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Gold

Gold Fields raid talks persist

By Tim Wood

PRINCETON, New Jersey — There has been no let up in market talk that Gold Fields [GFI; GOLD] is about to be taken out. Barrick [ABX] and AngloGold [AU] are the usual suspects and not without good reason.

Rumours have escalated to the point where the involvement of Barrick and AngloGold is regarded as a fait accompli; all that remains is to confirm out the details of the transaction. Trade in Gold Field's Nasdaq depository receipt has rocketed with recent daily volumes more than double those at the start of the year.

Deal in a nutshell

It is thought that recent UBS Warburg dealing in Gold Fields stock points to an exchange of Anglo American's [AAUK] 17 per cent holding in the company for Barrick stock. Anglo acquired the stake in a 2001 share swap with Afrikaner conglomerate Rembrandt which has lost heavily by selling out at the bottom of the cycle.

Barrick has a history of cooperating with AngloGold; most recently in its failed bid for Normandy. Learning from Newmont's [NEM] advantage in having nearly one-fifth of Normandy's stock pledged to it by Franco-Nevada, it is assumed that Barrick would pledge its Gold Fields stock to AngloGold as the point player in the deal.

Anglo American and AngloGold have probably been buying additional Gold Fields stock in the market so, combined with the Barrick pledge, they would be almost certain of victory if an unsolicited offer was made.

The logic for such an arrangement is compelling.

Anglo American can retain its diffident aura whilst securing additional gold exposure outside SA. No less important is the fact that in a rising price environment hedge book dilution is essential. Gold Fields's mammoth, unencumbered reserves are exactly the right medicine for leading hedgers Barrick and AngloGold.

Barrick has long been testing market reaction to its possible entry to SA, most notably in direct comments at the January Cape Town mining indaba. Chief executive Randall Oliphant gabbed with SA president Thabo Mbeki at the World Economic Summit in 2001 and sources say he had follow-up discussions in SA. Adding to the speculation are reports that Barrick executives bought residential property in Cape Town when the rand was at its weakest.

An important consideration in any deal will be skin colour. Anglo American has, for its entire life, been remarkably astute at aligning its interests with the government of the day. The present government craves respect and tribute to its affirmative action ideology, something Anglo has copiously delivered through judicious consultation over its London move and the privatisation of De Beers. Likewise, AngloGold has conspicuously indigenous names for its mines bolstered by meaningful empowerment delivery.

Nuts and bolts

The thinking is that AngloGold is targeting long-coveted East Driefontein, which is the key to unlocking its ultra deep aspirations around Western Deep Levels. Beyond that things get a little murky. Barrick is poorly regarded when it comes to deep level mining so Kloof could be a tricky proposition – unless Placer Dome [PDG] just happened to lend its SA operational experience in a joint venture at the mine. The Free State assets would probably be sacrificed to a black empowerment operation, along with mothballed Libanon.

There has been considerable speculation that Barrick wants to participate in Geita, but AngloGold has no intention of surrendering its share given its contribution to operational diversity. However, control of Gold Field's Ghana assets could spur Barrick to take out Ashanti [ASL] thereby getting a half share in Geita. The problem is Ashanti's increasingly toxic hedge book.

Wild card

The wilder card is a mega merger of Barrick, AngloGold and Gold Fields. The combined group would leap into focus for large cap institutional investors with a value exceeding $20 billion and double the production of nearest rival Newmont. If you're the betting sort, a merger probably has better odds.

It would have unrivalled diversity, but most importantly would dominate SA's deep reserves which are gaining in importance given the depletion of shallow ore bodies and paucity of new discoveries. Operationally, the mix would be excellent with Barrick's scrape and load skills complementing Anglo-Fields blast and haul expertise.

From a cost point of view, there can be no question that combining rather than divvying up will be vastly cheaper. Head office cuts would be painful, but hugely profitable in the long run. Likewise, the SA government would surely be amenable to a dual-listed structure along the lines of BHP Billiton. It's the sort of Fortune 500 publicity that any emerging market would crave.

The Franco factor

Uppermost in the mind of Gold Fields's stalker is the Franco-Nevada debacle. The SA government never provided a formal reason for blocking the proposed merger and transfer of Gold Fields's primary listing to Toronto. Indeed, there is a good deal of bitterness about the discourteousness of the whole affair.

The most obvious reason was nervousness about SA gold assets falling into foreign hands. With hindsight the finance ministry now looks exceptionally smart for preventing an opportunistic deal. At $3.7 billion, the proposed deal valued Gold Fields at half the price it had ascribed itself a year earlier. Today it carries a price tag of $6 billion, still way off internal valuations given the higher gold price, but which would go a long way to boosting SA's beleaguered capital account if any deal eventuates.

Another, less quoted, reason for the stymie is that Finance boss Trevor Manuel took exception to a letter penned by financier-philanthropist George Soros praising Franco's deal to President Mbeki. Manuel is said to have been peeved at the attempt to bypass him and the patronising tone of the letter. ❑

Gold

Faltering US equals boon for bullion

By Stewart Bailey

JOHANNESBURG – Gold seems to be continuing its bull run, with investors feeding on negative US economic data and a weakening dollar.

The Japanese government's removal of deposit guarantees, political unrest in the Middle East, rising oil prices, producer hedge buybacks and a looming decrease in new mine supply have all been touted as reasons behind the latest sustained run in the gold price, but the metal's latest growth spurt has been aided by the weak US currency, which has finally started to show signs of weakness as the spin put on a recovery in the world's largest economy starts to fade.

