Copper hit by unwinding of $1bn China fund

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Central Asia Metals (CAML LN) – On track to meet 2018 production guidance
Goldstone Resources (GRL LN) – Progress at Akrokeri - Homase
Orosur Mining (OMI LN) – Attracting financial support for Anza
Shanta Gold (SHG LN) – Cost savings targets reached ahead of schedule
Xpediator* (XPD) – Significantly oversubscribed placing raises £7m

China jails hundreds of officials for pollution violations
- China has jailed hundreds of officials for failing to tackle environmental violations uncovered during inspections last year, the environment ministry said
- A total of 4,305 officials in 10 provinces and regions had been held to account for failing to rectify violations, with some of them facing fines and even jail time
- Beginning at the end of May, central government inspectors started re-examining thousands of violations uncovered during the nationwide environmental audit, and found that many of the problems had not been properly resolved – found local governments and state owned enterprises across the country to be conducting “perfunctory” or even “fraudulent” rectifications

Copper – Prices manipulated lower by aggressive Chinese investor selling
- China inc may be finding new ways of combatting new US Tariffs through the manipulation of commodity prices.
- The Financial Times report ‘The liquidation of a $1bn bet placed by a Chinese investor has roiled the copper market, triggering a violent sell-off’
- ‘Data released by the Shanghai Futures Exchange showed the huge futures position held at Gelin Dahua, a Beijing-based brokerage, had fallen from a net long of 36,050 lots last Wednesday to only about 10,000 lots yesterday’ according to the FT
- The move which has carried copper prices $1,000/t lower may well enable the Chinese State Reserves Bureau and other buyers to stock up on lower cost physical copper at a time when smelting capacity is restricted from the long-term suspension of the 400,000tpa Tuticorin smelter in India.
- Gelin is reported to have been the dominant buyer of copper since last August buying on dips till it started to liquidate the position.
- The fund appears to have stopped selling for now and may continue to retain a long 10,000 lot position.
- The $1bn position is rumoured in the FT to have been placed by a coal investor in Shanxi which is an unusual position for a coal investor.
- We suspect the sell-order has been poorly placed attracting the attention of other hedge funds who have exacerbated the rout to force prices lower.
- We also suspect it may suit China Inc. to send a signal to the West that it can move important and significant markets when displeased by elements of US foreign policy.

Hybrid vehicles to be exempt from UK government petrol and diesel sales ban set for 2040
- The UK government is giving way to reality in the Electric Vehicle revolution according to a report in Autocar

Tesla hikes prices in China as trade war hits carmakers
- U.S. carmaker Tesla has hiked prices on its Model X and S cars by about 20% in China, becoming the first automaker to raise prices in the world's largest automotive market in response to a US-China trade war

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• Indicates how much higher Chinese tariffs on certain U.S. imports will flow through to showroom floors, with other automakers likely to follow suit or shift a greater portion of production to China

• "Raising the prices is going to hurt sales, but money-losing Tesla has to raise prices because they can't afford to fully absorb the higher costs of the tariffs," according to a CFRA research analyst

• For Tesla especially, rapidly burning cash and struggling to turn a profit, China is key. Sales in the country accounted for about 17 percent of its revenue last year

100th anniversary of the RAF today

• There will be a fly pass over London at 1:00pm

Dow Jones Industrials +1.31% at 24,777
Nikkei 225 +0.66% at 22,197
HK Hang Seng +0.43% at 28,811
Shanghai Composite +0.40% at 2,826
FTSE 350 Mining +2.16% at 18,512
AIM Basic Resources -0.09% at 2,406

Economics

Equities are trading higher with safe haven assets sold including Japanese yen, gold and US Treasuries.

• US equities posted a third consecutive daily gain (S&P500 +0.88%; Dow +1.31%) ahead of the start of the earnings season.

China – Factory prices inflation accelerated in June on the back of higher commodity prices.

