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Morning View . Global trade war risk drives safe haven investment

Bluejay Mining* (LON:JAY) - STRONG BUY - Target Price 37p - Bluejay awarded Prospector and Developer of the Year for 2017 by Greenland

Gem Diamonds (LON:GEMD) -Sixth large diamond of 2018 from Letseng

Horizonte Minerals (LON:HZM) - Araguaia Feasibility Study planned for mid-2018

Wolf Minerals (LON:WLFE) - Interim results and operating update

Investor attendance indicates new confidence at Canadian mining conference

- Swelling attendance for the PDAC conference in Toronto can be a strong indicator for clear recovery in confidence in the mining sector, as annual numbers continue on their upturn. While attendance is still a long way from its 2012 peak before producers were pummelled by a sharp price downturn, a number of sell-out events, including access to an investor exchange where mining companies showcase their assets, signals strong returning interest.
- Themes covered in presentations and discussed on the sidelines included growing competition from exchange-traded funds and flashier commodities such as cannabis; still-tight capital markets for juniors; and stirring interest in mergers and acquisitions among larger producers.
- Despite sentiment improving in the sector, capital still remains tight, especially for juniors. PDAC President Glenn Mullan notes "Junior mining companies are still struggling to raise money. It's the seniors and producers that are doing very well". Head of TMAC Resources also said the biggest issue is there isn't money flowing to the sophisticated resource investors. Meanwhile other bankers highlighted a growing valuation gap as momentum-focused investment funds shun juniors in favour of large, liquid stocks.

Dow Jones Industrials

+0.04%

at

24,884

Nikkei 225

-0.77%

at

21,253

HK Hang Seng

-0.97%

at

30,216

Shanghai Composite

-0.55%

at

3,272

FTSE 350 Mining

+1.85%

at

17,948

AIM Basic Resources

+0.76%

at

2,536

Economics

US - Gary Cohn, a White House top economic adviser, quit from the National Economic Council after unable to convince President to re-consider potential import tariffs.

- Cohn has been opposing the plan together with other people in the administration including Steven Mnuchin (Treasury secretary), Rex Tillerson (Secretary of state) and Jim Mattis (Defence secretary).
- Equities and the US\$ index traded lower on the news while safe haven assets gained including bonds and gold.
- President is expected to sign new tariffs into law in the next few days.
- Lael Brainard, a voting member on the FOMC, sounded optimistic on the US economic outlook suggesting the pace of monetary policy tightening may need to accelerate.

- "In the earlier period, strong headwinds sapped the momentum of the recovery and weighed down the path of policy... today, with headwinds shifting to tailwinds, the reverse could hold true," Brainrd commented yesterday.
- "The most notable tailwind is the shift in America's fiscal policy stance from restraint to sUBStantial stimulus in an economy close to full employment."

Germany - German carmakers are among the most heavy hit on the local stock market on the back of increased chance of a full blown trade war between the US and its trade partners.

- Trump earlier tweeted that there is a potential for the US to impose tariffs on imported EU cars should Europe come back with retaliatory tariffs in response to charges on steel and aluminium.
- "If the EU wants to further increase their already massive tariffs and barriers on US companies business there, we will simply apply a tax on their cars which freely pour into the US," Trump said.

UK - Annual property prices growth rate slowed to the weakest in nearly five years in February, according to Halifax numbers.

- The Halifax building society report the average home price fell from £226,408 in November, to £224,353 last month. That is a fall of £2,055.

RBS agrees to settle US\$500m with the State of New York over miss-selling of financial products

- The agreement pays US\$100m to the state and US\$400m to miss-sold homeowners.
- New Yorkers are still feeling the effects of the housing crash according to the state attorney-general
- Will be interesting to see if a pullback in house prices in the UK might lead to similar settlements?

Australia - GDP growth slowed more than forecast in Q4//17 as a pickup in personal consumption has been outweighed by a fall in exports on disrupted shipments of raw materials.

- The A\$ dropped 0.6% on the news but since has recovered most of its losses amid a pronounced weakness in the US\$ on increased chance of proposed tariffs being brought into effect.
- GDP (%qoq/yoy): 0.4/2.4 v 0.7/2.9 in Q3/17 and 0.5/2.5 forecast.

North Korea - The government is making steps towards de-escalation of tensions between neighbouring states no the Korean peninsula.