Chris Hart, a senior economist at ABSA Bank in Johannesburg, paints a bleak picture for the US, a far cry from the market's jubilant forecasts of a turnaround in the first quarter. "The US GDP growth figures (5.8 percent) were a bit of a charade; 3.7 percent of it was on increased defence spending and 1.5 percent from credit extension," said Hart.

At the heart of the US economy's malaise is the country's massive current account deficit, which is running at about 4 percent of gross domestic product. Looking closer to home, a relatively small 1.5 percent deficit in the South African current account in 1988 caused a slide in the rand which the currency is still struggling to recover from.

Hart says the US deficit costs the government $1.5 billion a day to finance; this shortfall is made up from foreign capital inflows into the US. But Hart says the capital is already being diverted from the US, evidenced by current strength in the Johannesburg stock market, the rand and a long list of Asian currencies. With the volumes of capital inflows required to fund the trade shortfall, Hart says only small percentage changes to the inflows will create further dollar weakness.

He says the US economy is currently absorbing 70 percent of the rest of the world's savings. "This poses some serious systemic questions. And if this trend continues, the US deficit could go to 6 percent of GDP over the next year or two. That will simply put more pressure on the dollar," said Hart. The greenback's benchmark price of around €0.92 is also forecast to change significantly over the next year; Greg Potter, a senior trader at Johannesburg bank BoE, says the Euro could strengthen to €0.95 by year-end, while Hart reckons the dollar and its rival European currency could reach parity in the same period.

But it is not only the trade account which has the alarm bells ringing for professional and retail investors alike. US tax receipts are down, unemployment is up to its highest level in nine years and promised higher corporate profits have failed to materialise.

An eloquent example of investor disenchantment with the US equity market can be found in the performance of the Nasdaq this year to date, where the index has shed 17.3 percent. The New York stock exchange's composite index has fallen from its heady levels of above 5,000 points in March 2000 to current levels of around 1617. Investors have lost their shirts and many are joining the queues of Japanese investors looking for a safe home for their cash. The answer, for at least some of them, is gold; and given the sheer volumes of cash out there, there could still be considerable upside for the metal.

"My personal view is that this run still has a way to go. My feeling is that there is at least a year or two of a sustained price to come," said Hart. ❑

Gold

Kamikaze economy to send gold soaring

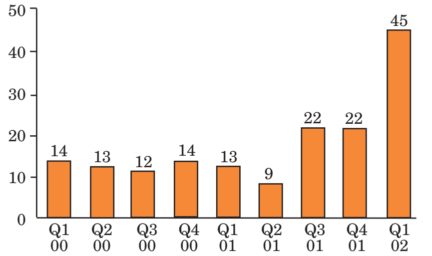
By Stewart Bailey and Peter Gonnella

MELBOURNE – Japanese investors facing financial ruin are expected to switch a portion of their $11 trillion in savings to bullion in coming months in a move which could trigger an unprecedented run in gold demand. The World Gold Council is forecasting the possibility of a large-scale systemic collapse of the Japanese banking system and the decimation of the country's currency; only a 0.1 percent conversion of cash to gold would drum up demand for 200 tons of bullion.

Since the middle of last year, Japanese demand has rocketed by some 500 percent, from 9 tons in the June quarter to 45 tons in the three months ended March.

World Gold Council regional director of Japan and South Korea Itsuo Toshima says the trend is likely to accelerate between now and April next year.

Gold off-take (Tonnes)



The reasons for the flight into gold bullion are well documented. At the nub of the demand increase is the government's decision to remove guarantees on bank deposits, given the mounting impending debt defaults and the potential meltdown of the country's banking system. In tandem with the systemic crisis, major corporate and government bond defaults have burnt investors; the Mycal Supermarket Group bond and the Argentinian Samurai bond defaults cost Japanese investors about $2.5 billion in each case.

Then came the Enron collapse, which effectively sunk the country's Money Management Fund after it sparked the withdrawal of $60 billion by skittish depositors. What has been left behind is a nation devoid of confidence in its banks and its government's ability to ensure the security of its wealth.

Bleak future

Toshima paints a bleak picture of the economic future of Japan. He says the flight out of gold to equities at the end of the last quarter – when the Japanese government banned short selling of stocks and a raft of bullish economic data flowed from the US – offered an unsustainable respite for investors.

Funds and individuals were induced to sell the gold they had bought at the beginning of the year and picked up equities because the state ban on shorting stocks virtually guaranteed a buoyant share market, while bullish sentiment of a US recovery pushed exporters' shares higher.

"It was a temporary and false sense of relief for individual investors," said Toshima. The structural defects, meanwhile, have worsened.

What's in it for gold?

State bank deposit protection has been weakened and will disappear altogether in April next year. The government's debt position is a staggering 130 percent of GDP at ¥660 trillion ($5 trillion). Toshima says the only way the state can avoid defaulting is to launch a new bond issue to refinance the debt.

"The ministry of finance aims to tap individual assets totalling ¥1,420 trillion, through a 'buy JGB' [Japanese government bond] campaign," says Toshima. "There is lukewarm sentiment, it is not a good sign when the government employs an actress to advertise a bond issue."

And here is the rub: it is this bond issue which could tip the economy into the abyss. Japan's top commercial banks hold overweight positions in the bonds, given the lack of "credible borrowers" to which it has access in its home market.