• PPI inflation pressures are likely to come down as factory momentum weakens amid uncertain global demand and slower domestic credit expansion.

• The producer price measure is expected to ease to a 3.2%yoy in 2018, down from 6.3%yoy recorded last year that helped to support global reflations, Bloomberg reports.

• PPI (%yoy): 4.7 v 4.1 in May and 4.5 forecast.

• CPI (%yoy): 1.9 v 1.8 in May and 1.9 forecast.

ECB – Mario Draghi told European Parliament members inflation in the region is on a self-sustained recovery path suggesting the central bank can withdraw its stimulus despite increasing risks to growth from a global trade war.

• Trade disputes were singled out as the main risk for the Eurozone economic expansion outlook.

• The Draghi tone is similar to comments from Executive Board Benoit Coeure who said over the weekend that the ECB is alert to risks from trade tensions that have been climbing lately, but its current monetary-policy stance is working well.

• The euro has come down on the back of Draghi address against the US$ but has since regained some of its losses and is little changed this morning at 1.1744.

UK – The pound steadied following Monday news of senior Brexiters leaving the government including David Davis and Boris Johnson.

• The currency is up 0.15% against the US$ this morning following a more than 1% drop earlier on Monday.

• Economic growth climbed to 0.2%qoq in the three months to May compared to a stagnation in the three months to April, according to latest economic data.

• Services sector which accounts for 80% of the economic output picked up growth to 0.4%qoq compared to 0.2%qoq; although, industrial output and manufacturing data disappointed.

• May capped the weakest three months for British manufacturers since Dec/12.

• “Services in particular grew robustly in May with retailers enjoying a double boost from the warm weather and the royal wedding,” the ONS said.
Turkey – The lira is continuing its slide as Recep Erdogan appointed his son in law and former Minister of Energy and Natural Resources as head of a new ministry of treasury and finance.

- The decision sees a replacement of roles previously held by Deputy Prime Minister and Finance Minister who have been considered as market-friendly counterweights to a pro-growth bias in the Erdogan administration.
- Additionally, the administration issued new decree allowing Erdogan to appoint central bank head and deputy governors.
- The currency is off more than 3% since Monday evening extending YTD losses to nearly 20% against the US$.

Currencies

US$1.1745/eur vs 1.1767/eur yesterday
Yen 111.09/$ vs 110.48/$
SAr 13.378/$ vs 13.456/$
$1.327/GBP vs $1.331/GBP
0.746/AUD vs 0.747/AUD
CNY 6.615/$ vs 6.621/$

Commodity News

Precious metals:
Gold US$1,257/oz vs US$1,261/oz yesterday
- Geopolitical uncertainty is causing gold prices to spike in the United Kingdom as investors react to two high-profile resignations Monday.
- Spot gold, priced in British pounds, has spiked higher and is holding on to gains as uncertainty ripples through the country following the resignation of Brexit Minister David Davis and British Foreign Minister Boris Johnson.
- Spot gold against the pound is up 0.90% on the day, last trading at GBP949.71 an ounce.
- In comparison, spot gold against the U.S. dollar is up a modest 0.35% on the day, last trading at $1,258.90 an ounce.
- According to some market analysts, Johnson’s unexpected departure will put pressure on UK Prime Minister Theresa May. Gold in pound terms could continue to push higher if the political uncertainty escalates.

Gold ETFs 69.8moz vs US$69.7moz yesterday

Platinum US$850/oz vs US$855/oz yesterday - Nissan falsifying emissions tests data to boost Platinum Group Metal consumption
- Major automaker has admitted to falsifying emission tests data at plants in Japan, spurring a full investigation into the misconduct. The group said it had uncovered evidence that exhaust emissions and fuel economy tests were carried out in a way that deviated from the prescribed testing environment, and that inspection reports were created based on altered measurement values.
- Nissan said it had reported the current facts and investigation results to the Japanese Ministry of Land, Infrastructure, Transport and Tourism. The news has echoes of the emissions scandal that engulfed Nissan’s rival, Volkswagen, in 2015, when it was revealed that VW had fitted so-called “defeat” software designed to fool emissions tests on millions of its diesel cars.
- Enhancements to emissions reduction will require more effective autocatalysts, which rely on platinum, rhodium and palladium to neutralise harmful gases.

