Clean air initiatives boost China steel

MiFID II exempt information – see disclaimer below

SP Angel are the No. 1 broker for AIM mining stocks in London

Avesoro Resources (ASO LN) – Initial drilling results from the Ndablama deposit

Bluejay Mining* (JAY LN) – Shutdown of Richard’s Bay in South Africa due to violent intimidation may force Rio Tinto into finding new supply

Caledonia Mining (CMCL LN) – Q2 production update

Strategic Minerals* (SML LN) – Cobre quarterly sales

Mine closure and stricter China regulations are doing wonders for vanadium

- China’s push for stronger building materials and the shutdown of a mine in South Africa have seen vanadium prices hit a 10-year peak and remain high.
- The European ferro-vanadium price reached $US73/kg ($98.72) in June – a 461.5 per cent increase over a low of $US13/kg in late 2015.
- For the first-half of 2018 the price averaged $US65/kg.
- The vanadium price has remained at 10-year highs due to several factors including the closure of Evraz’s Highveld Steel and Vanadium’s Mapochs mine in South Africa in 2015, and stricter environmental regulations in China, reports resources analyst Roskill.
- Meanwhile, China’s vanadium production is declining due to shutdowns because of environmental inspections.
- At the same time, the Asian powerhouse has introduced new waste import regulations banning the import of vanadium-bearing slags into the country and is getting tougher with its standards for rebar – a reinforcing steel used in concrete.
- Market watchers predict a 20 to 30 per cent increase in vanadium demand in the fourth quarter of this year alone.

‘Breakthrough’ solid-state battery technology could boost Hyundai EVs

- Hyundai has been active in creating alternatively fuelled vehicles including cars such as the Ioniq and the Kona Electric.
- It is a manufacturer that is creating a lot of electric vehicles and looking to transition into low to zero-emissions travel. Now, as a further statement of intent, the carmaker has invested in a solid-state battery startup, to try and bring the technology to its production vehicles.
- Solid-state batteries have been talked about a lot by carmakers with many citing them as a better alternative to lithium-ion cells, which are pretty much standard in most electric cars.
- Hyundai Cradle, a company subsidiary, has now claimed that Ionic Materials, the startup it has invested in, has made a breakthrough in developing low-cost and high-performing solid-state batteries.
- The firm believes that its battery technology will be cheaper than lithium-ion in the future. It said: “Our polymer is compatible with a number of next-generation chemistries that have the potential to significantly reduce battery costs per kWh (either because they use lower cost materials because they enable much higher energy densities or both).
- “In addition, use of Ionic’s polymer as a battery electrolyte potentially enables the production of batteries using extrusion and other plastic processing techniques that are simpler and lower cost than the methods used to manufacture liquid electrolyte batteries.”

Dow Jones Industrials -0.88% at 24,700
Nikkei 225 +1.17% at 22,188
HK Hang Seng +0.74% at 28,521

Please, see disclaimer at the of this document
**Economics**

Stocks bounced back slightly following a sell off on Wednesday with US Treasuries and the Japanese yen edging lower amid the risk on mood.

- Commodities recovered some ground with Brent up 1.8% and trading at $74.7/bbl and copper and nickel posting strongest increases (+0.7% and 2.3% at 6,189/t and $14,215/t, respectively) in the base metals complex.
- Precious metals are little changed with gold trading at 1,245/oz after posting biggest decline in almost four weeks.
- Markets are hoping actions in the US/China trade war will not be matching strong rhetoric aired lately while optimism over the coming earnings season also supports sentiment.

**US** – Producer prices inflation gained to the highest level in six years in June suggesting inflationary pressures are building up in the economy.

- There are signs of inflationary effect of recent steel and aluminium tariffs while strong gains in services prices reflect tightening labour market.
- Additional tariffs of $34bn that came into effect on Friday are likely to further feed input costs inflation.
- Consumer prices index is due later today and is expected to grow further supporting the case for further monetary policy tightening.
  - PPI (%mom/yoy): 0.3/3.4 v 0.5/3.1 in May and 0.2/3.1 forecast.
  - Core PPI (%mom/yoy): 0.3/2.8 v 0.3/2.4 in May and 0.2/2.6 forecast.
  - CPI (%mom/yoy): 0.2/2.9 forecast v 0.2/2.8 in May.
  - Core CPI (%mom/yoy): 0.2/2.3 forecast v 0.2/2.2 in May.