Toshima says failure by the government to refinance the maturing debt, which could cause a default on existing bonds, could result in an outright collapse in the banking system.

Now consider this. The well-known Japanese proclivity for saving saw a total of ¥1,418 in invested assets as at the end of December 31 2001, with about ¥1,018 trillion of that amount sitting in normal and term deposits.

Once investors no longer have the comfort of knowing the government will bail them out if banks go belly up, commentators expect wholesale liquidation of deposits. When "weaker banks" were ordered to go bust in January and February, while their depositors were still covered, gold offtake peaked, with the WGC registering consumption of 45 tons in the first quarter alone.

Toshima said while the 20 percent stock market boom of March provided temporary respite, he says worse is still to come. "The problems are deeply rooted in the structure of the economy, and unfortunately there is more grief ahead," he said.

Psychological warfare

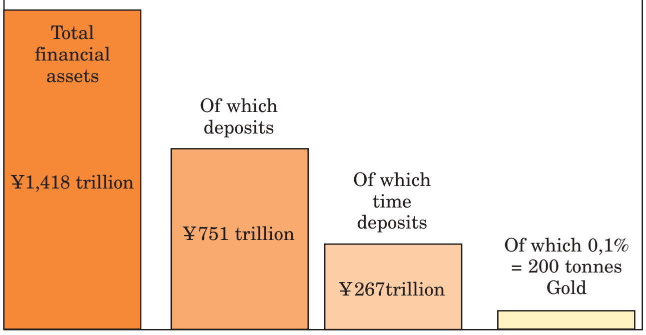
Meanwhile, as the economy faces its Waterloo, the WGC has been promoting gold as a safe investment class. Investors have been rising to the bait, which has been cast throughout the country's top media. Toshima says he gave 67 press interviews in the first quarter alone.

The anecdotal evidence of a massive rise in gold demand at grassroots level is overwhelming, indeed. He talks of a seminar where speakers sketched the structural deficiencies of the economy to a mere 150 private investors and pointed the frightened crowd to gold's safe haven status. At the conclusion of the meeting, Tamaya, a gold retailer in the Tanaka group, sold more than 1,000 gold coins and "several" kilogram bars of gold to delegates. The WGC's message is clearly working.

While the government still has a chance to pull the economy back from the brink by raising consumption tax by 400 percent, by generating 7 percent GDP growth or by stimulating reinflation, there is bound to be fallout over the next year. Toshima predicts gold demand will rise substantially around June and September this year as banks report their financial results and investors see the extent of the rot in their balance sheets.

If only 0.1 percent of Japan's term deposits of ¥267 trillion are used to buy gold – not an unrealistic figure according to Toshima – it will create demand for 200 tons of gold. The effect on the gold price could be staggering. ❑

Total Financial Assets Held by Japanese Individual Investors



Gold

Gold conspiracy case dismissed

By Tim Wood

PRINCETON, NJ — Reg Howe's audacious case against the "gold cabal" has been dismissed in Federal Court before it could proceed to the all-important discovery stage which had everyone licking their chops about what might be revealed in individual depositions.

The nub of Boston District Judge Reginald Lindsay's ruling was that Howe is an "inappropriate plaintiff". It is an ironic conclusion given that justice is supposedly blind to status and means; but never let hope get in the way of cynicism.

An unintended consequence of the dismissal is that it will embolden Treasury and Fed officials to invoke sovereign immunity when they "manage markets". This will be especially critical as the central bankers move toward running national reserves as fully fledged commercial portfolios.

If you are a conspiracist, you will take solace in the fact that Howe lost on shameless technicalities. If you have no care for the gold cabal, then you will delight in the fact that the defendants did not even bother themselves with the accusations, but zeroed in on Howe's "lack of standing". Yes, law always triumphs over justice.

The Judge agreed with the defendants that Howe could only claim injury if he dealt directly in the gold market. Being a shareholder is not good enough, being a share issuer (such as a gold producer) is, though.

Simply put, the Judge thinks Howe is being privately melodramatic in the absence of support from gold mining companies: "…there are many participants in the gold and gold derivatives markets who could allege a more direct injury than does the plaintiff. For example, there are many gold mining companies and private investors in gold (not to mention those central banks with gold reserves) that the plaintiff does not allege to be involved in the conspiracy. All of these persons or entities would be more directly injured than the plaintiff by a scheme of the kind he alleges."

Judge Lindsay dismissed the attempt to sue government officials in their individual capacities, citing a clutch of previous circuit court rulings. The implication is that government officials can be certain that virtually any decision of theirs is going to be backed up in court with taxpayer funds. It is a powerful disincentive for future lawsuits since it confirms that the government itself must be sued. As Microsoft discovered, the US Department of Justice spares no expense once it embarks on a crusade.

Is it any wonder that power inevitably accumulates in a central government when it is afforded such legal latitude (and can sweep away any offensive challenge at a penstroke)? You're on strike before you leave the dugout.

Judge Lindsay had sympathy with the defendants, based on clauses in the United States Code, that Federal Reserve officials and the Secretary of the Treasury are fully entitled to trade in gold. Howe would have had a mountain to climb to prove that such trade was wrongful, assuming he could prove beyond all doubt that it even took place.

"This [qualified executive] immunity shields "government officials performing discretionary functions ... from liability for civil damages insofar as their conduct does not violate clearly established statutory or constitutional rights of which a reasonable person would have known." Government officials are held to a low standard; they must merely assert that they "believe their actions lawful" for it to be so.