Palladium US$954/oz vs US$960/oz yesterday
Silver US$16.08/oz vs US$16.14/oz yesterday

Base metals:
Copper US$ 6,388/t vs US$6,412/t yesterday
- Copper gives up recent gains, setting back Monday's broad advance, as investor sentiment remains fragile ahead of widening global trade conflicts and US President Donald Trump releasing another list with $16 billion of further Chinese goods.
- The red metal pulled back after gaining +1.7% during yesterdays’ trading. While near-term outlook for metals has “no doubt turned cloudier” on China credit tightening and rising trade tensions, the sharp decline in copper seems overdone, Goldman Sachs says in a note dated Monday. Copper sat at $7,300/tonne less than a month ago and supply-demand fundamentals have not changed significantly over the period. Data in the US remains strong, and fundamentals of China’s industrial sector appear healthy, the note continues.
The market has been roiled as a mystery Chinese investor liquidated a $1bn bet, triggering a violent sell-off seeing the metal plunging to a 12-month low. Data released by the Shanghai Futures Exchange showed the huge futures position held at Gelin Dahua, a Beijing-based brokerage, had fallen from a net long of 36,050 lots last Wednesday to only about 10,000 lots yesterday.

The bet is equivalent to 130,000 tonnes of copper, worth approximately $800m being liquidated in the last four trading sessions. The metal is mixed up in socio-political tensions, with it remaining unclear why Gelin has started to liquidate the position. Local media groups have suggested it was either a strategic retreat or forced selling brought on by recent weakness in the copper prices.

In response, hedge funds have cut their bullish bets on copper by 14,739 net-long positions to 7,322, weekly CFTC data on futures and options shows. The long-only total was the lowest in more than 20 months.

Gelin’s net-long position shrank to 2.7% of copper contract’s aggregate open interest for all months, from 10% on Wednesday, according to Bloomberg calculations.

Market participants will keep an eye on future positions, with expectations that if Gelin keeps selling the global price for copper could fall to $6,000/tonne.

Aluminium US$ 2,109/t vs US$2,107/t yesterday
Nickel US$ 14,120/t vs US$14,165/t yesterday

Tumbling prices are expected to curb output in the world’s second-biggest supplier, with exports from the Philippines dropping by up to 17% this year, according to Dante Bravo, president of the Philippine Nickel Industry Association. Shipments of nickel ore, supplied to stainless steel manufacturers, could fall to 30-35 million tonnes from 36 million tonnes in 2017.

The price of nickel on the London Metal Exchange fell to an eight-week low of $13,830 a tonne on Friday and has lost nearly 5 percent this month, caught in a broad-based selloff of risky assets amid deepening trade tensions between the United States and China. “As a whole, we expect exports this year to be less than what we saw last year because the price of low-grade nickel now is weak”.

The Southeast Asian nation is also focusing on environmental preservation with President Rodrigo Duterte last week warning he would soon halt mining because of the environmental damage it has caused. There are 50 operating mines in the Philippines, 30 of which extract nickel ore. But the industry contributes less than 1% to gross domestic product, with only 3% of the 9 million hectares identified by the state as having high mineral reserves.

Bravo noted that mining is “perceived to be damaging (the environment), rather than contributing to the economy. We need to be more understood”. He continued to say that miners had intensified their reforestation efforts after Duterte threatened to revoke permits if he didn’t see trees as tall as he is in six months. Miner have subsequently planted about 4.2 million trees in mining areas in the southern Mindanao region and in the southwest province of Palawan.