- North Korea suggested to Seoul it was open to negotiations over ending its weapons programme and would suspend tests while talks are underway.
- On a separate note, the US imposed new sanctions on the nation of the use of chemical weapons in the assassination of Kim jong Nam, the half-brother of North Korean leader.
- "This public display of contempt for universal norms against chemical weapons use further demonstrates the reckless nature of North Korea and underscores that we cannot afford to tolerate a North Korean WMD program of any kind," State Department said.

Currencies

US\$1.2409/eur vs 1.2338/eur yesterday Yen 105.70/\$ vs 106.11/\$ SA\$ 11.827/\$ vs 11.838/\$ \$1.387/gbp vs \$1.382/gbp 0.781/aud vs 0.776/aud CNY 6.324/\$ vs 6.343/\$

Commodity News

Precious metals:

Gold US\$1,332/oz vs US\$1,322/oz yesterday

- Gold prices resume their advance in the prospect of global trade war uncertainties which are spooking investors and boosting demand for safe haven assets. Bullion for immediate delivery gained as much as 0.5% to \$1,340.59 "as the US trade tariff saga unfolds, we can expect stronger gold prices as the Trump administration adopts a bellicose approach on global trade policies", according to Phillip Futures analysis. "Rising trade protectionism will elicit bearish sentiments on global currencies".
- While gold is favoured during turbulent times, UBS Group AG have warned metals to energy prices will be hurt should the US levies spark a global trade war, with commodity powerhouse Australia forecasting only a damaging race to the bottom. "It's still good for gold" noted head of commodities and Asia-Pacific foreign exchange at the bank's wealth-management unit, "obviously, going into a deep trade war, industrial commodities are going to be negatively affected".
- The risks of a global escalation surged earlier this week as President Trump stuck to his plan for raising import tariffs on steel to 25% and aluminium to 10%, provoking the departure of Gary Cohn as his top economic adviser. Among others, the European Union has vowed to respond with a 'tit-for-tat' war and has drawn up a \$3.5bn hit list of retaliatory tariffs.
- Senate leader Mitch McConnell went on to say "there is a lot of certainty among Republican senators that this could sort of metastasise into sort of a larger trade war". Cohn's move "opens the environment up to a while new wave of uncertainty. The likelihood of a trade war just jumped dramatically", notes chief market strategist at JonesTrading Institutional Services.
- The physical market was dented as import demand by India, the world's biggest consumer after China, slid by almost a third last month as higher prices deterred buyers and traders deferred purchases in the hope of a proposed cut in duties. Overseas purchases settled 31% lower to 67 tonnes in February, equivalent to \$2.2 billion. Indian import taxes on the precious metal sits at 10%, and ended up not getting cut in its federal budget of Feb 1st.

Gold ETFs 72.2moz vs US\$72.3moz yesterday

Platinum US\$963/oz vs US\$962/oz yesterday

Palladium US\$975/oz vs US\$984/oz yesterday

Silver US\$16.68/oz vs US\$16.44/oz yesterday

Base metals:

Copper US\$ 6,960/t vs US\$6,949/t yesterday

- As broad industrial metals fall under risk of trade wars, fundamental demand outlook for copper remains strong. The price of the red metal climbed the most in seven years in 2017, with the positive uptrend expected to be sustained on electric vehicle, mobile phone and computer chip manufacture growth. By 2025, demand for copper in electric-vehicle batteries will be more than three times what's forecast for 2020, and demand will triple again by 2030, according to Bloomberg New Energy Finance.

Aluminium US\$ 2,137/t vs US\$2,147/t yesterday

Nickel US\$ 13,490/t vs US\$13,465/t yesterday

- Russian mining firm Norilsk Nickel forecast strong demand from the battery industry from the 2020s, consuming more than 500,000 tonnes per year of the metal by 2025. This figure represents 25% of 2017 production,

swelling from 3% consumption by the current battery industry.