The rest of the judgment is taken up with the details of the allegations against the Bank for International Settlements, which were also rejected.

With Howe's case dead in the water, Gata's profile is likely to founder. It has already turned its back on the American media after failing to secure mainstream coverage, and has alienated the corporations that hold the key to taking over Howe's case.

Gata critics have also been handed a huge club with which to beat conspiracists about the ears with. The organisation's most passionate supporters have been eagerly spreading the message that Howe's case would "blow the lid off the gold conspiracy" and send the price of gold soaring. It is a harsh anti-climax and Gata must restrain its supporters from resorting to the cheapest and easiest trick – accusing the judge of being a party to the conspiracy. ❑

Gold

Harmony, Gold Fields close out hedges

By David McKay

JOHANNESBURG — Harmony Gold [HGMCY] has closed the hedge book inherited from its acquisition of Randfontein Estates from JCI Gold in 2000 at a net cost of $11 million. "The closure of the Randfontein hedge book is a continuation of Harmony's strategy of being unhedged. We believe our shareholders want the exposure of a potential increase in the gold price," financial director Frank Abbott said.

Harmony said that the remaining forward sales contracts and call options totalling about 490,000 ounces have been closed. Owing to the higher gold price, Harmony also closed a further 220,000 ounces of forward purchases. In total, about 2.7 million ounces were closed out in the Randfontein hedge book, but a further 120,000 ounces of forward calls (longs) still remained which, Abbott said, would be closed out opportunistically as the gold price trends upwards. In total, there were about 430,000 ounces of calls inherited in the Randfontein hedge book.

The closure of the hedge book resulted in a net cost after tax of $11 million (R125 million), which was financed from existing cash resources. “The closure cost of the hedge book will, however, not have an impact on the company’s financial results, as these had been accounted for previously,” the company said. Abbott said the company had been highly cash-generative in the March quarter. Harmony closed the December quarter with net cash of R1.2 billion.

Harmony is not yet entirely hedge-free, however, owing to hedge books it owns from its recent acquisitions of New Hampton and Hill 50, two Australian gold producers. Abbott said there was about 1 million ounces of forwards and calls in the Hill 50 hedge book, and a further 500,000 ounces, again of forwards and calls, in the New Hampton hedge book. “The company will continue restructuring the hedge books of our Australian acquisitions, New Hampton and Hill 50, as and when market conditions allow,” Abbott said.

This follows a spate of hedge closures by South African producers. AngloGold said in a Bloomberg report recently that it was continuing shutting down parts of its hedge book. Gold Fields told Miningweb in March that it had only half its book to close after closing out 230,000 ounces of forward contracts from Obosso, the company that owns Damang, a Ghanaian gold mine.

At the time, financial director Nick Holland said about half of the hedge book remained in the form of put options. Gold Fields chairman Chris Thompson confirmed the company now had no hedge component at all and that it was the only gold producer truly fully exposed to the gold price: “We are completely unhedged, completely pure and loveable,” he said. ❑

Gold Quarterlies

DRD counts the cost of past hedging

By David McKay

JOHANNESBURG — Durban Roodepoort Deep [JSE:DUR] confirmed it would borrow R350 million as it strove to close out the remaining 390 000 ounces of hedged gold by June-end, the company’s self-imposed deadline. Almost as if vindicating the strategy, the gold price breezed through $308 per ounce, its highest level in 26 months.

South Africa’s unhedged gold producers are expected to benefit from an average rand gold price of R107 000 per kilogram, roughly a 19 percent improvement on the December quarter’s average spot price. The rand stabilised against the dollar mid-way through the first quarter but it was an improvement in the dollar gold price which is providing the upside.

Durban Roodepoort Deep (DRD), however, was left mulling the sins of the past. By June the company will have delivered into 805 000 ounces of gold sold forward not including a number of so-called ‘longs’, derivative contracts in which the company effectively bets on a higher gold price. All of the book deliveries cost the company’s shareholders money. For the remaining slice of hedged gold to which DRD is still obliged, shareholders will wave goodbye to $69 million (R750 million) which should have accrued to the bottom line. This is the value of the negative mark-to-market of DRD’s extant hedge book at quarter’s average gold price.

Of this, $32 million (R350 million) will be paid with the loan raised through Standard Merchant & Corporate Bank. The remainder will be financed through cash flow and a once-off capital inflow of about R200 million representing the sale of part of the company’s dump retreatment operation, Crown, to black empowerment company, Khumo Bathong.

DRD chief executive and chairman, Mark Wellesley-Wood, said raising the loan was necessary to meet the company’s promise to shareholders. One sidelight consequence was that is showed the company was clawing back market credibility: the banks would not have loaned this money before because there were fears over the liquidity of DRD. Financial director, Ian Murray said the company was now in a position to raise $65 million (R700 million) on its balance sheet without seriously affecting the company’s financial ratios. Gearing currently stood at about 14 percent.

A world without hedging

Had DRD been unhedged, it would have reported a net dollar cash operating profit of just under $25 million against actual March quarter figures of about $2 million, Wellesley-Wood mused. Share earnings in dollar terms would have been roughly a positive 2 cents a share compared to the reported loss in earnings.