**UK** – The EU court upheld the EC 2014 decision to allow the British government to spend £16bn to build the New Hinkley Point power station.

- The case brought up by Austria who argued the subsidies would disadvantage other EU member states in the field of energy policy.
- France, Hungary, Poland, Romania, Slovakia and the Czech Republic supported the UK during the case.

**Currencies**

US$1.1681/eur vs 1.1726/eur yesterday  
Yen 112.34/$ vs 111.02/$  
SAr 13.509/$ vs 13.440/$  
$1.322/gbp vs $1.326/gbp  
0.738/aud vs 0.741/aud  
CNY 6.673/$ vs 6.662/$

**Commodity News**

**Precious metals:**

**Gold US$1,245/oz vs US$1,252/oz yesterday**

- Last month, Rudy Fronk, Chairman and CEO of Seabridge Gold noted: "Peak gold is the new reality in the gold business with reserves now being mined much faster than they are being replaced."
- Nick Holland, CEO of South Africa’s largest gold producer Gold Fields: “We were all talking about how production was going to increase every year. I think those days are probably gone."
- Kevin Duschnisky, President of mining giant Barrick Gold: “Falling grades and production levels, a lack of new discoveries, and extended project development timelines are bullish for the medium and long-term gold price outlook.”
- When 'peak oil' started becoming a problem 10 years ago, the industry developed new fracking and horizontal drilling technologies. And other industries like solar and wind began developing better substitutes for oil. But there’s not really a substitute for gold. And the biggest players in the space are saying we’re running out.

**Gold ETFs 69.7moz vs US$69.7moz yesterday**
Platinum US$832/oz vs US$839/oz yesterday
Palladium US$942/oz vs US$939/oz yesterday
Silver US$15.86/oz vs US$15.97/oz yesterday

Base metals:
Copper US$ 6,186/t vs US$6,141/t yesterday

- Supply concerns from Freeport McMoRan Inc.’s giant Grasberg copper and gold mine are nearing closure as Indonesia has struck an “initial agreement” to take majority ownership, with an estimated value of $4bn. State-owned PT Indonesia Asahan Aluminium (Inalum) will end up with a 51% stake, increasing the nation’s holding from just over 9%.
- President Widodo is seeking more control over the nation’s vast mineral resources, and has given foreign mining companies a deadline of next year to comply with divestment obligations.
- The $4bn divestment incorporates Rio Tinto’s partnership, which has supported the operations since expansion in the 1900’s with rights to 40% share out output above a specific level. The London-based major was sad to be ready to accept $3.5bn to sell its production stake in Grasberg back in May.
- For more than a year, Indonesia and Freeport have been discussing the company’s long-term presence in the country, in a process that’s been peppered by reports of progress followed by setbacks. Chief Executive Officer Richard Adkerson has said Freeport must remain in charge of operations regardless of the size of its stake after divestment. Adkerson has also said fiscal and legal stability for Freeport are essential to any deal, as is maintaining the environmental status quo around its treatment of tailings waste.
- Even with ownership of Grasberg dropping below 50 percent, Freeport can still reap substantial benefits from the mine as an operator. Consolidated sales from mining in Indonesia are expected to total about 1.15 billion pounds of copper and 2.4 million ounces of gold in 2018, up from 1 billion pounds and 1.5 million ounces last year, according to company data.
- Bloomberg Intelligence estimates that reserves at the world’s biggest gold deposit and second-largest copper mine are worth about $14 billion. Indonesia accounted for 47 percent of Freeport’s operating income in 2017, according to data compiled by Bloomberg.
- While securing control of Grasberg may play well with voters before Widodo stands for re-election as president in 2019, the continuing drive to increase the nation’s grip on natural resources also carries the risk of deterring foreign investors and undermining efforts to generate jobs and growth. Progress with the deal means significant supply will continue unhampered, with each day of missed production costing Freeport-McMoRan 3m lbs copper and 5,000 oz gold, according to estimates from the 2011 strike data.
- More progress regarding copper supply has been made as BHP Billiton Plc handed in a proposal for a new labour contract to the union at its Escondida copper mine in Chile, that includes salary readjustments linked to inflation and a $23,000 bonus per worker.
- The offer falls short of fulfilling previous demands laid out by the union. The union asked for a bonus equal to 4% of profits in 2017, or up to almost about $40,000 per worker. It also demanded a 5% increase in salaries.
- Depressed prices following escalating trade-war threats favour BHP’s proposal, with the company noting that its offer, which hinges on the new contract being signed this month, also increases payment of a bonus for exceptional performance and benefits on education, health care and retirement.
- Labor talks at Escondida are in the final stretch before a 30-month contract expires at the end of July. Discussions will be monitored closely by market participants as failed talks may repeat the extended 44-day strike that jolted the global copper market.

