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Today's Market View - China continues to crackdown on illegal metal recycling

SP Angel - Morning View - Thursday 24 01 19

China continues to crackdown on illegal metal recycling

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Anglo American (LON:AAL) - Q4 and 2018 production report

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Strongbow Exploration (CVE:SBW) - Cornwall county council vote to inject £1m into listing for reopening of South Crofty tin mine

China continues to crackdown on illegal lead battery recycling

- China is continuing its focus on cleaning up its environment with new impetus on closing illegal and polluting recycling facilities
- The authorities also aim to raise recycling rates to 70% by 2025 presumably through officially authorised recyclers according to Reuters
- China is reported to produce some 3.3mt of waste lead batteries with <30% of these officially recycled.
- Policymakers are also going to need to regulate the collection, transport and recycling of lithium-ion batteries which will grow substantially over the next few years

China plans new super maglev train of up to 1,000kmh

- China is testing prototype maglev technology which could use vacuum tunnels to enable speeds of 1,000kmh
- Development of further maglev systems will inevitably involve significant tonnages of reinforced concrete and steel

A new strain of Ransomware computer virus is locking up Bitcoin mining rigs in China

- The ransomware threatens to overheat and destroy mining rigs if victims don't infect 1,000 other devices or don't pay a 10 Bitcoin ransom.
- What a shame. mining should be left to proper miners!

Dow Jones Industrials

+0.70%

at

24,576

Nikkei 225

-0.09%

at

20,575

HK Hang Seng

+0.33%

at

27,098

Shanghai Composite

+0.41%

at

2,592

FTSE 350 Mining

+0.19%

at

17,150

AIM Basic Resources

-0.52%

at

2,165

Economics

Currencies

US\$1.1353/eur vs 1.1355/eur yesterday Yen 109.68/\$ vs 109.58/\$ Sar 13.823/\$ vs 13.928/\$ \$1.304/gbp vs \$1.295/gbp 0.710/aud vs 0.713/aud CNY 6.795/\$ vs 6.789/\$

Commodity News

Precious metals:

Gold US\$1,280/oz vs US\$1,285/oz yesterday

- Gold tracked lower, despite rising concern for the outlook for global economic growth. White House Council of Economic Advisers Chairman Kevin Hassett said if the partial shutdown lasts through March, there's a chance of zero expansion through this quarter, though 'humongous' growth would follow once federal agencies reopen.
- The outlook is expected to remain positive with investors seeking to hedge against recession fears and central bank purchases.
- The risk of a no-deal Brexit appears to be receding after calls for a delay to the U.K.'s exit from the European Union won powerful backing in London and other EU capitals
- Physical demand for the metal is also rising across top consumers India and China.

Gold ETFs 72.4moz vs US\$72.4moz yesterday

Platinum US\$793/oz vs US\$791/oz yesterday - AMCU union in South Africa threaten to shutdown mining operations at all mining houses represented in the Minerals Council of South Africa if its demands are not met by Thursday. "We demand that the Minerals Council plays a facilitatory role to ensure that Sibanye-Stillwater departs from their hard-headed stance - for the sake of the mining sector and for the sake of the country." According to iol.co.za

Palladium US\$1,353/oz vs US\$1,359/oz yesterday

Silver US\$15.29/oz vs US\$15.40/oz yesterday

Base metals:

Copper US\$ 5,930/t vs US\$5,966/t yesterday - Production stopped at Las Crucas following landslide on slope of norther zone of open pit in Spain

Aluminium US\$ 1,899/t vs US\$1,908/t yesterday

Nickel US\$ 11,635/t vs US\$11,670/t yesterday

Zinc US\$ 2,616/t vs US\$2,618/t yesterday

Lead US\$ 2,035/t vs US\$2,030/t yesterday

- China continues to crack down on illegal lead recycling with aims to raise the collection rate of lead acid batteries for recycling to 70% by 2025, according to the environment ministry in a new plan to tackle the major polluting problem.

- China's growing reliance on batteries for cars, electric bicycles and energy storage has increased recycling demand, but much of it has been met by illegal, informal enterprises with poor health and pollution standards.
- According to a 2017 industry estimate, China produces around 3.3mt waste lead batteries every year, with less than 30% undergoing proper recycling.

