

13:11 21 Mar 2019

Today's Market View - Trade threats and pause in US rates drive gold higher

SP Angel - Morning View -Thursday 21 03 19

Trade threats and pausing US rates drive gold higher

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Base Resources* (LON:BSE) - Base claims Toliara as world class resource

Keras Resources* (LON:KRS) BUY, Target price 1.04p - Calidus update Click for our last full note on Keras

Talga Resources* (ASX:TLG) - outstanding performance in freezing temperatures

Chinese electric buses making biggest dent in worldwide oil demand

- The megacity of Shenzhen has been dedicating itself towards growing its fleet of electric buses for year, and can finally announce it has completely electrified its fleet of more than 16,000 buses.
- Bloomberg last year reported that of about 385,000 electric buses in the world in 2017, about 99% of them were in China, with rapid growth still taking place.
- Electric vehicles have displaced about 3% of total oil consumption growth since 2011, a larger share than ever before. And so far, more than three-quarters of that oil displacement has come from electric buses, Bloomberg reports.
- The report estimates that "for every 1,000 electric buses on the road, 500 barrels of diesel are displaced each day." The same number of battery-powered electric vehicles only displaces 15 barrels of oil a day.
- Bloomberg estimates that gas and diesel displacement will increase 96,000 barrels a day this year due to EVs, making the lost cumulative demand 352,000 barrels a day since 2011. But global oil demand is also on the rise, growing 12 million barrels a day over the same period. Future estimates see a much larger impact as EVs could displace 6.4 million barrels of demand each day by 2040.

EV battery capacity rises 439% to 3.27GWh in January yoy (Adamas Intelligence)

- China produced around 59% of all passenger EV battery capacity deployed globally in January 2019 according to Adamas
- This is almost double the 34% share contributed a year earlier.
- The sales-weighted average passenger EV battery capacity increased by 95% in China to 29.1kWh from 14.9 kWh.
- This highlights a major increase in the battery capacity per EV battery and may reflect a change in the mix towards busses and larger passenger vehicles. We do not know if the stats include electric bicycles of which there .
- Deliveries of EVs PHEVs and fuel-cell vehicles doubled yoy in China to 85,000 vehicles delivered despite a fall of 18% to 2m vehicles sold overall in January according to data from the China Association of Automobile Manufacturers as reported by Bloomberg.
- Currently consumers can get around 75,000 yuan (\$11,215) from central and local government for a pure-electric e5 sedan made by BYD Co., with 450km (280 miles) range per charge representing a third of the cost

according to Adamas.

- China recently imposed legislation limiting the power of an EV to 13.5kW/100km from 2020 in a move designed to force manufacturers to make EVs more energy efficient and probably as part of an attempt to ensure there is sufficient power generation capacity to charge the forthcoming fleet of new EVs.
- The Asian nation has poured more than \$10bn into the EV battery industry since 2012 to become a dominant force in the global market, however it is becoming necessary phase-out support by 2020 as Beijing seeks to encourage companies to cut costs and become more competitive.
- Chinese companies made up seven of the world's top-10 auto battery makers in terms of shipments in the January-October period of 2018, according to Realli Research, "but their dominance is impossible without government support", a Japanese battery maker said.

Dow Jones Industrials

-0.55%

at

25,746

Nikkei 225

+0.20%

at

21,609

HK Hang Seng

-0.87%

at

29,065

Shanghai Composite

+0.35%

at

3,101

FTSE 350 Mining

-1.29%

at

19,292

AIM Basic Resources

+0.21%

at

2,148

Economics

Currencies

US\$1.1408/eur vs 1.1353/eur yesterday Yen 110.37/\$ vs 111.30/\$ SAR 14.173/\$ vs 14.426/\$ \$1.317/gbp vs \$1.327/gbp 0.715/aud vs 0.710/aud CNY 6.687/\$ vs 6.716/\$

Commodity News

Precious metals:

Gold US\$1,319/oz vs US\$1,305/oz yesterday

- Gold tracked to the highest level in three weeks following Federal Reserve Chairman Jerome Powell's announcement interest rates could be on hold for 'some time' as global risks weigh on the economic outlook and inflation remains muted. A gauge of the dollar tumbled to the lowest since January as investors assessed the Fed's stance and the yield on 10-year Treasuries fell to a 14-month low of 2.53% on Wednesday.
- Officials slashed their projected interest-rate increases this year to zero from two, also deciding to slow the drawdown of the US central bank's bond holdings starting in May.
- The precious metal also found safe-haven support as President Donald Trump reiterated he would keep tariffs on China until he's sure Beijing would comply with any trade deal - "We're not talking about removing them, we're talking about leaving them for a substantial period of time, because we have to make sure that if we do the deal with China that China lives by the deal".
- The president's comments dim hopes that round-the-clock trade negotiations between the world's two biggest economies could lead to them removing the roughly \$360 billion in tariffs they've imposed on each other's imports.
- U.S. Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer are due to visit China on March 28 and 29, a Ministry of Commerce spokesman said in Beijing Thursday.

