Commodities hit by latest US $200bn tariffs

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Arc Minerals* (ARCM LN) – Arc further consolidates Zamsort where drilling is underway
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UK – National Infrastructure Commission reckons UK could probably generate 70-80% of energy from renewables

- The commission sees cost reductions as more likely from renewables as the government plans a new fleet of nuclear plants to replace ageing coal and nuclear reactors.
- More renewables is good for metal consumption, particularly copper for cabling and windings for generators.
- Vanadium and lithium batteries will become increasingly important for grid balancing.
- It is difficult to understand the government's agreed electricity price for electricity for the EDF Hinkley Point C plant which is significantly higher than other power projects.

German Wind, Solar Power Beat Coal Generation for First Time

- Germany's wind and solar farms surpassed lignite and hard coal as sources of electricity for the first time during the six months to June, a sign the market is starting to squeeze out the dirtiest fossil fuels.
- The power mix in Europe's biggest economy hit a turning point when clean generation surged 10 percent to 118 billion kilowatt-hours through June, the BDEW utilities federation said Tuesday.
- Coal's share of the market dropped 10 percent from 2017 to 114 billion kilowatt-hours.
- Germany must guard against blackouts as coal power declines and the last nuclear reactors are shuttered in 2022, the BDEW said Tuesday.
- The nation's seven atomic reactors boosted output in the first half make up 11.3 percent of total supply, up from 10.2 percent a year ago.

Copper US$ 6,141/t vs US$6,388/t – prices continue to fall as Trump releases another list of $200bn worth of tariffs

- US traders point to forced fund liquidations from margin calls as prices fall. We still reckon copper prices have been given a helping hand on the downside by a number of hedge funds some of which may be Chinese

Inflation – Tariffs are directly inflationary

- John Auther, writer of the FT Smart Money column this morning uses the example of US tariffs on washing machines that came in at end January
- ‘Tariffs are a form of tax, they are directly inflationary and they may not prove all that popular once their effects are felt’
- Policymakers have fought to hold off deflation, largely caused by the arrival of cheap goods from China and the arrival of highly-competitive online shopping
- A war on tariffs might cause policymakers to further tighten monetary policy to hold back new inflation caused by tariffs.

Please, see disclaimer at the of this document
One benefit of new tariffs that no one seems to be talking about is the impact of these taxes on US treasury receipts. These receipts may then enable Trump to drop taxes in other areas or offset rising debt service costs as US interest rates rise.

The US is in effect taxing other countries on their sales into the US though it does seem that the consumer ends up paying the tax in the end.

Commodities are normally seen as a good haven for investment in an inflationary environment with gold prices holding up remarkably well against the rise of the US dollar and collapse of copper.

Trade War Won’t Interrupt Commodities Rally - Goldman

- ‘Concerns about a trade war hurting commodities are overdone, so expect prices to continue higher,’ Goldman Sachs told clients in a recent note.
- Goldman remains overweight in the asset class and expects commodities to rise 10% over next 12 months, based on the S&P Goldman Sachs Commodities Index.
- The broker believes most commodities subject to tariffs can be rerouted and sold to other markets, averting a supply glut and associated price declines. We agree though we note that higher prices may serve to dampen demand in some areas.

Dow Jones Industrials +0.58% at 24,920
Nikkei 225 -1.19% at 21,932
HK Hang Seng -1.60% at 28,224
Shanghai Composite -1.76% at 2,778
FTSE 350 Mining -2.45% at 17,892
AIM Basic Resources +0.26% at 2,412

Economics

The UK released an extensive 46-point plan to help transition the transportation market to all-electric status by 2040.

- The plan involves a series of initiatives from increasing the number of current plug-in car grants to incentivising the installation of charge points.
- The list includes a “£246m to research next generation battery technology” and “launching a £400m charging infrastructure investment fund to help accelerate charging infrastructure deployment”.

Risk off sentiment is driven by risks of further escalation in US-China trade dispute with the base metals complex down this morning.

