

Please find below newsletter written by Robin Bromby in July 2010.

Regards,



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The Outcrop by Robin Bromby (29 July 2010)

WE'VE had the West Africa land rush. Stand by for the next junior stampede.

Two charts pretty well tell the story of the future.

One shows non-ferrous exploration spending by region.

Australia gets 13%, which is not too bad, but the surprise is that Africa – seemingly the hot story of the moment – gets only 15% of money outlaid to look for precious and base metals.

Canada, about which we think far too rarely, accounts for another 16%.

The big winner? Latin America. Last year it received 26% of the global non-ferrous exploration dollar.

Unfortunately that slice is not broken down, but you would have to assume that Brazil received the biggest portion of that 26%.

And it's a figure that is especially daunting when you also consider the importance of iron ore in the Brazilian picture.

News reports say that Brazil's government expects production of iron ore to more than double by 2030 to reach 1 billion tonnes per year.

The news item said a government plan will be officially released in August, showing production rising from current levels of 380-400 million tonnes per year to 585Mt in 2015 and 785Mt in 2022.

The other chart appeared with an article in The Wall Street Journal this week showing outbound mining acquisitions from China (including Hong Kong).

Imposed on a world map are discs showing the scale of acquisitions.

Surprisingly, the largest (\$US16 billion) is through companies domiciled in the United Kingdom.

Australia is next at about \$12 billion.

Chinese investment in Brazilian companies is - so far - about a third the size of their stakes in our explorers and miners, and is slightly smaller than money outflows into Mongolian mineral operations.

Peru, where about one third of all mining operations are now in Chinese hands, is the only other Latin American country to register on the map.

Expect Chinese money to flow into Brazil and other Latin American countries, squeezing out others in a race to acquire what lies beneath the surface.

Sumitomo, Japan's third largest trading company, is pumping money into its joint venture with Brazil's Usinas Siderurgicas and looking to boost iron production there to 50Mt.

Sumitomo has also flagged expanding its Brazilian output by buying mines or locking in production from other companies.

And Brazil is not standing still, either. Its mining giant, Vale, is hot to trot to expand globally.

Just in the past few days we have read that it is lashing out money at home and abroad.

Plans were unveiled to invest \$11.3 billion in a northern Brazil iron ore mine, which will add 90Mt a year to global supplies.

It will be in the same region as Vale's Carajas mine, the largest iron ore mine in the world.

In another development, Vale has just begun production at its Bayovar phosphate mine in northern Peru, an operation which has so far cost it \$566 million.

All the phosphate will go to Brazil - the country is largely dependent on imports for its fertiliser supplies.

Vale has phosphate or potash projects in Argentina, Canada and Mozambique, along with exploration at home for the fertiliser feedstocks.

Vale will be an important coal producer in Mozambique, and has committed \$400 million to a copper project in Zambia (although there's a political problem with that at the moment).

So where does this leave Australia?

Somewhat in Brazil's shadow, it would seem.

And it would appear that with a few exceptions - Andean Resources, for example, or Orocobre and this week Beadell Resources with its gold hits - investors have not really piled aboard the Latin American story.

This morning you could buy a clutch of Latin American-focussed exploration stocks for well under 10c each. Compare this with West Africa, where a number of analysts now see many of those stocks as being close to fully priced.

True, the preponderance of companies working in South America would be in the earlier stages of exploration, but then so are most of the recent entrants to the gold hunts in places like Ghana and Burkina Faso.

Here's another factor: while there some issues with the mining tax imposts in South America, countries like Chile, Peru and others have a long history of mine production that show that investing in a project there is relatively safe.

Apart from Ghana, West Africa doesn't have that track record so far.