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SP Angel

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Morning View -DRC cobalt production surges as major mine restarts

Highland Gold (LON:HGM) - Belaya Gora/Blagodatnoye PFS and MRE update

Rio Tinto (LON:RIO) -Stronger commodity markets in FY17 drive a surge in Group earnings

Cape Town Mining Investment Conference

- The 121 Conference in Cape Town more than doubled the number of investors attending this year creating a busy and effective environment for companies to meet investors.
- The informal garden setting works particularly well with the warm Cape Town weather and in contrast to the stark environment of other venues.
- The 121 conference has definitively taken over as the place for companies to meet investors.
- Reports the 'doughnut' conference down the road paint a picture of an event which has been hollowed through years of overcharging and focus on trade suppliers.

SP Angel rank No 1 in Copper price forecasting in the Q4 2017 MB APEX report

SP Angel analysts ranked: See MB APEX report link for further details

- 1st for copper, 1st = for gold, 2nd for Palladium, 3rd for Coking Coal, 5th for Zinc, 3rd in Q4 Precious Metals forecasts in Q4, 4th in Base Metals forecasting in Q4

SP Angel ranked No 1 for research by 'Research Tree' according to investor demand

Dow Jones Industrials

-4.60%

at

24,346

Nikkei 225

-4.73%

at

21,610

HK Hang Seng

-5.12%

at

30,595

Shanghai Composite

-3.35%

at

3,371

FTSE 350 Mining

-1.76%

at

18,217

AIM Basic Resources

-2.12%

at

2,543

Economics

Currencies

US$1.2407/eur vs 1.2424/eur yesterday Yen 108.95/$ vs 109.22/$ SAr 12.084/$ vs 12.075/$ $1.397/gbp vs $1.398/gbp 787/aud vs 0.788/aud CNY 6.276/$ vs 6.278/$

Commodity News

Precious metals:

Gold US$1,343/oz vs US$1,341/oz yesterday

- Gold prices begin to regain positive momentum after posting its biggest drop in two months as investors seek protection against wider market fluctuations. Bullion for immediate delivery rose 0.4% to $1,329.88/oz following Tuesday's closure 1.2% lower, the largest fall since Dec. 7. While the equity markets continue to oscillate, with the S&P 500 falling 4.1% on Monday (biggest loss since Aug. 2011), market participants are resorting to the safe haven asset for non-correlated hedging. There's "far too much volatility in the market and investors across all asset classes remain spooked", head of Asia Pacific trading at Oanda.
- The precious metal climbed to around $1,366 in intraday trading over the last month, the highest level since 2016, as inflation concerns and dollar weakness drive demand. The outlook for more increases in Federal Reserve borrowing costs and bond yields rising to four-year highs has put downward pressure on bullion. "When you see rate hikes, you typically see gold start to trend down. It has to do with the fact that gold is negatively correlated with real interest rates".
- However, Goldman Sachs see worsening geopolitical stability driving gold prices to higher levels, with the bank targeting £1,375 at year-end on 'modest fear'. The bank note that gold's role as a haven in times of conflict or heightened geopolitical risk could propel prices to levels last seen in 2013. Global head of commodities research, Jeffery Currie, notes prices will probably top $1,400/oz, or even $1,500, if the geopolitical situation gets a lot more dangerous.
- Downward pressure from interest rates are also being suppresses from rising wealth in China, and unprecedented demand from Southeast Asia and emerging markets. China's growing group of affluent customers is driving a rebound in Asia demand for gold jewelry as the property boom and high stock market valuations boost wealth in the largest bullion market. Home sales climbed to a record in December, shares hit the highest in two years last month and the economy accelerated last year for the first time since 2010.
- The nation's demand for gold jewelry climbed 10% during 2017 to almost 700 metric tonnes as the wealthy increased purchases and consumption improved across second and third-tier cities, according to the China Gold Association. The ornate demand represents more than 60% of the total gold buying as China consumed 1,090 tonnes of the precious metal.
- Rising demand in China could help boost global prices due to the vast market size. Analysts at brokerage CLSA Ltd. foresee the precious metal maintaining double-digit growth in the same jewelry across China and Hong Kong because of better consumer sentiment. Another driver is that the expiring Year of the Rooster was an unusually long one, spanning two springs, which is auspicious for marriages, and could lead to more births across 2018. Gifts of gold are traditional for weddings and births.
- Gold in London advanced to its highest since 2016 last month, while holdings in bullion-backed exchange-traded funds are up about 40% in the past two years and increased to the largest stash since 2013 in January.

Gold ETFs 72.4moz vs US$72.4moz yesterday

Platinum US$998/oz vs US$997/oz yesterday

Palladium US$1,024/oz vs US$1,022/oz yesterday

Silver US$16.88/oz vs US$16.86/oz yesterday

Base metals:

Copper US$ 7,097/t vs US$7,092/t yesterday

Aluminium US$ 2,189/t vs US$2,188/t yesterday

Nickel US$ 13,380/t vs US$13,365/t yesterday

- Metal prices firm following early week market turmoil as Goldman Sachs Group Inc. reminds investors to keep focus on the global growth outlook. "We've got synchronised global growth, which we have not had in a long time, and that's what's going to play out for commodities over the next 12 months", say analysis at Fat Prophets.
- Nickel rose 0.9% after dropping 2.6% on Tuesday as investors overreacted to signs of inflation in system in "typical market panic".