As it happened, DRD reported a one-third decline in operating cash profit to $11 million (R116

Durban Roodepoort Deep Hedge Book June ’01/June ’02

Time Period	Shorts (oz)	Cost	Longs (oz)	Cost	Hedge Book
30 Jun 01					805 000
September Q	120 000	R 37m	70 000	R38m	685 000
December Q	120 000	R123m	71 000	R45m	565 000
March Q	175 000	R274m			390 000
June Q	390 000	R750m			0.00
Total	**865 000**	**R984m**	**141 000**	**R83m**	**Unhedged**

million) largely owing to hedge book repayments. But there were also production problems at the company's North West operations where seismicity, a long-term liability at the Hartebeestfontein mine, resulted in lower gold production. The reopening of older sections of existing gold mines, in part influenced by the higher gold price which is making these sections more economic, also resulted in higher costs. The outcome was that DRD slid into a loss for the March quarter reporting negative 0.3 cents a share compared to 3.7 cents in the December period.

Murray, said earnings in the June quarter would similarly be cramped by the hedge book obligations. Cash flow of about R200 million will be needed although he warned all available cash flow would be pumped into the hedge book. This means DRD shareholders ought to downgrade earnings expectations until the September quarter when the company is fully exposed to the gold price. ❑

Gold Quarterlies

Harmony sticks to tightwad approach

By Stewart Bailey

JOHANNESBURG – A typically self-effacing Harmony Gold [JSE:HAR] wasted little time back slapping, despite posting an 87 percent increase in earnings and a marginal, but no less impressive drop in dollar-costs. Instead, chief executive Bernard Swanepoel sounded a cautionary note to investors, warning that the group's entry into the "super-profit" league brought with it the risk that operational management would relax their vigilance on costs.

The company managed an 11 percent drop in cash operating costs for the quarter in dollar terms ($176/oz compared to $198/oz in the December quarter), although the rand figure climbed 2.4 percent. Working costs dropped by R37.4 million, or 3 percent. "This is now a seriously profitable industry and we intend to keep profitable by maintaining our margins through a focus on costs," said Swanepoel.

The message is one analysts were keen to hear. The rise in Harmony's cash operating profit to $73 million ($45 million) had largely been factored into the company's share price and analysts were keen to determine how management planned to keep a lid on production costs. Harmony's revenue line has reaped the benefits of the plummeting rand, but spiralling producer inflation of 14 percent has been singled out as the biggest threat to the company maintaining the current margins of between 30 percent and 50 percent from its main production centres in South Africa.

Swanepoel maintains that the producer inflation figures do not necessarily translate into similar cost increases at Harmony. In fact, he says the group has extracted R37 million in savings this year and still has more fat to trim. South African producers have made much of the fact that they import little capital equipment, which largely negates the impact of the flailing rand, but Swanepoel acknowledges that some of the group's suppliers have attempted to post what he calls "opportunistic" price increases. But he says Harmony is having none of it.

Labour pains

"Our problem is not organised labour, but the remaining uncompetitive industry in South Africa," says Swanepoel.

South African gold producers are still hugely dependent on a good relationship with their workforce given that the wage bill still accounts for about 50 percent of costs.

Dismissive as Swanepoel may be of the current threat posed by organised labour, Harmony and its South African peers will be mindful of the fact that labour will be recording the string of profit increases being posted by their employers.

The wage agreement reached midway through last year has a little more than a year to run and Swanepoel says persistent speculation that the National Union of Mineworkers will renege in their agreement and demand an interim wage hike is unfounded. "The wage agreement is sound and in place and there is no doubt NUM will respect that agreement," said Swanepoel.

"But next year (wage agreements) will depend on where inflation is. If inflation is out of hand then demands will be out of hand. There is no doubt that in 12 months there are going to be some fun negotiations and the challenge will be to negotiate a deal that does not do long term harm to the industry," says Swanepoel.

All things being equal, though, in terms of the dollar gold price and the rand-dollar exchange rate, labour may not be in an altruistic mood next year when the traditionally militant negotiations get underway. Union leadership will probably feel hard done by after agreeing to a two-year wage deal only months before the local gold industry was catapulted into a new league by stronger gold price and a weaker rand. Their demands are likely to fairly onerous. ❑

Harmony [JSE:HAR]

Issued: 145.1-m **Last price:** *(ZARc)*:14700 | **M. cap** *(R)*: 31.8bn

Production Figures	**Mar 02**	**Dec 01**	**1/1%**
Production (m/ounces)	673.000	594.000	13.3%
Grade (g/t)	3.5	3.72	4%
Price received ($/oz)	286	274	3.0%
Cash costs ($/oz)	176	198	-11.1%
Operating profit ($m)	74.0	45.0	64.4%
Financial Figures	**Jun 01**	**Mar 01**	**q/q%**
Net profit ($m)	53.3	29.9	78.3%
Headline eps (ZARc)	386.0	206.0	31.5%

Gold Quarterlies

Gold Fields breezes to world summit

By Stewart Bailey

JOHANNESBURG – South African gold has regained its position as the world's premier producer of gold after spending years juggling the twin perils of spiralling costs and decreasing orebodies. This was after producer, Gold Fields, affirmed it was the world's most profitable gold producer reporting yesterday a record two-thirds increase in net earnings for the March quarter.

Echoes of Gold Fields' performance were seen in the earnings of Harmony Gold, a company whose market capitalisation has more than tripled in the last 12 months. It reported an 88 percent increase in earnings earlier this week and yesterday said it was raised $112 million in an offshore share placement. Commercial director, Ferdi Dippenaar, said the appetite for South African gold was growing daily with a number of non-gold funds, formerly invested in tech stocks, showing a fresh interest in local gold stocks.