Gold ETFs 72.0moz vs US\$72.0moz yesterday

Platinum US\$871/oz vs US\$838/oz yesterday

- As palladium tops fresh highs, climbing above \$1,600/oz, volatility in sister metal platinum rises to near six-month high as traders begin assess when and whether the record rise in palladium will drive demand for the less-expensive metal also consumed in emissions-controlling devices.
- A measure of 30-day volatility for the commodity has jumped to the highest since September. Platinum's price has also risen, gaining more than 7% this year.
- The investment case for owning platinum is growing as substitution risk for palladium rises, with the current price differential creating a very compelling case for using more platinum in catalytic converters.

Palladium US\$1,609/oz vs US\$1,587/oz yesterday

Silver US\$15.62/oz vs US\$15.35/oz yesterday

Base metals:

Copper US\$ 6,539/t vs US\$6,466/t yesterday

Aluminium US\$ 1,942/t vs US\$1,932/t yesterday

Nickel US\$ 13,310/t vs US\$13,165/t yesterday

Zinc US\$ 2,894/t vs US\$2,787/t yesterday

Lead US\$ 2,068/t vs US\$2,037/t yesterday

Tin US\$ 21,340/t vs US\$21,130/t yesterday

Energy:

Oil US\$68.5/bbl vs US\$67.8/bbl yesterday

Natural Gas US\$2.831/mmbtu vs US\$2.871/mmbtu yesterday

Uranium US\$26.40/lb vs US\$27.05/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$82.4/t vs US\$85.0/t

Chinese steel rebar 25mm US\$625.1/t vs US\$621.2/t

Thermal coal (1st year forward cif ARA) US\$73.5/t vs US\$74.6/t

Coking coal futures Dalian Exchange US\$188.9/t vs US\$188.1/t

Other:

Cobalt LME 3m US\$30,000/t vs US\$30,000/t

NdPr Rare Earth Oxide (China) US\$42,994/t vs US\$42,808/t

Lithium carbonate 99% (China) US\$9,795/t vs US\$9,753/t

Ferro Vanadium 80% FOB (China) US\$69.0/kg vs US\$70.0/kg

Antimony Trioxide 99.5% EU (China) US\$6.8/kg vs US\$6.9/kg

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

Battery News

Ford invests \$850m to produce next-gen electric vehicles in the US

- Ford has announced new investments in its US facilities for future production of next-generation electric vehicles as well as Ford's first autonomous vehicles.
- The Ford Mustang-inspired electric SUV is going to be the automaker's first real EV next year, but it will be manufactured in Mexico.
- Now the automaker also wants to bring some EV production to the US and it announced yesterday that it will happen with a \$850m investment through 2023 at its Flat Rock Assembly Plant in Michigan, where Ford currently manufactures the Mustang coupe and the tenth generation Lincoln Continental.

Company News

Base Resources* (LON:BSE) 14.5p, Mkt Cap £169m - Base claims Toliara as world class resource

- Base Resources claims today in a long and detailed PFS report that it's recently acquired Toloara project is a world-class mineral resource.
- While it is good to see management are so enthusiastic about the project and it is also good to see so much detailed information provided we are wary of such claims.
- It will take a while to work through the detail provided but we do see some significant potential challenges ahead for Base Resource's brave and respected team.
- There is no doubt Base has done a great job at Kwale and they run a tight and well-disciplined ship when it comes to mining.
- Kenya is not known to be an easy country from a mining perspective and we respect the team for their work there but Madagascar presents its own unique set of challenges to overcome.
- The Toliara project now benefits from a new Chinese-built road which runs up the coast from the port of Toliara and makes access to the project much easier than was previously the case.
- While this is helpful from a site visit perspective the multitude of communities along this road will require great care from a trucking perspective.
- But that is where the infrastructure benefits end.
- There is significant unemployment in the region where \$1 a day is the norm and education seems to be an exception rather than the rule.
- Security is a major issue in the region with criminal gangs known to have attacked vehicles travelling in convoy on the main road between Antananarivo and Toliara, though Base Resources should be able to secure its camp.
- Toliara has a high in-ground value due to its heavy mineral content.
- Kwale, by comparison, has a better product mix due to its higher zircon and Rutile values.
- The slimes which helped to lower the cost of mining at Kwale will not help Base at Toliara, though management are well aware of this.
- The uranium and thorium readings are thought to be on the high side reducing the value and potential marketability of any zircon produced.