Zinc US\$ 3,288/t vs US\$3,287/t yesterday

Lead US\$ 2,418/t vs US\$2,420/t yesterday

Tin US\$ 21,350/t vs US\$21,465/t yesterday

Energy:

Oil US\$65.3/bbl vs US\$65.6/bbl yesterday

Natural Gas US\$2.764/mmbtu vs US\$2.709/mmbtu yesterday

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

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$73.3/t vs US\$72.9/t - Rio Tinto to launch driverless trucks at fifth iron ore mine

- Rio Tinto will expand its autonomous haul truck operations to the West Angelas mine this year, giving it five iron ore sites with the driverless vehicles in the Pilbara of Western Australia
- Once the trucks have been deployed, Rio's autonomous fleet at its Pilbara iron ore operations will increase to 100 vehicles, more than 25 per cent of Rio's 380 haul-truck fleet in the Pilbara is already autonomous, with the miner expecting to have more than 130 trucks operating without drivers by next year
- Driverless trucks delivered an extra 700 hours more a year than their manned counterparts, representing an extra month's work over the course of the year, as well as a perfect safety record, the company is also working to deliver a completely automated, driverless operations for its 50 trains and 1200 ore cars operating over 1700km of track by the end of the year

Chinese steel rebar 25mm US\$680.6/t vs US\$681.1/t - EU extends duties on stainless steel pipes from China

- European Union extended anti-dumping duties of between 48.3 and 71.9 percent on stainless steel pipes from China for a further five years, the EU's Official Journal said on Tuesday
- Commission concluded that Chinese producers had significant spare capacity and that this was likely to lead to large-scale imports into the European Union at dumped prices if the measures were lifted
- The measures are among 17 put in place by the European Union against different grades of steel and steel products from China

Thermal coal (1st year forward cif ARA) US\$79.2/t vs US\$79.0/t

Premium hard coking coal Aus fob US\$234.1/t vs US\$234.1/t

Other:

Tungsten APT European US\$322-330/mtu vs US\$319-326/mtu

Cobalt LME 3m US\$83,250.0/t vs US\$80,500.0/t - Glencore's talk to sell cobalt to Chinese firm falter on price

- Glencore is in talks to sell around a quarter of its cobalt output in a one-year deal to Chinese firm GEM, but price

- is a sticking point as Glencore and other major producers are now able to exert more influence in negotiations
- Source close to the matter said GEM had not yet signed a contract for this year with Glencore, which was offering a price with a fixed instead of a percentage discount to the monthly average from trade publication Metal Bulletin
 - "Volume and price are still under discussion," the source said, adding volumes being discussed for 2018 were "more than 10,000 tonnes", which is bigger than last year's one-year contract of "less than 10,000 tonnes"

Company News

Bluejay Mining* (LON:JAY) 25p, Mkt Cap £212m - Bluejay awarded Prospector and Developer of the Year for 2017 by Greenland

STRONG BUY - included in MSCI index

Target Price 37p

- Bluejay has been awarded "Prospector and Developer of the Year 2017" by the Government of Greenland.
- The award is given to companies or individuals who have demonstrated initiative and innovation within Greenland's mineral industry, robust environmental practices and social responsibility as well as providing inspiration on how to successfully explore in Greenland.
- The award win was announced at the Government of Greenland's Greenland Day reception at the PDAC 2018 convention.
- The award recognises Bluejay's work and advance at the Dundas Titanium Project near Nuuk in north-west Greenland as well as work on the Disko-Nuussuaq Magmatic Massive Sulphide Nickel-Copper-Platinum project which lies to the South near the tourist town of Ilulissat which is 1,071m south of Qaanaaq.

Conclusion: This is important recognition for the company in Greenland. Rod McIlree has dedicated much of his life to exploration in Greenland and appears to be well respected in government circles for his dedication and efforts. The award indicates to us that the permitting process should go to plan and that Bluejay will be able to ramp up production of ilmenite feedstock from the beach at Dundas in the coming summer field season.

*SP Angel act as nomad and broker to BlueJay Mining. An SP Angel Mining analyst has visited the Dundas (formerly Pituffik) ilmenite sands project in Greenland.

Gem Diamonds (LON:GEMD) 85.4p, Mkt Cap £118.4m -Sixth large diamond of 2018 from Letseng

- Gem Diamonds has announced the recovery of a 152 carat white Type IIa diamond from its 70% owned Letseng mine in Lesotho.
- The most recent stone brings the number of stones exceeding carats in size recovered so far in 2018 to six. All the stones, which include the 910 carat stone announced in January and reportedly the 5 largest diamond ever recovered, are reported to be Type IIa stones suggesting that not only are these large stones but they are of high quality.
- At this stage, it is not clear what prices may be realised from the sale of these stones, however, the Letseng mine has built a reputation for the high values achieved by its production including the sale, last year, of a 58.38 carat white diamond which sold for US\$61,905/ct (US\$3.6m).