Ironically, South African gold producers have the performance of the gold price to thank for their new-found prosperity. The spot price of gold fell from about $400 per ounce in 1996 to a nadir of $252 per ounce last year – a depreciation which forced South African gold producers to drastically cut costs. This included innovative wage/productivity agreements with unions.

Gold Fields

Gold Fields' executives had reason to smile at the presentation of the group's results for the March quarter, as the triple-whammy of new acquisitions, the declining rand and a strong gold market combined to make it the world's most profitable gold producer.

The company's rand-denominated net earnings for the quarter climbed an impressive 64% to R1.049bn, equating to 224c a share (from 139c a share in the December quarter). Although dogmatically opposed to hedging gold, Gold Fields' Australian-dollar and rand hedges added R177m in "unrealised gains" to earnings.

The earnings figure eclipses the profitability of local rival AngloGold for the first time and more importantly, that of the company's larger, higher-rated North American peer Barrick. World number one producer Newmont, which has yet to report its quarterly earnings figures, is also expected to trail Gold Fields.

The rand averaged 14% lower during the quarter from R10.12 to R11.53 to the dollar, while the average gold price received climbed quarter on quarter from $279/oz to $291/oz. In rand terms, though, the price increase was more dramatic, with the company's gold fetching R107,732/kg compared to R91,627/kg in the December quarter.

Analysts expect the massive quarter on quarter earnings growth to slow during the balance of the year, as the rand retraces some of last year's losses to the dollar. The recent strength in the dollar price of gold has, however, mitigated the resultant fall in the rand-price of gold.

The earnings growth during the quarter was matched by a massive re-rating in the share, which ranged between R54.10 and R124.40 during the three months to March. Operational performance aside, the equity also benefited from an insatiable appetite among North American and European investors for unhedged gold shares, outperforming its rivals on both the South Africa and on the New York exchanges.

Financial director Nick Holland, said at current prices, the group would churn out R400m in free cash each month. In the absence of new acquisitions or large-scale capital programmes at its South African operations, Gold Fields' will be amassing cash at a prodigious rate. Although there are some plans afoot to investigate the viability of developing some of the group's previously-shelved projects on the Witwatersrand, one analyst questioned whether the higher profits would lead to a change in the group's dividend policy.

Chairman Chris Thompson said while the current policy was to keep a two-times earnings cover on dividends, the strategy was not cast in stone. "If there is a new opportunity to invest we will reduce (the dividend payout) and if we have more cash than we need we'll increase it," he said, adding that no decision would be made until the board meeting later in the year.

Gold Fields' earnings growth was aided by the first time addition of new ounces from the recently acquired Damang (Ghana) and WMC Gold assets (Australia). The group produced 1.081m ounces, an increase in 10% over the December quarter.

The company's costs increased by R392m (22%). Thompson, in his last address to shareholders as the group executive chairman – he will continue as non-executive chairman from July – said R120m of the cost increase was attributable to Damang's inclusion in the operational results and R229m to the inclusion of the Australian operations. The balance was chalked up to a disappointing performance by the group's Kloof division. Overall, costs at the group's South African operations rose 2%. ❑

Gold Fields [JSE:GFI]

Issued: 470-m-m **Last price:** *(ZARc)*:12680 | **M. cap** *(R)*: 59.5bn

Production Figures	**Mar 02**	**Dec 01**	**1/1%**
Production (m/ounces)	1.081	0.984	9.9%
Grade (g/t)	3.6	3.80	4%
Price received ($/oz)	291	279	3.0%
Cash costs ($/oz)	160	169	-5.3%
Operating profit ($m)	148.5	109.6	35.5%
Financial Figures	**Mar 02**	**Dec 01**	**q/q%**
Net profit ($m)	98.8	65.2	51.5%
Headline eps (ZARc)	21.0	15.0	31.5%

Gold

Gold on edge of 'new era' – GFMS

By David McKay

JOHANNESBURG – Gold Fields Mineral Services (GFMS) has been notoriously bearish on the gold price in the past so there could be grounds for some excitement following the suggestion by the UK-based consultancy, in its 2002 Gold Survey, that gold could be heading for a "new era". GFMS said its new-found optimism translated into a trading band forecast for gold of $285-$315 per ounce over the next year. GFMS analyst Paul Walker added the caveat, however, that investor re-investment in gold was needed to keep the upwards momentum.

GFMS said the crux of gold's recovery, which culminated in the metal bursting through the $300 per ounce barrier, was the net decline in producer hedging. This was, in turn, influenced by the less favourable contango, corporate activity and expectations of higher prices. These factors would probably keep hedging down and keep shorts out the market in the future, Walker said. Producer hedging declined for a second consecutive year generating 147 tons of physical demand with the fall most pronounced in the fourth quarter, GFMS said.

The other important factor was the swing to reinvestment among gold investors. Total world reinvestment by gold investors was 235 tons in 2001, compared to disinvestment of 26 tons in 2000 (and a positive 558 tons in 1999). "Let's call this a bull market, although a modest one at the moment," Walker said. Implied net disinvestment fell dramatically to just 53 tons last year, owing to a sharp decline in physical sales by private investors in Europe and North America.

Mine production, jewellery demand recovery, a further decline in producer hedging (and continued unattractiveness of the contango), the return of Japanese investors, and global and economic insecurity would predicate the future of the gold price in 2002/03. Walker said there was, as yet, little sign of large-scale fund or private-sector buying in gold, but for the first time in at least seven years a virtuous cycle had been created in the gold market.