Aluminium US$ 2,064/t vs US$2,056/t yesterday
Nickel US$ 14,205/t vs US$13,680/t yesterday

- Base metals shrugged off an early dip to broadly trader higher, with nickel surging in London as much as 3.8%, while Shanghai nickel rallied as much as 4%. The reversal follows heavy losses pushing the LMEX index to fresh lows as trade tensions between the US and China undermined confidence in demand for metals. However, the correction followed the lead of global equity markets which have rallied off lows.
- China accused the United States of bullying and warned it would hit back after the Trump administration raised the stakes in their trade dispute, threatening 10 percent tariffs on $200 billion of Chinese goods in a move that rattled global markets.
- While commodities face modest direct impact from the US tariffs on China imports, there’ll be wider implications as commodity demand for supporting factories and infrastructure eases, according to UBS Group AG analysts.
The note continued that China’s response will be key, and a potential easing of credit constraints on local government funded infrastructure projects could boost domestic demand to partly offset against lower exports.

- As base metals "bear the brunt of negative sentiment" due to higher exposure to trade, major miners, including BHP Billiton Ltd. and Rio Tinto Group, are likely to see most selling pressure as generalist investors assess the trade tensions.

Zinc US$ 2,552/t vs US$2,517/t yesterday
Lead US$ 2,189/t vs US$2,227/t yesterday
Tin US$ 19,390/t vs US$19,420/t yesterday

Energy:
Oil US$74.6/bbl vs US$78.1/bbl yesterday
Natural Gas US$2.811/mmbtu vs US$2.782/mmbtu yesterday
Uranium US$23.15/lb vs US$23.00/lb yesterday

Bulk:
Iron ore 62% Fe spot (cfr Tianjin) US$63.3/t vs US$63.1/t
Chinese steel rebar 25mm US$645.0/t vs US$641.3/t
- Steel in China remains on track for its fourth daily gain on capacity cuts as the Asian nation announces targets to improve air quality. Rebar and hot-rolled coil futures in Shanghai are heading for the highest close since March 6, with rebar for Oct. climbing as much as +2.1% to 3,960 yuan/tonne on SHFE, as the sector faces capacity cuts at industrial plants, and expansion of areas that will be subject to curbs.
- Tangshan city, China’s largest steel production base, will cut iron and steel-making capacity by 2.81m tons and 5m tons this year respectively, Xinhua reports, citing the city’s government. The city aims to sharply reduce levels of sulphur dioxide, nitrogen dioxide and carbon monoxide in the air by this month, emissions restriction may be extended beyond July if air quality does not improve.
- The notification sent to industrial enterprises today does not mention specific production restrictions, but steelmaking industries are almost certain to face output cuts, prospect of this has lifted steel prices over the last two days in anticipation of tight supply
- Companies will be required to meet the capacity cut targets by the end-Nov. Macquarie Wealth Mgmt note “under a plausible scenario that newly added provinces cut steel production by 30% in the winter, total steel capacity cuts will be higher than last winter”.

Thermal coal (1st year forward cif ARA) US$93.5/t vs US$93.3/t
Premium hard coking coal Aus fob US$197.8/t vs US$200.8/t

Other:
Cobalt LME 3m US$70,250/t vs US$69,750/t
Tungsten APT European US$344-349/mtu vs US$350-354/mtu

Lithium - Potential lithium ‘hotspots’ can be identified from space
- Satellites detecting changes in trees from space could help identify potential “hotspots” of lithium situated underground in Cornwall, researchers have said.
- Lithium in hot brine springs in Cornwall could provide the UK with a domestic source of the metal, which has been described as “the new gasoline" due to its potential to help in the shift to low-carbon energy supplies.
- Satellites can detect changes in vegetation and surface minerals, which, when combined with geological data, could indicate potential locations of lithium in the county once famous for its tin mines.
- This kind of remote sensing could significantly cut the cost of lithium exploration and also reduce the environmental impact of mining by better targeting prospective sites, the team behind the research said.
- Along with other measures such as heat mapping and geological faults, the team looked for potential indicators of lithium in vegetation cover; for example, how healthy plants are, to help indicate where hotspots of lithium might be.
- Prospectors could then drill down into the ground to pump out the hot, salty water which contains lithium and extract the metal rather than needing large-scale open-cast mines.
Company News