- The Trump administration is promoting additional tariffs on imported Chinese goods to the amount of $200bn marking a sharp escalation in a trade war.
- The due date for submission of written comments regarding the proposed legislation is scheduled for August 17.
- Chinese equities (CSI 300 -1.73%) and renminbi (-0.40%) dropped on the news.
- US Treasury yields (-3bp) have come down and the yen strengthened (+0.2%) on the back of increased demand for safe haven assets.
- S&P 500 futures were down 0.8% as of this morning after dropping as much as 1.1%.
- Precious metals are range bound today.

US – Labour market confidence is strong as indicated by the latest data on the number of people who voluntary quit their jobs in May.

- Around 3.56m quit their positions in May, marking the highest level since 2000, and up on the previous month of 3.35m.
- Quits rate which measures quitters as a share of employed people climbed to a 17-year high of 2.4%, up from 2.3%.
China – Auto sales growth decelerated in June as the government tightens controls on bank lending.

- Sales of SUVs, sedans and minivans climbed 2.3% yoy last month compared to 7.9% in May.

Japan – Core machine orders, a proxy for business investment, contracted less than forecast in May from the previous month while registered strong growth on annual basis.

- This suggests firms are committing more capital which should see growth rates higher.
- In the short term, heavy rain and floods in Western Japan which led to a temporary suspension of production at factories and local power outages should see some reduction orders.
- US-China trade war remains one of the most significant growth risks.
- Core Machine Orders (%mom/yoy): -3.7/+16.5 v 10.1/9.6 in April and -4.9/+11.0 forecast.

ECB – First rate hike can take place during the summer of 2019 at the earliest if inflation conditions warrant the move, Francois Villeroy de Galhau, Governor of the Bank of France and a member of the Governing Council at the ECB, said.

- “Net purchases should end in December; first interest rate rise could take place at the earliest through the summer of 2019 depending on the inflation outlook.”
- Markets are currently expecting a first rate increase closer toward the end of 2019.

European Authorities tighten bank lending as Eurozone House Prices rise as ECB holds benchmark interest rates at record low levels

- European house prices are seen rising at their fastest rate since the Global Financial Crisis ‘GFC’.
- Prices rose at 4.5% in Q1 with Ireland recording a 12.3% rise followed by Portugal at 12.2%. Both countries were hit particularly hard by the GFC.
- Holland saw a 9.3% rise which may be partially driven by companies moving to The Netherlands for its beneficial tax structures and more liberal European base.

Germany – Investor confidence recorded another drop reflecting dampening effect of trade tensions on world trade.

- The ZEW investor expectations index dropped to -24.7 in July from 016.1 in June, recording a fifth straight decline and taking it to levels not seen since 2012, when the region was going through a sovereign debt crisis.
- Positive news have been “greatly overshadowed by the anticipated negative effects on foreign trade,” ZEW commented on the data.

Turkey – Local equities and bonds as well as lira fell on the back of the report showing the nation’s current account deficit increased for the third month in a row.

- The current account expanded to $5.89bn in May, up from $5.45bn in April, and $5.37bn in May 2017.

Peru hopeful trade war turmoil won’t impact mining investment

- Peru are hoping to strengthen the investment environment in the country as Anglo American are expected to pull the trigger on the $4.8bn Quellaveco copper project. Mining Under secretary Miguel Inchaustegui aims to boost the positive signs for other companies looking to develop projects in Peru, with the country looking to capture 8% of global exploration spending, up from 7% in 2017.
- “The company visited the government and told us they are seriously evaluating taking this decision and I hope that trade-war turmoil doesn’t make them delay that decision”.
- The country’s mining investment pipeline is at $14bn for 2018-2022.

Currencies

US$1.1726/eur vs 1.1745/eur yesterday Yen 111.02/$ vs 111.09/$ SAR 13.440/$ vs 13.378/$ $1.326/GBP vs $1.327/GBP 0.741/aud vs 0.746/aud CNY 6.662/$ vs 6.615/$

Commodity News

Precious metals:

Gold US$1,252/oz vs US$1,257/oz yesterday - Minerals Council says 75% of SA’s gold mines unprofitable
Three-quarters of SA’s gold mines are unprofitable or barely making money, says the Minerals Council SA as the sector enters wage talks that some participants hope will reflect the realities bedevilling the sector.