Conclusion: Gem Diamonds is recovering a number of large, potentially very valuable diamonds at the moment. Last year, the Letseng mine recovered seven diamonds larger than 100 carats in size while so far this year the mine has yielded six of these sized diamonds.

Horizonte Minerals (LON:HZM) 4.15 pence, Mkt Cap £59.4m - Araguaia Feasibility Study planned for mid-2018

- Horizonte Minerals has confirmed that a significant proportion of the feasibility study for its Araguaia ferronickel project in Brazil is now complete and the study "is now scheduled for completion mid-year 2018."
- The company is currently focussed on optimising the plant site layout and the process flow sheet in order to balance capital costs against operational efficiencies.
- Horizonte Minerals is also examining the mine scheduling with a view to possibly trading off the increased transport costs of shipping high-grade saprolite ore from its recently acquired Vermelho nickel-cobalt project against the benefits of capturing the current higher nickel prices.
- We observe, however, that the "Vermelho mineral resource is historic in nature" and though it was no doubt done thoroughly by the reputable consultants, Snowden, on behalf of the previous owners, Vale, Horizonte is planning to undertake a new resource estimate to current NI-43-101 reporting standards "looking at the higher-grade nickel-cobalt portions of the deposit". It seems likely that a final decision on shipping ore from Vermelho may not be made until the new resource estimation work is available.
- Today's announcement reiterates the broad parameters of a 900,000tpa of ore open pit mining operation feeding a central rotary kiln electric furnace to produce 14,500tpa of nickel per annum in 52,000tpa of ferronickel.
- "The current mineral reserve supports a 28-year mine life with a 2 year construction period."
- Commenting on the current state of the nickel market the company points out that "While not obviously evident from the 8% rise in the average price in 2017, the nickel market noted a record annual supply deficit, driven by increased demand which outstripped a gain in supply" and "Stainless steel demand remains strong, underpinned by growth in 300-series steel output, up 7% in 2017. Estimates indicate primary nickel demand in stainless will increase by almost 9% to more than 1.5Mt."
- The company also highlights the beneficial impact of current interest in moves towards electric vehicles which had "a positive effect on the cobalt market, with the metal's 2017 average price more than double that of a year earlier and showing continued strength so far in 2018."

Conclusion: Horizonte Minerals is moving ahead with feasibility work for Araguaia and we look forward to the findings of the feasibility study in the middle of 2018.

Wolf Minerals (LON:WLFE) 3.4p, Mkt Cap £37m - Interim results and operating update

- Wolf Minerals reports a reduced loss of \$29.2m for the six-months ending 31st December 2017 (2016 - loss of \$50.6m).
- The company has reduced operating cash outflows to \$18.6m (2016 \$28.7m) and net free cash outflow after investment reduced to \$32.5m from \$39.5m in 2016.
- Net debt has, however increased from \$148.6m at 30th June 2017 to \$197.1m at 31st December.
- The processing plant at the Drakelands mine treated approximately 960,000 tonnes of ore at an undisclosed grade to produce 79,099 metric tonne units (mtu) of tungsten concentrate and the company notes that it achieved an improvement in "both production and sales ... up 36% and 37% respectively on the previous period". The plant has, however reverted to restrictions on weekend operations which will have had a negative effect on the available processing hours.
- Wolf Minerals details specific operating improvements it has delivered including improved pre-concentrate recovery arising from the dense media circuit and from "more consistent circuit run time" and from improvements in the gravity fines circuit. Wolf also continues to work on its ore blending strategy to optimise plant feed.
- The company states that "The major activities within the operating turnaround plan were largely completed by the end of the period, with only two more outstanding items in the refinery and gravity fines to be implemented. These remaining activities will be scheduled over the coming months as the operating turnaround plan has been incorporated into daily activities and the focus moves to optimisation and performance improvement in a more stable environment."

Conclusion: The improvements at Drakelands are being hard won and the company is fortunate to have both the supports of its principal investor, RCF and an improving tungsten price as it works through the necessary

improvements, though we believe there is still some way to go to get the operation onto a sustainable operational and financial footing.

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