Avesoro Resources (ASO LN) 266p, Mkt Cap £217m – Initial drilling results from the Ndablama deposit

- The Company completed 75 hole 16,200m infill drilling programme at the Ndablama deposit located 45km northeast of the New Liberty Gold Mine.
- The programme is aimed at upgrading current 464koz at 2.1g/t contained in Inferred Mineral Resources to higher confidence resource category as well as converting some of its total resources (813koz at 2.0g/t) into reserves.
- Trucking study looking at the potential for transporting the Ndablama material 45km to the New Liberty processing facility.
- Selected infill drill hole results include:
  - NDD129 13m at 2.8 g/t Au from 114m
  - NDD130 6m at 3.5 g/t Au from 83m
  - NDD116 5m at 3.6g/t Au from 106m
  - NDD189 4m at 2.6g/t Au from 115m
- Additionally, a number of holes tested down dip extension returning good results including NDD194 which intercepted 23m at 2.3 g/t Au from 234m including 7m at 6.0 g/t Au from 244m.
- Samples have now been sent to ALS Johannesburg with final results due within two months.
- Drill rigs have now been relocated to the Silver Hills where 10,000m programme is planned to test the 1km long Belgium target and designed to produce a Maiden Inferred Resource.
- Silver Hills is only 13km away from New Liberty benefiting potentially from short hauling distances between mining and processing operations.
- 171,000m 2018 drilling programme at license areas in Liberia and Burkina Faso is aimed at converting 1moz from Resources to Reserves; Ndablama is forecast to account for 400koz of the total target.

Bluejay Mining* (JAY LN) 22.1p, Mkt Cap £188m – Shutdown of Richard’s Bay in South Africa due to violent intimidation may force Rio Tinto into finding new supply

STRONG BUY - included in MSCI index

Target Price 45p

- Rio Tinto must surely want to ditch RBM and the trouble it causes for another titanium mineral sands producer
- They had a project Mozambique lined up but the Riversdale disaster means they might not want to go back in there for another decade or two
- We reckon Rio’s QIT business in Quebec needs cheap, high-grade feed to restore its fortunes with Bluejay Mining tempting management with its world-class grade and close location, albeit within the Arctic Circle
- The Exxarro sale last year implied significant attributable value to Tronox last year demonstrating that there is perceived value in the sector
- Buying Bluejay Mining could help Rio restore value so that it could offload the business in a rerun of the BHP flotation of South 32 which was a win-win for both companies
- There is ongoing uncertainty as Tronox continue to have to justify its acquisition of Cristal with the US Federal Trade Commission particularly as they are to stop selling rutile to external customers.

Conclusion: We are waiting for news on the Feasibility Study for Bluejay’s Dundas mineral sands project in Greenland. We are also waiting to see confirmation and further verification of the extraordinarily high-grade ilmenite seen in the Iteqik Delta.

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

Caledonia Mining (CMCL LN) 623p, Mkt Cap £66m – Q2 production update

- Blanket mine Q2 production totalled 12.7koz, down 2% on Q1/18 and up 1% on Q2/17.
- H1/18 production amounted to 25.6koz, up 1% on 25.3koz produced in H1/17.
- Operations remained on target for the reiterated annual output guidance of 55.0-59.0koz for FY18.
Shaft sinking reached a depth of 1,073m with operations currently paused as works on horizontal development on level 30 are carried.

“The project continues to progress well and we look forward to commencing production from the central shaft,” the Company said.

The management has also highlighted the mine remains on track for the long-term target of 80koz by 2021.

**Conclusion:** Blanket production was relatively flat in Q2 compared to the previous quarter with the management expecting output to come in higher in H2/18 as annual guidance reiterated at 55.0-59.0koz.