Zinc US$ 3,481/t vs US$3,492/t yesterday

Lead US$ 2,615/t vs US$2,617/t yesterday

Tin US$ 21,635/t vs US$21,690/t yesterday

Energy:

Oil US$66.9/bbl vs US$67.2/bbl yesterday

Natural Gas US$2.777/mmbtu vs US$2.773/mmbtu yesterday

Uranium US$22.25/lb vs US$22.25/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US$74.0/t vs US$74.0/t

- Shipping exports of iron ore swelled to record levels as Australia's Port Hedland rose to 41.1 million tonnes in January, according to the Pilbara Ports Authority. Last week, Brazil also reported its biggest ever shipments for January. Rising mine supply has created tension as Barclays Plc and Goldman Sachs Group Inc. duel over whether prices will remain elevated under the prospect of faltering China demand. While Barclays said in January that the commodity's set to tank as mills' margins recede, Goldman Sachs predicts that prices may rally to as much as $85/t within three months.
- "When you look at the supply-side reforms in China, they've been absolutely brilliant. In that environment, they need to have the high-grade, high-quality iron ore" notes Goldman's global head of commodities research, adding high-grade material's in short supply. This is expected to sustain the price premium for the high-grade product.

Chinese steel rebar 25mm US$645.0/t vs US$644.8/t

Thermal coal (1st year forward cif ARA) US$81.4/t vs US$82.5/t

Premium hard coking coal Aus fob US$221.9/t vs US$221.9/t

Other:

Tungsten APT European US$317-325/mtu vs US$315-320/mtu last week

Cobalt LME 3m US$80,750.0/t vs US$80,750.0/t

- Electric vehicle raw material production rises in the Democratic Republic of Congo as major Glencore begins to ramp-up output across its Katanga operation. Copper production from Africa's top producer rose 6.9% to 1.09 million tonnes, while cobalt surged 15.5% to 73,940 tonnes according to the industry-led chamber of mines during the 121 conference in Cape Town.
- The Swiss miner is flagging a big increase in cobalt production as one of its biggest copper mines restarts with the production of 2,200 tonnes of copper cathode by the end of December as the new whole ore leach processing project was commissioned. Full capacity production is expecting 39,000 tonnes of copper while cobalt output could rise to as much as 20,000 tonnes by 2019.

Company News

Highland Gold (LON:HGM) 146p, Mkt Cap £475m - Belaya Gora/Blagodatnoye PFS and MRE update

- The Company released results of a Belaya Gora (BG) and Blagodatnoye PFS studying an optimization of the BG treatment plant and a processing of ores from two deposits, as well as a new resources/reserves statement as of Jan/18.
- The Blagodatnoye is a greenfield project located 39km to the southeast of BG with the Company having been studying the potential for using the existing infrastructure at BG to develop the adjacent deposit.
- A combined mineral resource for BG and Balgodatnoye is 31.3mt at 1.40g/t for 1,366koz in Indicated and 0.2mt at 1.98g/t for 12koz in Inferred categories:
    - BG total resource includes 12.6mt at 1.53g/t for 601koz (98% of which is in the Indicated category);
    - Blagodatnoye total resource includes 19.3mt at 1.25g/t for 777koz (all of it in the Indicated category).
- A combined mineral reserve for BG and Blagodatnoye is 20.1mt at 1.44g/t for 932koz including:
    - BG reserves of 9.9mt at 1.45g/t for 460koz;
    - Blagodatnoye reserves of 10.2mt at 1.43g/t for 472koz.
- A CIP leaching circuit to be installed at BG is expected to improve gold recoveries from the current 72% to 86-91% and to yield 90% recoveries for the Blagodatnoye ore.
- Estimated capex for the BG processing plant upgrade is $15m.
- BG is expected to be mined first to completion for seven years (2018-2025) followed by Blagodatnoye for eight years (2025-2032).
- Estimated capex to move mining operations from BG to Blagodatnoye is estimated at $21m to be incurred in 2023.
- LoM production from two mines is estimated at 820koz (55kozpa) at an average TCC of $802/oz and AISC $848/oz.
- NPV(10%) and IRR of the project is estimated at $97m and 142% at $1,250/oz and USDRUB of 60 since all major infrastructure including the processing plant and mining fleet is already in place.

Conclusion: Updated mineral resources/reserves brings modelled grades closer to mined/processed grades recorded in the past at BG and is a better reflection of the deposit. Processing plant optimisation is estimated to translate into a 14-19pp step up in gold recoveries significantly helping operating margins. Overall, PFS guides for a lower LoM annual production (55kozpa v 68kozpa) and higher costs (TCC $802/oz v $658/oz) than we used in our previous estimates on the back of a lower utilization of the processing plant, higher waste stripping ratios and lower processed grades slightly compensated by a longer LoM and higher gold recoveries at BG.

Rio Tinto (LON:RIO) 3,830p, Mkt Cap £69.6bn -Stronger commodity markets in FY17 drive a surge in Group earnings

- Revenues climbed $6.2bn to $40.0bn helped by stronger commodity prices.
- EBITDA was up 38%yoy to $18.6bn, broadly in line with market estimates, with all segments posting strong increase (Iron Ore +35%, Aluminium +38%, Copper&Diamonds +37%, Energy&Minerals +55%).
- EBITDA margins hit a ten year record of 44% (2016: 38%).

- Underlying PAT increased to $8.6bn, up 69%yoy, (v $8.7bn market forecast) with higher prices accounting for $4.1bn (post-tax).
- Free cash flow generation improved substantially to $9.5bn (2016: $5.8bn) after accounting for capital expenditures of $4.5bn (2016: $3.0bn).
- Net Debt reduced to $3.8bn, down $5.8bn from YE16, with Net Debt to EBITDA ratio falling to 0.2x (FY16: 0.7x).
- The Company announced $3.2 (180USc) in final dividend on top of $2.0bn (110USc) paid in Sep/17 bringing total dividend distribution to 290USc (2016: 170USc)

Additionally, another $1bn share buy back programme to be completed by the end of 2018 on top of $1bn completed last year