SA’s 140-year-old gold industry, for decades the world’s leading source of the precious metal, is a shadow of itself barely clinging onto eighth place ahead of Mexico. Its mines are old, deep, with falling grades and productivity, and rising costs.

From more than 392,000 people employed in 1994, the sector now has 111,800 and that decline is showing no signs of slowing, with the weak rand price of gold forcing the closure of Pan African Resources’s Evander gold mine and the shutdown of the Cooke mines owned by Sibanye-Stillwater.

Against this backdrop, the gold sector including Sibanye, AngloGold Ashanti, Harmony and Village Main Reef, starts wage talks on Wednesday to set a fresh two-year wage deal.

The opening demands from the two biggest unions, the National Union of Mineworkers (NUM), with 51% representation of the 79,517 employees at the four companies, and the Association of Mineworkers and Construction Union (Amcu) with 34%, did not reflect an awareness of the difficulties.

Gold ETFs 69.7moz vs US$69.8moz yesterday
Platinum US$839/oz vs US$850/oz yesterday
Palladium US$939/oz vs US$954/oz yesterday
Silver US$15.97/oz vs US$16.08/oz yesterday

Base metals:
Copper US$ 6,141/t vs US$6,388/t yesterday

Commodities continue to slide as the US Commerce Dept releases a list of Chinese goods that would be subject to a new round of tariffs. The updated list provides an additional 10% duty on Chinese products with annual trade value of approx. $200bn.

The US imposed a 25% additional tariff on $34bn of Chinese imports on July 6, prompting immediate response in kind from Beijing. The President has since warned about eyeing up levies on another $16bn of goods, and last week indicated the final total could surpass $500bn. This figure represents 98.9% of US trade imports in 2017, according to United States Census Bureau.

While metals, energy and agricultural products are all included on the list, its concern that increasing protectionism will hurt global raw material demand that has applied downward pressure from copper to oil since the announcement. Australian analyst notes “it’s not really about Trump, it’s not really about China, it’s about world growth; it’s potentially threatening current growth expectations. Every growth asset is being sold off”.

Tit-for-tat protectionism is intensifying and threatening major industries. Steel prices and aluminum premiums are shooting up in the U.S. thanks to tariffs, while Chinese duties on U.S. soybeans and other farm goods are roiling agricultural markets.

Metals were among the hardest hit, with copper prices plunging more than 3 percent in New York, Shanghai and London amid heavy trading. U.S. futures have lost almost 17 percent since peaking June.

Zinc, nickel, lead and aluminum also slid on the London Metal Exchange as did shares in miners and metals companies including BHP Billiton Ltd. and Jiangxi Copper Ltd., which dropped to the lowest since October 2016.

Despite Trump’s attempts to re-balance global trade, copper demand has remained strong in China with Korea’s Huh Chin-Kyu becoming the latest billionaire as consumption for copper coils surges. The Seoul-based Iljin Group has posted a 15% rise in adjusted revenue since adding Warren Buffett-backed BYD Co., China’s biggest electric-carmaker, as a customer in 2015.

China became the world’s largest market for electric vehicles in 2015 after sales there more than doubled. Global sales of new-energy vehicles, or NEVs, are expected to grow to 11 million in 2025 from 1.1 million last year, with China accounting for almost 50 percent of that total, according to Bloomberg New Energy Finance.

The company is building a new copper foil plant in Malaysia that will expand its production capacity by 10,000 tons annually and help it supply other Chinese clients, including battery maker Contemporary Amperex Technology Co., Han said. Before acquiring BYD as a customer, Iljin Materials primarily catered to South Korean firms such as Samsung SDI Co., which supplies batteries to automakers including Volkswagen AG and BMW AG.

Aluminium US$ 2,056/t vs US$2,109/t yesterday
Nickel US$ 13,680/t vs US$14,120/t yesterday
Zinc US$ 2,517/t vs US$2,661/t yesterday
Further to trade war woes, zinc slumped to the lowest in a year in London as investors weigh the risk that the market will start to unravel into oversupply as new mines enter production and steel output drops in China.