Zinc US$ 2,661/t vs US$2,735/t yesterday - India and China Urbanization needs Zinc

With urbanization comes urban expansion, and with urban expansion comes serious demand for resources.

Countries are scrambling to build and upgrade infrastructure to keep up with demand as cities become megacities, building metro trains, housing complexes, energy plants, and any number of facilities required to sustain rapidly growing populations.

Zinc and other base metals are essential to all of this, playing key roles in the production of steel, batteries, automobiles and more of the indispensable components of urban expansion. The market has responded to this demand for base metals, along with noted issues on the supply side that have contributed to a significant increase in prices.

This is why, according to Transparency Market Research, the global base metal mining market is expected to reach 160.16 million metric tons by 2023, at a compound annual growth rate of 5.01 percent.

High demand and low supply have resulted in the overall price increase of zinc and other base metals.

Zinc recently hit a 10-year high of US$1.60 per lb, and the price is not expected to see a significant decline any time soon.

According to a number of institutions with an eye on the industry, the price should remain steady through 2019 until new and returning producers can level out the supply.

Lead US$ 2,319/t vs US$2,347/t yesterday
Tin US$ 19,665/t vs US$19,500/t yesterday
Energy:
Oil US$78.6/bbl vs US$77.5/bbl yesterday
Natural Gas US$2.827/mmbtu vs US$2.852/mmbtu yesterday
Uranium US$22.85/lb vs US$22.85/lb yesterday - Yellow Cake makes first uranium purchase
- Kazakh uranium producer NAC Kazatomprom has made its first delivery to London-based Yellow Cake plc under a long-term contract between the two companies. The sale follows Yellow Cake's floatation on the London Stock Exchange's AIM market and represents more than a quarter of Kazatomprom's 2018 uranium production.
- Kazatomprom on 6 July confirmed the implementation of the ten-year contract, which was signed on 10 May and covers the annual delivery to Yellow Cake of up to USD100 million of uranium at market-related prices, subject to conditions.
- Kazakhstan has 12% of the world's uranium resources and has been the world's leading uranium producer since 2009. Its 2015 production of 24,560 tU accounted for 39% of world production, but in late 2017 it announced plans to cut production for the next three years. Kazatomprom produced 12,986 tU - about 21% of world uranium production - in 2016.

Bulk:
Iron ore 62% Fe spot (cfr Tianjin) US$63.1/t vs US$62.8/t
Chinese steel rebar 25mm US$644.2/t vs US$640.2/t
- China steel climbs as investors eye official confirmation of additional supply curbs across the key production hub of Tangshan. The Asian nation detailed a three-year environmental plan last week, reiterating measures that include curbs on industrial production.
- Huatai Futures note “there were discussions in the market yesterday about potential further supply curbs in Tangshan that will limit steel production to 30%. If confirmed, this will mean a daily cut of at least 150,000 tonnes of steel, which will certainly impact markets”.
- The nation’s largest steel production base ordered all local mills to meet ultra-low emissions standards by end-October according to Mysteel Research. They note that there should be sufficient time for small mills to install equipment to meet requirements before the deadline so the impact maybe minimal. Output at mills failing standards will be ordered the halt operations.

Thermal coal (1st year forward cif ARA) US$92.9/t vs US$90.9/t
Premium hard coking coal Aus fob US$202.2/t vs US$195.8/t

Other:
Cobalt LME 3m US$73,000/t vs US$73,000/t
Tungsten APT European US$344-349/mtu vs US$350-354/mtu