"It wouldn't require a substantial change in the supply/demand equation to push gold up to $315 per ounce as long as the world's gross domestic product (led by the US) continued to recover and the contango remained low," he said. A substantial crisis in Japan, whose banks are teetering on collapse, would be a significant development. Miningweb reported from the Australian Gold Conference recently that a mere 0.1 percent investment of Japan's personal savings of $11 trillion would drum up 200 tons to gold demand.

Mine supply not slowing

GFMS warns, however, that there is no signal yet that newly mined gold supply will fall in the foreseeable future; in fact, it had increased in countries considered non-traditional producers of gold. Overall, global mine supply is just less than 1 percent higher year-on-year in 2001, to about 2, 604 tons.

Moreover, gold producers are proving more adapt at surviving the lower gold price ranges with weighted average cash costs down $11 per ounce to $176 per ounce in 2001 compared to 2000. Roughly 85 percent of the world's gold producers covered in the GFMS research show that total costs are below $270 per ounce. This means there's less chance of gold producers cutting back on further gold production although there has been a gold output decline in South Africa, Australia and North America.

Walker adds, however, that there's doubt how sustainable continued higher gold production will be year-on-year, amid a cut-back in exploration budgets by the world's leading gold producers and the tendency towards high-grading – a mining technique which helps mines weather a reduction in margins but accelerates the depletion of ore bodies. Walker expects a modest increase in gold production in 2002 of about 0.8 percent

Walker said official gold supply – selling by central banks – was expected to remain stable this year. Net official sector sales last year increased 3 percent to 504 tons. There was a decline in official lending, the first drop recorded since 1993, by 164 tons. This was largely owing to the continued effects of the Washington Agreement, which has limited the amount of gold that can be annually dishoarded by central banks. The agreement is up for renewal in 2005. ❑

Base Metals

Anglo set on base metals revival

By Ken Gooding

JOHANNESBURG – AngloGold may have slipped from its perch as the world's largest gold producer this quarter, but the group has settled comfortably into its position as the lowest-cost producer among the world's majors – in dollar terms, that is. The group lowered cash costs at its current operations to $151/oz from $159/oz in the December quarter, a move which chairman Bobby Godsell said made it the lowest cost gold major in the world.

"And we have some of the most competitive total costs in the world," said Godsell. According to numbers released by the group, total costs for the quarter came in at $188/oz compared to $193/oz in the December quarter, giving the group a net margin for the quarter of $100/oz.

Much of the gains reported by the group over the quarter stemmed from weak currencies in the bulk of its operating regions, particularly in South Africa and South America.

The "deep level, high cost" label automatically applied to South African gold mines was emphatically debunked by the group's operating results, which saw the ultra-deep Great Noligwa mine report cash costs of only $100/oz and total costs marginally higher at $109/oz for the mine's 233,000 production ounces for the quarter.

The Tau Tona mine on the West Wits line produced 159,000 ounces for the quarter at cash costs of $121/oz and total costs of 129/oz.

Hold the applause

But South African-based analysts in particular are holding their applause. While the dollar-cost scenario is impressive, the rapid depreciation of the rand toward the end of last year has masked a rise in rand denominated costs. One senior Johannesburg-based gold analyst says AngloGold's most pressing need is to bring the rand-based costs back in line before the local currency regains more of the ground it lost to the dollar last year.

Among the worst culprits was the group's Mponeng mine on the Witwatersrand, which saw a 12 percent rise in costs to R63,200/kg. The benefit of the falling rand was clear, given the dollar-based cash cost figure dropped just over one percent. The Great Noligwa mine saw cash costs spiral by 19 percent in rand terms, while they rose only 3 percent in dollar terms.

AngloGold ascribed much of the loss to the annual Christmas work stoppage, which sees its mines close for 10 days over December and January. The resultant restart and ramp-up to full capacity knocks the production figures of most South African miners, with the knock-on effect evident in their unit costs. The group's executives pledged to make up the lost ground through the balance of the year, although it will struggle given the mounting pressure from South Africa's 14 percent producer inflation.

Apples with apples

In dollar terms, though, the South African region's cash costs averaged $136/oz, behind $125 for South America and $127/oz for the rest of Africa. Australia managed costs of $196/oz and the laggard in the pack, North America, hampered by freezing winter conditions, registered an 8 percent rise in costs to $254/oz. It is the only of AngloGold's regions which has total costs above spot at $362/oz.

More than one senior gold analyst in Johannesburg said the North American operations were becoming a liability for AngloGold. They said the Jerritt Canyon and Cripple Creek mines – although small in the context of AngloGold's total production profile, producing less than 7 percent of the group's gold for the quarter – nonetheless sap management time and focus.

AngloGold says in its commentary on the results that the $195 million capital expansion at Cripple Creek, which will lift production 40 percent and extend the life of mine by five years to 2013, will lower average life of mine costs at the operation to $176/oz, from $227/oz. Construction will be completed in the third quarter and the group expects higher volumes to start coming through by the December quarter. ❑

AngloGold [JSE:ANG]

Production Figures	Mar 02	Dec 01	q/q%
Production (m/ounces)	1.377	1.719	-19.9%
Grade (g/t)	8.6	8.15	4%
Price received ($/oz)	287	279	3.0%
Cash costs ($/oz)	151	193	-21.8%
Operating profit ($m)	147.0	151.0	-2.6%
Financial Figures	**Mar 02**	**Dec 01**	**q/q%**
Net profit ($m)	71.0	86.0	-17.4%
Headline eps (ZARc)	969.0	906.0	31.5%

Platinum Group Metals

Platinum saved by golden parachute

By Stewart Bailey

JOHANNESBURG – Analysts are expecting platinum prices to fall in coming weeks as the demand-supply fundamentals of the market change course. Ironically, the Commitment of Traders Report (6 May) which showed the highest long position since January last year of 173,000 ounces, is one of the factors causing the prevailing bearish sentiment in the market.