Tin US\$ 20,725/t vs US\$20,350/t yesterday

Energy:

Oil US\$60.9/bbl vs US\$61.8/bbl yesterday

Natural Gas US\$3.054/mmbtu vs US\$3.141/mmbtu yesterday

Uranium US\$28.90/lb vs US\$28.90/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$73.8/t vs US\$73.9/t

- Weaker than expected anti-pollution drive across China could spell the end of a surge in premiums paid for chunks of iron ore, as the battle for clean air has boosted demand and premiums for lumps.
- As broad production quotas are forecast to be less significant this winter and steelmakers balk at paying such high premiums, mills are turning to other products including costlier, higher-quality pellets. Goldman Sachs Group Inc. has already warned that the lump premium is 'quite stretched'.
- "We are a little bit surprised by how long the lump premium has managed to stay at such elevated levels," said CRU Group analyst. "Lump premium will hold relatively high in the short-term, but I wouldn't be surprised if it drops by about 50% in the coming months."
- The premium paid for lumps over fines per one percent of iron content surged 49% since August to 35 cents, according to S&P Global Platts.
- Ore in lump form doesn't need to be sintered -- the polluting process by which fines are stuck together -- and can be fed directly into a furnace. Pellets are typically high-yielding and demand changes in-line with industry margins, according to Macquarie Wealth Management.
- The near term outlook for lump premium will be heavily driven on the intensity of remaining two months of winter curbs.

Chinese steel rebar 25mm US\$590.9/t vs US\$591.3/t - Economic concerns in China continue to hit rebar steel and iron ore

- Chinese rebar futures have pulled back from a one-year high in the last four trading sessions

Thermal coal (1st year forward cif ARA) US\$86.9/t vs US\$86.6/t

Coking coal futures Dalian Exchange US\$210.7/t vs US\$210.9/t

Other:

Cobalt LME 3m US\$38,000/t vs US\$38,000/t - ERG to pilot blockchain-based solution to trace cobalt in DRC.

- Eurasian Resources Group (ERG) is to pilot a blockchain-based solution to trace cobalt originating from the DRC using the IBM Blockchain Platform managed by ERG's Metakol RTR office in country.
- Using blockchain technology should serve to trace the movement of cobalt through the supply chain.

China NdPr Rare Earth Oxide US\$45,845/t vs US\$45,888/t

China Lithium carbonate 99% US\$9,934/t vs US\$9,944/t

China Ferro Vanadium 80% FOB US\$70.5/kg vs US\$70.5/kg

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

Tungsten APT European US\$260-270/mtu unchanged from previous week

Battery News

Porsche EV factory walls to absorb scandalous nitrogen dioxide pollutant

- Automotive manufacturer Porsche reports the façade of its new factory that will build the Taycan, its first all-electric vehicle, is coated with a material able to absorb nitrogen dioxide - a pollutant its cheating diesel cars were actually emitting.
- The company announce the 'Zero Impact Factory' will be constructed with an 'aluminium coated with titanium dioxide' which 'acts as a catalyst and breaks down the absorbed pollutant particles into the harmless substances water and nitrate when exposed to sunlight and with only low air humidity'.
- Albrecht Reimold, Member of the Executive Board responsible for Production and Logistics at Porsche AG, commented on the newly deployed pilot project: "If the evaluation of the results confirms our expectations, nothing stands in the way of using nitrogen oxide-absorbing surface technology on other buildings and surfaces,"
- The factory is expected to achieve first production towards the end of the year. Porsche has raised the bar with higher targets of 40,000 all-electric Taycan cars per year.

Lithium battery fire on Westjet aircraft highlights danger of Lithium-ion batteries

- A WestJet airliner was forced to make an emergency landing last June due to a lithium battery fire caused by a battery for an e-cigarette.
- The fire was detected in the hold and was put out with an automatic fire extinguisher but also caused the aircraft to make an emergency landing in Canada as per procedure
- The airline policy is for spare lithium-ion batteries to be carried in the cabin and not in the checked luggage.
- There have been some 206 airborne or airport incidents involving lithium-ion batteries in cargo or in checked baggage between May 1991 and May 2018 according to the US FAA.
- 'Passengers are reminded that these items must be carried in the cabin, where an incident can be immediately mitigated, and not in checked baggage.'

Imperial College hosts fuel cell car to support hydrogen power research

- The Faculty of Engineering at Imperial College this week took delivery of a Toyota Mirai, the world's leading hydrogen fuel cell car.
- The car will help support research into the potential of hydrogen as a future source of clean and sustainable energy.
- It will be used both on the road, learning about its emissions-free performance on journeys between campuses, and as a research resource in work with the UK Hydrogen and Fuel Cell SUPERGEN Hub.
- Imperial College has a long history with fuel cells since it incubated the technology in conjunction with Rolls Royce some years ago. This technology is now being developed in Ceres Power.
- Ceres Power saw a further £27.8m of investment from Weichai Power, a Chinese company which had

previously injected £20.3m into the group.

