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China gives the gold price a boost

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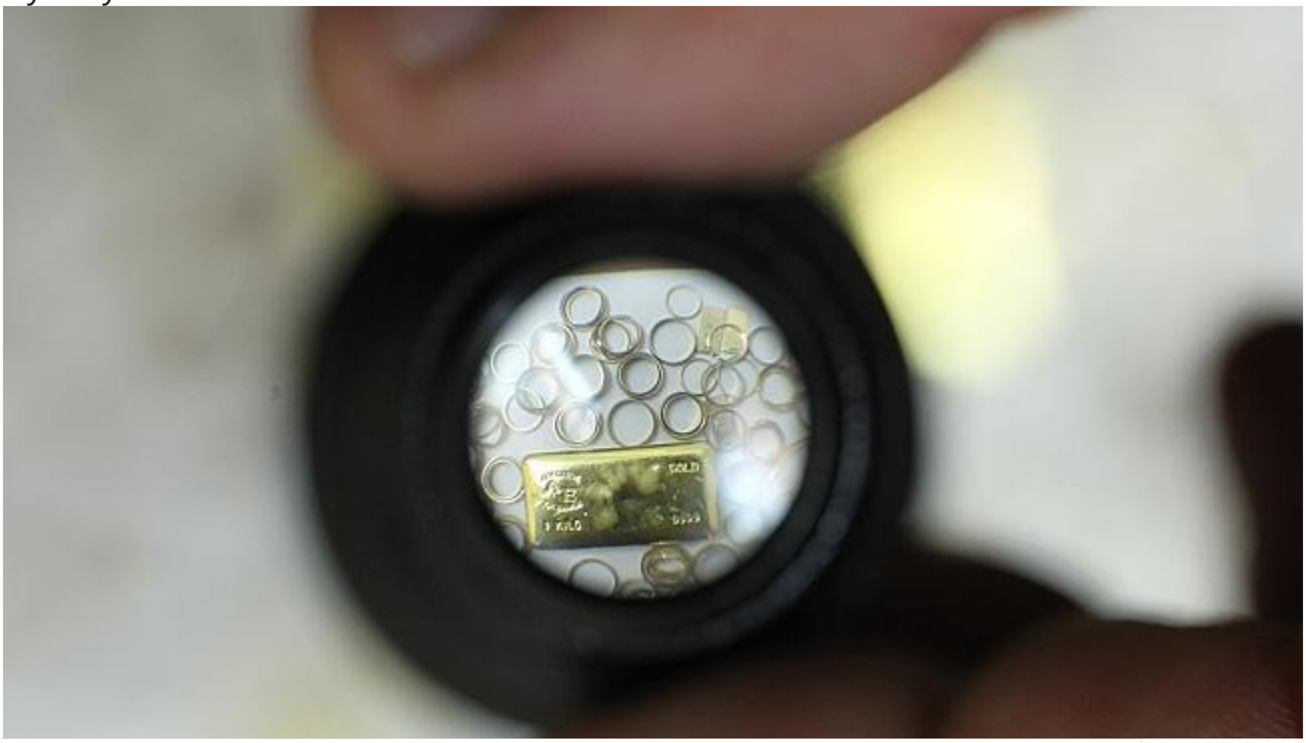

Spot gold rose 2.1 per cent on news that China's central bank was telling institutions they could lend more.*Source:* News Limited

SPOT gold rose 2.1 per cent on Friday to $US1199 an ounce thanks to further signs that Beijing is easing rather than tightening, with the central bank telling institutions they will be allowed to lend more.

There’s nothing like a little hint of inflation to rekindle interest in the yellow one. It was one of the few pieces of cheer after the brief diversion of Christmas.

There was a slight bounce for base metals in Shanghai on Christmas Day, too, although last week’s performance on the London Metal Exchange was anything but cheerful. On the last full day of trading before the holidays, copper ended at a desultory $US6330 a tonne. Nickel closed Wednesday down 1.3 per cent at $US15,450/tonne while LME warehouses groaned under record inventories – 408,990 tonnes – of that metal. Tin fell 3.4 per cent to $US18,395/tonne as the promised deficit looks as far away as ever with China destocking and able to buy as much as it wants from Myanmar.