Company News
Central Asia Metals (CAML LN) 258 pence, Mkt Cap £454m – On track to meet 2018 production guidance
- Central Asia Metals has reported that with H1 output of 6,747 tonnes of copper from Kounrad and 11,050 tonnes of zinc in concentrate plus 14,386 tonnes of lead in concentrate from the recently acquired Sasa operation, it expects to achieve its 2018 production guidance of 13-14,000 tonnes of copper, 21-23,000 tonnes of zinc in concentrate and 28-30,000 tonnes of lead in concentrate.
- Copper output at Kounrad is approximately 4% lower than the record production of approximately 7,000 tonnes in H1 2017.
- At Sasa, which was acquired around 8 months ago, the mine treated 393,605 tonnes of ore (H1 - 2017 392,257t) at an average grade of 3.34% zinc (H1 – 2017 3.20%) and 3.91% lead (H1 – 2017 4.00%).
- The company adds that “During H1 2018, Sasa sold 180,233 ounces of payable silver. Due to an existing streaming agreement with Osisko Gold Royalties, CAML’s silver production has been pre-sold.”

Goldstone Resources (GRL LN) 2.1p, Mkt Cap £5.1m – Progress at Akrokeri - Homase
- Goldstone Resources reports a number of advances with its plans to restart gold production at the historic Akrokeri underground mine and Homase open-pits within two years.
Orosur Mining (OMI LN) 3.95 pence, Mkt Cap £4.6m – Attracting financial support for Anza

Orosur Mining reports that what is described as “a sophisticated international mining company” has “agreed to advance US$250,000 to subscribe for 3,603,077* common shares of Orosur at a price of CAD$0.091” as part of the financing of the continuing exploration of the Anza gold project in Colombia.

The investment, which “represents a 102% premium to the closing price of the Company’s common shares on … July 9, 2018” will give the incoming investor ownership of approximately 2.97% of Orosur.

In April this year, the company reported encouraging drilling results from the Anza project area including the following results from Hole MAP-70 in the APTA area of the licence:

- A 24m wide intersection averaging 1.84g/t gold, 1.69g/t silver and 1.09% zinc from a depth of 168m. The zone included a single metre averaging 23.66g/t gold, 3.6g/t silver and 0.04% zinc;
- A 12m wide intersection averaging 5.28g/t gold, 2.48g/t silver and 1.10% zinc from a depth of 221m;
- An 11m wide intersection averaging 6.35g/t gold, 2.74g/t silver and 1.55% zinc from a depth of 256m; and
- A 14m wide intersection averaging 2.02g/t gold, 2.23g/t silver and 1.10% zinc from a depth of 284m

At the same time it reported that drilling had moved to the “highly prospective and untested “Charrascala project area located approximately 1.5km west of APTA but also within the Anza area”. An announcement in June confirmed that, having drilled 5 scout holes at Charrascala it had identified the “presence of strong gold anomalies has been detected at Charrascala along an 800m north-south corridor, including intersects of 3.43 g/t Au and 30.60 g/t Ag over 1.5m and 2.62 g/t Au and 14.30 g/t Ag over 0.90m”

Drilling was then planned to move to another target area located south of Charrascala.

Conclusion: The initial investment in Orosur by an international mining company underlines the credibility of the Azna area as an exploration target and, if continuing exploration is successful, may well prove to be simply a first step in a closer long term relationship.

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Shanta Gold (SHG LN) 5.6p, Mkt Cap £43m – Cost savings targets reached ahead of schedule
- The team hit planned $7m costs saving target three months ahead of schedule.
- A cut in recurring expenses on an annualised basis came as a result of renegotiated contracts with suppliers and the elimination of non-essential G&A.
- Full benefit of reduced costs to be realised from Q3/18, one quarter in advance of what was budgeted.

Xpediator* (XPD) 83p, mkt cap £103m – Significantly oversubscribed placing raises £7m
- Xpediator is acquiring a Southampton based logistics company for an initial consideration of £9m.
- The company brings in on-port customs clearance, warehousing and logistics services and helps to position the business for Brexit.
- The business is a strong strategic fit and has historic sales of £21m and net profit of £1.6m.
- IPO at 24p in August last year.

*SP Angel act as nomad and broker

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