- This investment and others highlight China's drive to invest in all things electric as it moves to catch-up on fuel-cell technology and to dominate in lithium-ion battery manufacture

Germany to fund research facility for EV battery technology

- The German government will fund a research facility to offer firms in Germany know-how to develop battery cells for electric vehicles.
- Anja Karliczek said her ministry would invest €500m to support research into both existing and next-generation EV battery cell technology.
- The new facility aims to transfer known-how from Germany's Fraunhofer science institute to private firms, helping reduce the risk for companies ready to start EV battery production.

Expanding the capacity of hydrogen engines and solar cells with mesoporous nickel

- Scientists of the Far Eastern Federal University (FEFU), together with Russian and foreign colleagues, developed samples of nickel mesoporous film structures, which have a useful surface area up to 400 times greater than their solid analogue.
- This new material can be used in many energy-saving applications.
- According to Alexander Samardak, an associate professor of the FEFU, the creation of magnetic porous systems is an up-and-coming field, which is yet poorly studied.

Company News

Anglo American (LON:AAL) 1785.4 pence, Mkt Cap £23.08bn - Q4 and 2018 production report

- Anglo American reports that copper production rose by 15% during 2018 to 668,000t (2017 -579,000t) and that output rose by 3% during the final quarter to 183,500t.
- Output grew in each of the individual operations both during the year and during Q4 with Los Bronces delivering a 20% annual increase to 369,500t, Collahuasi (44% owned) increasing by 7% to 246,000t and El Soldado's output rising by 30% to 52,700t.
- Copper production guidance for 2019 shows a broadly stable level of output in the range 630-660,000t.
- Australian metallurgical coal output rose by 11% during the year to 21.8mt while final quarter production rose by 5% to 5,647,000t "with productivity improvements at Moranbah offsetting the impact of a longwall move at Grasstree". "Grosvenor production also increased year-on-year, but was significantly lower than in Q3 2018 due to a longwall move, which was completed in late December 2018".
- The company guidance for 2019 is for metallurgical coal production between 22-24m tonnes, suggesting a modest increase in output of up to 10%.
- South African export thermal coal production declined slightly to 18.36mt in 2018 (2017- 18.59mt) reflecting the "transition between mining areas" during the final quarter. Thermal coal production from Cerrejon in Colombia declined by 4% during the year to 10.22mt (2017 -10.64mt) reflecting a 19% decline during the final quarter "as a result of high rainfall".
- The company's 2019 guidance for export thermal export coal is in the range 26-28mt.
- Diamond production from De Beers increased by 6% during the year to 35.3m carats and by 5% during the final quarter. Annual diamond production rose in Botswana (by 6% to 24.1m carats), in Namibia (by 11% to 2m carats) and Canada (by 19% to 4.5m carats) but declined by 10% in S Africa to 4.7m carats.
- The company attributes the increased diamond output to a planned production increase at the Orapa but points out that it "was in the lower half of the production guidance range of 35-36million carats." Guidance for 2019 is "31-33 million carats subject to trading conditions".

- Platinum production increased by 4% to 2.48moz (2017 - 2.4moz) while palladium output rose by 3% to 1.61moz (2017 - 1.56moz). Company guidance for 2019 is for 2.0-2.1m oz of platinum and 1.3-1.4moz of palladium production. The company comments that decreases in palladium guidance "compared to 2018 [are] due to the transition of Sibanye material to a tolling arrangement in place of its purchase as concentrate".
- Iron ore production from Kumba declined by 4% during the year to 43.1mt (2017 - 45.0mt) and by 13% during Q4 (to 10.17mt) in line with plans "offset elevated stock levels at the mines resulting from Transnet rail constraints".
- Production of iron-ore from Minas Rio resumed on 20th December following the receipt of regulatory approvals "following an extensive and detailed technical inspection and the precautionary replacement of certain sections of the pipeline. Production had been suspended since March 2018 following the discovery of two leakages in the 529-kilometre iron ore pipeline from the mine to the Port of Açú." As a result of the lengthy shut-down, 2018 production at Minas Rio was 80% lower at 3.38mt (2017 - 16.79mt).
- Iron ore production guidance for Kumba is in the range 43-44mt while Minas Rio is expected to produce 18-20mt.
- Exploration and evaluation expenditure in Q4 rose by 19% to \$80m bringing the annual total to \$284m. Adverse weather resulted in a decrease in exploration spending to \$29m while expenditure on evaluation rose to \$51m "largely due to increased works in Chile at the Los Bronces Underground Project as well as modest increases in PGMs, De Beers and Metallurgical Coal."