**Strategic Minerals** (SML LN) 1.38p, Mkt Cap £18.9m – Cobre quarterly sales

- Strategic Minerals reports that its wholly owned Cobre Magnetite operation, run by Southern Minerals Group (SMG) in New Mexico, sold 11,694 tons for US$695,000 during three months ending 30th June 2018.
- This represents an increase of 12% over the 10,446 tons of sales in the quarter to June 2017 and, we estimate, brings year to date sales to 33,329 tons compared to the 24,710 tons sold during the first half of 2017.
- The company has previously discussed the temporary suspension of sales to its major customer where a 4,000tpm minimum sales agreement provided a major boost to sales during the second half of 2017. While the temporary arrangements remain in place, Cobre is unlikely to replicate the H2 2017 sales performance although there will be a "net minimal impact on cash flow" as a result of an agreement which secures a US$375,000 quarterly pre-payment on sales by this major customer.
- Under the interim arrangements with its customer “In early July, SMG received a US $0.375m payment due from a major client as part of their suspension of sales” which “reinforces the Company’s expectation it will fund its 2018 development expansion plans from internally generated funds and, currently, expects to have surplus funds at the year end.”
- The company reports that its cash balances at 30th June 2018 amounted to US$2.088m and comments that the reduction from the US$3.11m reported for the end of March 2018 largely reflects “payments of US $0.978m to US tax authorities in relation to 2017 income tax and 2018 quarterly instalments.”
- Commenting on the Cobre sales data, Managing Director, John Peters, reaffirmed that “Underlying Cobre sales continue to underpin the Company’s operations and existing resources are being reinvested to progress the Company’s other exploration and development projects, most notably the reinstating of the Leigh Creek Copper Mine which is expected to return to production and deliver substantial cash flows for the Company in the second half of 2019. “The Board maintains its expectation for this activity to be fully funded from internal cash flows.”

**Conclusion:** Magnetite sales are currently running ahead of last year though while sales to a major customer remain in abeyance during the second half of 2018 we do not anticipate that they will match the levels of H2 2017. The company expects that minimum payment terms agreed with the customer are, however, expected to ensure continuing cash flows sufficient to enable the continuing development work at Leigh Creek and the exploration programmes at CARE in Australia and Redmoor in the UK to be maintained without further recourse to shareholders.

*SP Angel act as Nomad and broker to Strategic Minerals*

**Analysts**
- John Meyer – 0203 470 0490
- Simon Beardsmore – 0203 470 0484
- Sergey Raevskiy – 0203 470 0474
- Phil Smith (Technology) – 0203 470 0475
- Zac Phillips (Oil & Gas) – 0203 470 0481

**Sales**
- Richard Parlons – 0203 470 0472
- Jonathan Williams – 0203 470 0471

**SP Angel**
Prince Frederick House
35-39 Maddox Street London

*Please see disclaimer at the of this document*
*SP Angel are the No1 integrated nomad and broker by number of mining brokerage clients on AIM according to the AIM Advisers Ranking Guide (joint brokerships excluded)

**SP Angel employees may have previously held, or currently hold, shares in the companies mentioned in this note.**

DISCLAIMER
This note has been issued by SP Angel Corporate Finance LLP ("SP Angel") in order to promote its investment services. This information is a marketing communication for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FCA’s Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research.

This document is not based upon detailed analysis by SP Angel of any market; issuer or security named herein and does not constitute a formal research recommendation, either expressly or otherwise.

The value of investments contained herein may go up or down. Where investment is made in currencies other than the base currency of the investment, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Securities issued in emerging markets are typically subject to greater volatility and risk of loss.

This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. This information is for the sole use of Eligible Counterparties and Professional Customers only and is not intended for Retail Clients, as defined by the rules of the Financial Conduct Authority (“FCA”) and subject to SP Angel’s Terms of Business as published or communicated to clients from time to time.

It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not to be relied upon as authoritative or taken in substitution for the exercise of you own commercial judgment. SP Angel is not responsible for any errors, omissions or for the results obtained from the use of the information in this document.

This document has been prepared on the basis of economic data, trading patterns, actual market news and events, and is only valid on the date of publication. SP Angel does not make any guarantee, representation or warranty, (either expressly or implied), as to the factual accuracy, completeness, or sufficiency of information contained herein. This document has been prepared by the author based upon information sources believed to be reliable and prepared in good faith.

SP Angel, its partners, officers and or employees may own or have positions in any investment(s) mentioned herein or related thereto and may, from time to time add to, or dispose of, any such investment(s).

SP Angel Corporate Finance LLP is a company registered in England and Wales with company number OC317049 and whose registered office address is Prince Frederick House, 35-39 Maddox Street, London W1S 2PP. SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority whose address is 25, The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

---

Click this link to unsubscribe