fuel of choice”.

McKinsey says that while China is making ambitious moves toward cleaner energy, a true shift away from coal is not imminent. Not so much in the US and Europe where coal is under pressure from regulators (but it’s Asia that matters to us).

Two, uranium: McKinsey says nuclear could be a surprise winner. Small modular reactors can provide 24-hour power without the immense capital outlays for traditional nuclear reactors.

“Yes, nuclear is controversial in many countries but, as an emission-free source of constant power, it may be difficult to avoid,” says McKinsey.

Coming back to the present, we still see the odd spark of interest amid the bleakness. **Rimfire Pacific Mining (RIM)** rose 65 per cent on an intersection of 4m grading at 6.5 per cent copper and 2.3 grams/tonne of gold. The day before the announcement just 30,000 shares went through, but on the day itself traders moved 21.5 million shares.

And the zinc sector seems alive. **Heron Resources (HRR)** has secured \$20 million financing from London metals fund Greenstone Resources for the Woodlawn zinc-copper project 50km northeast of Canberra. The \$20m figure is particularly impressive given that, on the day of the announcement, HRR had a market cap of just \$39.7m. Last week, the company also released its latest drilling results, including 20.5m at 8.1 per cent zinc.

It’s almost a year since Pure Speculation noted the story of **Variscan Mines (VAR)**. The company was focusing on France, a country once an important producer of lead-silver-zinc, gold and uranium, but which has not had a significant operating mine since 2002. Large parts of the country’s mineral provinces are largely unexplored. VAR is now reporting a hit at its Porte-aux-Moines project in Brittany, intersecting 19.5m at 6.5 per cent zinc with lead, copper, gold and silver.

Meanwhile, **MinQuest (MNQ)** has made a bid for the mothballed Wolverine zinc mine in the Yukon.

### Looking for exit

More news from the departure lounge. **Potash Minerals (POK)** is checking out altogether, having lost access to some potash ground in Utah, and will soon be known as Buddy after the internet data storage system it is buying.

**Galicia Energy (GAL)** has shed its Polish exploration state ahead of becoming a digital media company and **Chrysalis Resources (CYS)** has bolted down its deal to take on Peppermint Innovation, the Philippines operator of mobile banking systems.

Three others are looking elsewhere. **Firestrike Resources (FIE)** will keep its copper-silver ground in the US but is looking for projects outside mineral exploration. **Draig Resources (DRG)** is maintaining its Mongolia tenements but no work was done in the latest quarter, the junior sitting on the \$1.87m as of June 30 and looking for other opportunities.

**Emergent Resources (EMG)** has its iron ore interests, but is casting around for IT or biotech businesses, and holding \$2.19m in the bank. Someone began taking an interest on July 13 when, out of nowhere, 8.2m shares changed hands and trading has been brisk since, the price rising from 1.1c to 2.3c. However, **Latin Resources (LRS)** has found another way around the resources downturn. While holding on to its package of projects in southern Peru, the company spun off a consultancy arm, selling its acquired knowledge of Peruvian permitting requirements to other juniors moving into the country. It expects the new business to generate about \$US223,600 (\$307,000) in revenue this year.

### Hastings upbeat

We feel compelled to report any good news from the besieged rare-earth sector. **Hastings Rare Metals (HAS)** has found enough water under its Yangibana, WA, tenements, to supply all its needs for 15 years of mining. Yangibana is rich in neodymium, which accounts for 77 per cent of all rare-earth metals used in new battery technologies.

No investment advice is implied and investors should seek professional guidance. The writer does not own shares in any company mentioned.

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