Prices for the metal used in steel galvanizing and alloy-making plunged as much as 3.6 percent to $2,607.50 a metric ton on the London Metal Exchange, the lowest since June 2017. Zinc has tumbled 27 percent from a February peak. The latest slide has coincided with a loosening in the forward price curve on the LME, a signal that spot demand is weakening.

Spot zinc contracts closed at an $25 premium to three-month futures on Tuesday, down from a $59.50 gap seen in June. The loosening of the spread, which suggests that more spot metal is becoming available, will lend confidence to bearish investors looking for signs that a years-long supply crunch is drawing to a close.

Lead US$ 2,227/t vs US$2,319/t yesterday

Tin US$ 19,420/t vs US$19,665/t yesterday

Energy:

Oil US$78.1/bbl vs US$78.6/bbl yesterday

Natural Gas US$2.782/mmbtu vs US$2.827/mmbtu yesterday - Scottish Government extends Ineos fracking licence for a year

- The Scottish Government has extended a licence for fracking across the central belt by the Grangemouth company, Ineos – but insisted it is still opposed to fracking.
- Ministers have decided to renew for a year an onshore petroleum exploration and development licence, known as PEDL 162, covering 400 square kilometres to the south and west of Falkirk.
- The licence, which was previously granted and renewed by the UK government, is 80 per cent owned by Ineos.
- PEDL 162, which licenses fracking for underground shale gas and other technologies, was originally granted by Westminster to a firm called Reach Coal Seam Gas in 2008.
- Ineos bought four-fifths of the licence in 2014. The licence was renewed by the UK government to last until 30 June 2018. Another adjacent licence, PEDL 133, which covers an area to the north of Falkirk around the Firth of Forth, is also owned by Ineos and is anticipated by the UK Oil and Gas Authority to last until 2035.
- Powers over oil and gas licensing were devolved to Holyrood and came into force in February 2018. This meant that Scottish ministers had to determine what to do about PEDL 162.

Uranium US$23.00/lb vs US$22.85/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US$63.1/t vs US$63.1/t
Chinese steel rebar 25mm US$641.3/t vs US$644.2/t
Thermal coal (1st year forward cif ARA) US$93.3/t vs US$92.9/t
Premium hard coking coal Aus fob US$200.8/t vs US$202.2/t

Other:

Cobalt LME 3m US$69,750/t vs US$73,000/t
Tungsten APT European US$344-349/mtu vs US$350-354/mtu

Rare Earths – Trump’s tariffs list targets high-tech critical minerals for the US

- The latest release of $200bn Chinese goods targeted for tariffs highlights Trump shooting himself in the foot, given the administration’s stated aim of slowing China’s progress in matching US manufacturing prowess. Among the list are rare earths, which the US has recently designated critical minerals due to a lack of domestic mining and the dependence on Chinese production and exports.
- China’s grip on rare earth supply is so strong that the US joined with other nations earlier in the decade in a World Trade Organisation case to force the Chinese to export more of the materials as the price spiked amid a global shortage. The WTO ruled in favor of the U.S., while prices eventually slumped as manufacturers turned to alternatives.
- The metals, which are fundamental to high-tech applications including permanent magnets incorporated in every manufactured vehicle and in high quantities in electric vehicles, are specifically cited in customs code 2805.30.00, describing the rare-earth metals, scandium and yttrium, whether or not intermixed or interalloyed.
China produced more than 80 percent of the world’s rare-earth metals and compounds in 2017, according to the U.S. Geological Survey.

**Lithium – Tesla to open Shanghai electric car factory, doubling its production**
- Tesla is to open a new electric car production plant in Shanghai, its first outside the US, chief executive Elon Musk said.
- The new auto plant is slated to produce 500,000 cars a year, taking Tesla’s total global manufacturing capacity to 1m vehicles a year, most automotive factories are tooled to produce 200,000 – 300,000 vehicles a year.
- The Shanghai municipal government welcomed Tesla’s move to invest not only in a new factory in the city but also in research and development.
- Tesla said the first cars would roll off the Shanghai production line about two years after construction begins on the factory.