Conclusion: The PFS shows an NPV value of US\$483m at a 12% discount which is not far ahead of the initial capex of \$439m. The NPV improves to US\$737m at a 10% discount rate making the project look better.

The IRR at 22.4% feels unrewarding in the current environment but this may improve.

While we admire the enthusiasm and reputation of the Base Resources team we are wary that the Toliara project may prove to be more challenging and of lesser value than Kwale in Kenya.

Further comment to follow after digesting the detail of the PFS. The devil is always in the detail.

*Our mining analyst recently visited the Toliara project in Mozambique. We recommend extreme caution with food, hygiene and security when visiting this region.

Keras Resources* (LON:KRS) 0.32p, Mkt Cap £7.4m - Calidus update

BUY, Target price 1.04p

[Click for our last full note on Keras](#)

(Keras currently has 458m shares in Calidus, representing approximately 32.3% of the current issued share capital of Calidus. On successful completion of the PFS, an additional 265m performance shares of Calidus ('Performance Shares') owned by Keras will be converted into ordinary shares of Calidus.)

Keras's stake in Calidus is currently worth £11m assuming the additional PFS shares are issued.

- Calidus Resource Ltd announce the commencement of regional 5,000m drilling at the Warrawoona Gold Project in West Australia targeting several large priorities and expand the existing 1.25Moz JORC-compliant Resource.
- The initial focus will be on three targets identified at Liberator, Cutty Sark and Trump, and some initial investigatory drilling of prospective Klondyke extensional units.
- Results from 3,059 infill and extensional soil geochemistry samples received validating a number of the extensive and coherent gold-in-soil anomalies identified from historic exploration data.
- Supporting the drilling, a reconnaissance IP geophysical programme is scheduled to commence in April 2019.
- Keras CEO Russell Lamming adds "on a wider level, we look forward to providing updates on our Nayega Manganese Project in northern Togo, where we recently completed a 10,000t bulk sample...to prove up the internal feasibility study previously conducted ahead of commencing commercial production in the near term once relevant approval is granted."

Conclusion: Keras looks poised to start larger-scale mining of manganese ore in Togo. It's shares in Calidus are also gaining value. We are looking forward to a good year for Keras.

*SP Angel act as Nomad and broker to Keras Resources

Talga Resources* (ASX:TLG) A\$0.59, Mkt Cap A\$128.8m - outstanding performance in freezing temperatures

- Commercial development tests of Talga Resources' engineered graphite anode product, Talnode™-C, are accelerating through rigorous validation processes at multiple commercial partner facilities and independent battery institutes across Asia, USA and Europe.
- In latest tests conducted at a leading Japanese battery institute, Li-ion batteries utilising Talnode-C were subjected to performance tests under a range of temperatures including freezing conditions. Highlights of the test results include:
 - Retention of 100% capacity and 100% cycle efficiency at freezing temperature (0°C)
 - Out-performance of market leading commercial anode products
- Li-ion batteries typically suffer from lower capacity retention and cycling efficiency, resulting in reduced runtime of devices and range of EVs. Cold temperatures can also cause deposits of lithium metal to form in the battery, causing internal short circuits that can lead to fire in the cell, making low temperature performance a critical technical deliverable for Li-ion batteries.

- Under freezing conditions, lithium ions aren't effectively captured by the anode, instead reducing to lithium metal and 'plating' the anode. The reduction in lithium ions ultimately negatively impacts the battery's capacity and cycle efficiency.
- 'Lithium plating' also dramatically increases the chance of detrimental short-circuiting dendrites, which ultimately resulted in the 2013 grounding of Boeing 787 Dreamliner aircraft following a spate of electrical system failures.
- Some real world freezing conditions have recorded driving range limited by 41%.
- Advanced testing and validation, including the surface treatment and coating of Talnode-C, progresses across multiple commercial partner facilities and independent battery institutes in Asia, USA and Europe.
- The fully engineered and formulated active anode-ready product marketed directly towards Li-ion battery manufacturers will form the foundation of near-term commercialisation of Talga's high-grade Vittangi graphite material.

Conclusion: SP Angel continue to be impressed with the technical specifications of Talnode products, with independent tests confirming the 'premium' status of the material. We look forward to learning more about the material potential and commercial partnerships as Talga advance the world's highest-grade graphite project into development.

*SP Angel acts as UK broker to Talga Resources. SP Angel analysts have visited the leading battery R&D institution WMG partnering with Talga.

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