During the week Naohiro Niimuro, partner at Tokyo-based Market Risk Advisory Co, reminded us of the trends (as opposed to the day to day market action). He points out China is now facing a demographic challenge and by 2016 its labour market will be declining in terms of numbers of workers, a demon Japan has already experienced. He sees India (53 per cent of whose imports are commodities) and Indonesia as the growing markets for metals and energy.

But he also has a caveat: Niimuro expects a serious hiccup in Asia once the Federal Reserve in Washington begins lifting interest rates. This, he argues, will see serious amounts of money move out of emerging markets and into the US. That will have consequences for commodities demand in Asia, both in terms of liquidity and pricing of metals in US dollars.

A detailed commodities report out on Tuesday from ANZ was a little less pessimistic. The team sees 2015 as being volatile, but with the first half being the rougher one. For the bulks, iron ore and coal, the best they can offer is weak prices but getting mildly better in the second half. But ANZ sees the base metals as being oversold.

The bank is concerned heightened sovereign risk could be an issue next year. “Indonesia’s apparent success with resource protectionism of unprocessed mineral ores in 2014 is now being considered by other emerging markets in the Southeast Asian region,” the report says. That would mean restricted supply of base metals, with obvious consequences in terms of price support.

Yet an announcement by Metallum (MNE) that it had potentially a second mine at its Chilean copper project sent the stock down 6.25 per cent. The junior has been sampling around old workings just 225m from its new mine and come up with assays as high as 10.55 per cent copper and 2.82 grams/tonne gold. There's an existing tunnel and the company says it could use an existing processing plant to mine there, too. This month Metallum trucked out 620 tonnes of copper-bearing ore, one load grading at 22.7 per cent copper, 3.05g/t gold and 14g/t silver. The stock closed at 1.5c.

Metals X (MLX) got a small bump from announcing the first holes at its Curiosity project in the Northern Territory had hit mineralisation, one intercept of 11.7m assaying at 3.73 per cent lead, 4.86 per cent zinc, 33g/t silver, 1.02g/t gold and 0.27 per cent copper.

The market was more enthusiastic on Christmas Eve, marking up MLX by 3.4 per cent on news of 60 contiguous titles being picked up on the Nannine goldfield (20km from the company's Meekatharra mill) even though some of the titles are subjects of plaints. The goldfield had produced about 200,000oz of gold from high-grade underground workings but open-cut pits have gone down only 148m.

Latin Resources (LRS) jumped 46.7 per cent on its latest Peruvian news, then another 22.7 per cent the following day (to 2.7c). The junior reported visible copper in its third hole at the Ilo Este project, located just 6km from a railway. LRS is now looking for a partner with deeper pockets than its own to help move the project along.

And there's nothing like a 100 per cent share price jump, even if it is only from 0.1c to 0.2c. Earlier this month we reported Newera Resources (NRU) was pulling out of Mongolian coal and looking for something new. That something turns out to be zinc in the Mexican state of Chihuahua, hence the price leap. We all know Mexico is one of the top bananas in gold and silver mining, but it's also No 6 when it comes to zinc, and Chihuahua is the leading zinc state. NRU's ground has seen zinc production on and off since 1943 with grades up to 25 per cent zinc and lead (combined) and a useful silver by-product. The leases are good until 2060.

Potash potential

AUSTRALIA farmers, including those across the West Australian wheatbelt, depend on imports for their potash fertilisers. Yet, as

Geoscience Australia has pointed out at great length, this country has enormous potential in the vast potash-bearing brine available from salt lakes.

These lakes have two advantages: the fact they are at surface against mining down 1000m or more as they do in Canada, making costs a less inhibiting factor. Moreover, the lakes produce sulphate of potash, which trades at a large premium to the main form of potash in terms of market share, muriate of potash.

During the week Rum Jungle Resources (RUM) said a scoping study at its Karinga Lakes project, encompassing several brine lakes in the southern NT, shows the junior can develop small-scale operations with low capital costs.

The company also points out that — unlike iron ore, coal and oil — potash and phosphates have seen price increases since their late 2013 lows.

No investment advice is implied and investors should seek professional guidance. The writer does not own shares in any company mentioned.

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