**Lithium becomes Chile’s No. 4 mining export**
- Lithium exports from Chile, the country’s with the largest known reserves, jumped in 2017 becoming its fourth largest mining export behind copper, molybdenum and iron ore.
- Shipments of the lithium and other battery ingredients were $684.2m last year, up 47% from the $465m they represented in 2016, according to figures published by the Chilean Copper Commission.
- Copper remained Chile’s main mining export, representing 89% of the total or $33.9bn, molybdenum came in second place at $1.2bn, while iron ore took came number three at just over $1bn.
- Earlier this year, the South American country’s development agency Corfo struck a deal with local producer SQM, allowing the private company to expand its production capacity of lithium from 48,000 tonnes to 70,000 tonnes this year, and then to 100,000 tonnes by 2019.

**Diamonds - The future internet could be built of diamonds**
- With quantum computing looking so promising, scientists have been studying how to store and transmit quantum-scale data.
- There looks to be a limit to how far quantum data can maintain its integrity when passed through fibre optic cabling — about 100 kilometers — and so scientists plan a sparkling new internet of diamond repeaters, each of which captures and passes along quantum data to the next network node.
- They’ve known for a while that artificial diamonds manufactured a certain way can hold that quantum data. However, storing and transmitting it seems to require different diamond structures, making the sparklers’ use for this purpose problematic.
- Until now, that is, with the announcement in the July 6 issue of *Science* of a new designer diamond engineered by a team from Princeton.
- Quantum data is registered with the presence of an atom representing an “up” spin state and an adjacent empty space serving as a “down” spin state.
- In classic-computing bits, a bit is either one of two possible states, a 1 or a 0, but in quantum “qubits” there are three: up, down, or also both at once, allowing for three possible values.
- This allows for substantially more complex computations, part of what’s got everyone so excited about quantum computing. (The other part being the potential for entangling qubits.)
- Previous research has studied the replacement of individual carbon atoms in a diamond with one nitrogen or silicon atom plus an empty space — together called a “vacancy.” But the resulting diamonds were good at storing data or transmitting it, but not both.
- The Princeton team decided to look into the electrical properties of silicon vacancies to try and figure out why their retention of data was so poor.
- The silicon vacancies in the test diamonds remained stable, nearly equalling nitrogen by holding qubits for roughly a millisecond. At the same time, they were able to take advantage of silicon’s good habits, emitting photons cleanly, with 90% of them being produced at the exact same frequency, a boon for easy detection.

**Football fever feeds into diamond mining**
- Alrosa, the world’s largest diamond mining company, is offering fans to choose a “football” name for a large rough diamond weighing 76.53 carats, which will become the core of a “football” collection of special size rough diamonds to be auctioned in Moscow.
The winner will receive a ticket to the final game of the FIFA World Cup 2018™. The ideas of fans are accepted on a website www.diamondsofrussia.ru. The winner will also receive a certificate that the fact of extraction of the stone is named after his idea.

A crystal weighing 76.53 carats was mined at International kimberlite pipe in March 2018. It is a stone of octahedron shape with yellowish tint and dimensions of 29.05 x 28.29 x 25.33 mm.

FIFA World Cup 2018™ is a landmark event for the fans not only in Russia, but all over the world.

In a whimsical turn of events, the company has unearthed a diamond shaped as a football. The 0.50-carat stone was found at the company’s Karpinskaya-1 pipe, located in the northern Arkhangelsk Region and operated by the miner’s subsidiary Severalmaz.

Being one of the main sponsors of the sports event taking place in its own country, the diamond producer also launched a “football” collection of 32 special size rough diamonds, which represent each of the countries taking part in the tournament.

Company News

Arc Minerals* (ARCM LN) 4.3p, Mkt Cap £24.5m – Arc further consolidates Zamsort where drilling is underway

(Arc holds an effective 71.34% of Zamsort and around 73% of Casa Mining’s Akayanga project)

- Arc Minerals has further consolidated its holding in Zamsort to 66% + 5.34% by way of a convertible.
- The acquisition of a further 5% stake is for 10m new shares plus 2.1m warrants exercisable at a 42% premium to 4.2p/s and expire on 11 July 2020.
- The Arc team have also agreed with the last 34% shareholder, Kopara, that Kopara should either fund its share of all future expenditure pro-rata or be diluted accordingly.
- Management also report that the 11,000m drilling program is underway.
- Drilling should delineate a shallow copper, cobalt oxide resource for a resource estimate this year
- Metallurgical work should enable the optimisation of the simple CMS plant to enable early early production

Conclusion: Nick von Schirnding has transformed the company since his arrival. The consolidation at Zamsort has unlocked the impasse at this valuable copper, cobalt asset with drilling now underway.