Conclusion: Anglo American highlights the solid operational performance of its copper business and the resumption of its Brazilian iron-ore operations at Minas Rio as well as improved production of diamonds and platinum group metals.

BlueRock Diamonds* (LON:BRD) 0.325p, Mkt Cap £1.4m - Temporary suspension of Kareevlei operations

- BlueRock Diamonds reports that, following an accident on Friday involving a contractor, operations at its Kareevlei operation have been suspended, on a temporary basis, under section 54 of the Mine South Africa's Mine Health and Safety (Mine Health and Safety Act (29, 1996) legislation.
- Typically these suspensions are imposed by the Department of Mineral Resources in order to allow inspectors the opportunity to establish the causes of an incident and, on occasion, oversee a change in operating procedures to prevent a recurrence.
- The company says that it expects "the suspension of operations to be lifted soon ... [and that] ... The temporary suspension is not expected to impact upon the Company's production volume guidance for the year".
- The company's announcement of 10th January 2019 said that an "update giving guidance for 2019 will be released in February 2019".

Conclusion: The company has not released details of the accident leading to the Section 54 suspension of operations and it is to be hoped that no serious injuries resulted. We look forward to news of the resumption of operations.

*SP Angel acts as Nomad & Broker to BlueRock Diamonds

Lynas Corp. (ASX:LYC) A\$1.5, Mkt Cap A\$1.0bn - Sales record hit in December quarter despite production woes

- Australian rare earth oxide sales volumes reached record 5,522t during the final quarter 2018, generating A\$79.9m, despite production falling 798t from the previous quarter.
- The production shortfall resulted from a temporary production halt during December, impacted by the final commissioning of the Nd and Pr separation phase which entailed the shutdown of 1 of the SX5 NdPr production trains. The flow of materials was also halted as the company reached annual approved limit for processing of lanthanide concentrate - combining to reduce production by over 400t.
- In September, the Malaysian government selected a review committee to evaluate the company's Malaysian operations in relation to health and safety, health, environmental safeguards and residue storage. The review committee concluded in early December, ruling Lynas Malaysia operates a low-risk project compliant with applicable laws and had not breached its operating license.

- While the review found Lynas compliant, a subsequent statement from the Ministry for Energy, Science, Technology, Environment and Climate Change (MESTECC) outlined two new pre-conditions Lynas would be required to meet in order to renew its Malaysian license in September, including the export of Lynas Malaysia's Water Leach Purification residue.
- The company were also struck as the Malawi government purported to cancel the group's mining licence. Lynas plans to petition for a judicial review proceedings in the Malawi court to challenge the decision.
- Despite the issues overseas, Lynas' domestic operation performed strong throughout the quarter, with the company commencing its planned mining campaign 3 at the Mt Weld project.
- Regardless of sweeping environmental inspections across China, the domestic published price remained low at an average of US\$39.4/kg NdPr during the last quarter 2018. However, the outlook remains robust with growing demand and China looking to exert more control over illegal domestic supply.

Conclusion: The issues highlighting disruption to the only rare earth producer outside of China signal the fragility of global supply. The strategic minerals hold significance for EV, renewable and other high tech industries and alternative, reliable supply is becoming the focus. We look towards other advanced exploration companies, including Mkango Resources in Malawi, to fill the voids in production outside of the Asian nation.

Strongbow Exploration (CVE:SBW) CAD0.1, Mkt Cap CAD10.4m - Cornwall county council vote to inject £1m into listing for reopening of South Crofty tin mine

- Cornwall Council has voted to support a £1m investment into Strongbow Exploration Inc as part of its AIM listing.
- South Crofty was known as the UK's highest grade tin mine at 1.81% indicated and 1.91% inferred tin grade in the lower mineral resource.
- Grades are lower in the upper mine mineral resource at 0.99% tin equivalent in the indicated resource and 0.91% in the inferred resource
- We wonder if the council has consulted with their mine planning office to see if there may be any potential conflicts of interest.

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