We expect to see good assay results from the drill program in relative short order.

“SP Angel acts as nomad and broker to Arc Minerals

Ariana Resources (AAU LN) 1.5p, Mkt Cap £15.9m – Preliminary Q2 production report for Kiziltepe

(Ariana hold 50% of the Kiziltepe gold mine in jv with Procecea Construction Co.)

- Ariana Resources reports Q2 2018 production of 7,171oz of gold from its 50% owned Kiziltepe gold mine in Turkey. This brings H1 production to over 12,000oz and hence the company is maintaining its 20,000 oz 2018 production guidance.
- Gold grades fed to the plant of 4.77g/t are an improvement on the 3.85g/t processed during Q2 2017 while metallurgical recoveries are slightly lower than a year ago at 94.3% (2017 Q2 95.1%).
- Commenting on the results, Managing Director, Kerim Sener, pointed out that the plant is operating at a rate of 200,000 tpa “or 33% above the designed rate”.
- Fuller more detailed results for the quarter are expected to be available in early August.

Bushveld Minerals* (BMN LN) 24.5p, mkt cap £264m – Ferrovanadium prices hit new peak - Bushveld Energy operating update

BUY - Target 25p

(Bushveld Minerals holds % of Bushveld Energy)

- Bushveld Energy and the IDC ‘Industrial Development Corporation’ of South Africa received the first vanadium redox flow battery from UniEnergy Technologies in South Africa.
- The battery included the mixed-acid vanadium electrolyte for operation and was received within months of its order demonstrating the rapid construction of the battery.
- The battery is now being connected and integrated into a micro-grid at the Eskom Research and Innovation site.
• Initial data on the battery performance is due soon and should hopefully support the technical and commercial merits of the project.

• Meanwhile Bushveld are accelerating plans for a new Vanadium electrolyte production facility with a full Environmental Impact Assessment ‘EIA’ now planned for a greenfield facility in the East London Industrial Development Zone

• ‘The project remains on track to produce electrolyte in 2019 for South African and international markets.’

• China Ferrovanadium prices are moving higher again in a surprisingly strong upward move $77.5/kgV vs $76.5/kgV yesterday and $46.3/kgV at the beginning of the year.

• European ferrovanadium prices have also hit a new peak of $80/kgV rising $10/kgV in the last month.

**Conclusion:** Bushveld is looking to develop an initial 200MWh capacity electrolyte plant at East London in South Africa with a view to its further expansion.

Much will depend on the results of the new battery micro-grid test and on orders for electrolyte from overseas markets, particularly China and the US.

The UK and many other nations look increasing likely to continue to expand renewable power generation as renewable generation costs fall.

Reliance on a higher proportion of renewable power will lead to the instillation of substantially greater grid balancing capacity from lithium and vanadium redox batteries.

*An SP Angel mining analyst and nomad have visited the Vametco vanadium mine and processing facilities in South Africa.*

**European Metals (EMH LN) 23p, Mkt Cap £32m – Latest test work shows improved recovery rates**

• European Metals Holdings reports that recent testing to optimise the roasting and leaching process proposed for its Cinovec lithium project in the Czech Republic has shown a 7% improvement in recovery rates to around 94% and that as a result, it expects to improve lithium carbonate from the 20,800 tpa rate envisaged in the pre-feasibility study (PFS) to 22,500 tpa.

• In addition, the testing has demonstrated that the relatively high cost reagents, hydrated lime and sodium sulphate, which featured in the PFS can effectively be substituted by a mix of reagents which “now contains a higher proportion of gypsum but the gypsum takes the form of a waste material sourced from the scrubbing of power station off gases. The sample used during the development of this reagent regime was sourced from a power station in the region … [which the company understands] … would be available at a highly competitive price.”

• Testing is planned to continue with “locked cycle testing to confirm the flowsheet all the way through to the production of battery grade lithium carbonate and secondly, to enable larger scale proof of technology testing to be completed in the next few months. The Company will also undertake the production of lithium hydroxide during the latter phase.”

• The company confirms that beneficiation testing of a 15 tonne bulk sample of material is continuing on a “Pilot scale” with a view to producing 3 tonnes of concentrate for the planned continuing testing.

• The detailed implications of the improved recovery and production rates and the capacity to use lower cost reagents will be incorporated in the Definitive Feasibility work currently underway bu should enhance the economics described in the PFS which “indicated a return post tax NPV of USD540m [at an 8% discount rate] and an IRR of 21%”.

• Commenting further, Managing Director, Keith Coughlan said that “Our PFS indicated the potential of Cinovec to be a bottom half cost producer and an improvement on that will indeed be significant. The work that we have been undertaking during this period has been, and will continue to be, aimed at de-risking the flowsheet and elimination of flowsheet options prior to the commencement of what will then be an efficient Definitive Feasibility Study engineering phase.”

**Conclusion:** The more detailed test-work currently underway as part of the Cinovec feasibility study is identifying opportunities to improve on the pre-feasibility work on this large, relatively low grade deposit in the Czech Republic. We look forward to the technical details and information on their economic impact in the forthcoming DFS.

**Patagonia Gold (PGD LN) 88p, mkt cap £20.8m – Q2 Cap Oeste production and revised 2018 guidance**

• Patagonia Gold reports Q1 2018 production of 12,407 oz of gold equivalent at an average cash cost of US$551/oz from its Cap Oeste mine in southern Argentina. This brings output for H1 2018 to 23,069 oz of gold equivalent at a cash cost of US$614/oz.
Although we observe that, quarter-on-quarter production of gold equivalent ounce increased by around 16% and costs declined by around 20%, partially reflecting weakness in the Argentinian Peso, the company reports that “The production during the quarter was hampered due to labour disruptions, including a national strike in Argentina, and severe weather conditions, with below freezing temperatures being recorded during May and June.”

Providing an update on the operations, the company confirms that “Installation of the new crushing circuit is nearing completion and commissioning is due to start on schedule on 15 July 2018. Following the start-up of the new crushing circuit, reprocessing of the approximately 800,000 tonnes of the material stacked on the leach pad will commence.”

However, “mining operations at the Cap Oeste open pit are due to cease by 15 July and the mine will be put on care and maintenance. Accordingly, from the end of July 2018 going forward, production will be derived exclusively from the reprocessed material.”

The switch over to solely treating the stockpile material leads to a revision of the company’s 2018 production guidance to “approximately 45,000 oz AuEq” from the earlier 59,000oz level.

The announcement today does not elaborate on progress at the recently acquired Calcatreu project, however, in March this year the company disclosed that it was undertaking geophysics in order to help it define drilling targets for a campaign in September 2018 after the end of the southern hemisphere winter.

Conclusion: Costs at Cap Oeste have benefitted from a devaluation of the Argentine Peso however the move to curtail mining and the previously announced switch to retreating approximately 800,000t of ore previously stacked before the agglomeration circuit was installed and operational has resulted in a revision of 2018 production guidance to around 45,000oz of gold equivalent.

Rio Tinto’s minerals sands operation in South Africa shut by protests

- A mineral sands operation on the South African coast run by Rio Tinto has been closed due to violent community protests which saw a security guard killed earlier this week
- ‘Due to the escalation in activity around the blockades on the access roads, staff were sent home on Friday. Our highest priority is the safety of our people,’ according to a Rio Tinto spokesman
- Mzi Zakwe, the regional secretary for the National Union of Mineworkers (NUM), told Reuters the union’s 900 members were on forced leave because of the violence, which he said was rooted in grievances between the company and contractors
- Rio’s Richard’s Bay Minerals operations have a history of staff violence in recent years which are not particularly connected to Rio Tinto and more symptomatic of operating in South Africa in general.

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