The artificially pumped up US economy, which appears less and less likely to meet the turnaround forecasts of earlier this year, will undoubtedly put the skids under any resurgence in platinum demand from vehicle manufacturers and electronic goods manufacturers.

But, in the meantime, the lower than anticipated demand from the automotive sector has been offset by stronger than expected jewellery demand from China and continued platinum de-stocking in Japan. Rob Edwards, precious metals analyst at HSBC in Johannesburg, says Chinese jewellery demand in the first quarter of the year was "phenomenal" and points to demand of at least 1.6 million ounces for the year. "China has been a great golden parachute for the platinum market," says Edwards.

But, nonetheless, a correction is on the cards as the realities of the poor short-term demand fundamentals from the industrial sector of the market become apparent. And, as the inevitable flow of Russian supply into the market starts up – from sometime this month until July – long liquidation is expected to force the price lower.

A note released by UBS Warburg precious metals analyst John Reade suggests the platinum longs have already begun their retreat, with 40,000 ounces liquidated subsequent to the release of the COTR report. "[H]owever, in light of the lack of selling seen at the fixing over the past few days, we believe that platinum could stabilise at around the current levels," said Reade.

The South African platinum analysts are less sanguine about the short-term prospects for the metal. HSBC has forecast an average price of $491/oz for the year, indicating an average price of $521 for the first half and $460/oz for the second half. Deutsche Bank is not far off, predicting a $497/oz average for the year. Both banks' forecasts suggest the current price of around $525/oz will fall off fairly sharply in coming months as the doomsday story driving the gold price gains more credence and, by implication, any hopes of a buoyant economic picture slip further away; the platinum price is likely go with it.

But despite the imminent downward move in the platinum price, the long-term fundamentals are far from bleak. Edwards says large automotive manufacturers are currently negotiating an increase in their allotments from platinum producers for 2003, in anticipation of higher vehicle sales from next year. He says, however, the vehicle manufacturers are reticent to lock in the current prices.

Stocks

Both metal prices and the rand are moving against platinum producers, but analysts are not expecting the stock prices of the South African platinum producers to be down-rated. "They are probably trading toward their peak valuations at the moment. There has been a change in the way platinum stocks are valued relative to the period of heavy growth over the past four years," says Edwards.

Another analyst at a major Johannesburg-based bank says the long-term valuations of the platinum shares are still intact, with much of the future value tied in to the prospect of corporate activity in the sector. Anglo American has been touted as the likely candidate to take out minorities in its vassal Anglo Platinum and the unbundling later this year of Gencor, the company which holds more than 50 percent of Impala Platinum, has also put the world's number two platinum producer in play.

Johan van der Merwe, the new chief executive of Sanlam Asset Management, one of South Africa's largest fund managers, says platinum shares are still near the top of his shopping list

"One can make out a more fundamental case for platinum, because platinum has better uses than gold and there's also much less platinum in the vaults of central banks than gold. If you stop mining gold today, you still have enough gold for the next 16 years to satisfy the demand, whereas platinum has got much better demand/supply fundamentals," says van der Merwe. ❑

Platinum Group Metals

Platinum price spurs AngloPlat

By David McKay

JOHANNESBURG – Anglo Platinum [JSE:AMS], the world's largest platinum producer, is tipped to benefit from higher than forecast platinum prices this year – an expectation that is leading analysts to lift their target prices for the company's share. One consequence is that Anglo American, which has been building its stake in Anglo Platinum, may consider further share purchases too expensive. Anglo owns, directly and indirectly, almost 60 percent of AngloPlat.

"AngloPlat is a high quality business and is the crown in Anglo American plc's portfolio. We believe that Anglo wants to own more of the platinum business and is likely to achieve this through buying AngloPlat's share in the market and, ultimately, by way of an offer to minorities," Deutsche Bank said in a recent report. "From current levels we think it unlikely that Anglo would make an offer to AngloPlat's minorities," it said.

Deutsche Bank said it was possible Anglo Platinum could report a 10 percent increase in share earnings this financial year and another 13 percent increase in 2003. It has set a 12 month price target of R567 a share for Anglo Platinum.

UBS Warburg has lifted its target price for Anglo Platinum as well as Impala Platinum [JSE:IMP], the world's second largest platinum producer. According to a Reuters report, UBS has upped its target price to R520 a share from R480 a share for Anglo Platinum, but has maintained its 'hold' rating on the company. Impala has been given a price target of R685 from its previous target of R600 per share.

The bullishness of UBS Warburg is also based on higher platinum price forecasts. Platinum is now forecast at above $500 per ounce from a previous sub-$500 per ounce level. HSBC has taken a similar view believing platinum will trade around $491 per ounce from $450 per ounce. In 2003, platinum is expected to trade up to $550 from $500 per ounce.

What's changed in the platinum market? Jeremy Coombes, a director for UK-based platinum marketer and semi-fabricator, Johnson Matthey, said that the surge in optimism was largely sentiment driven. "There has been no change to the underlying demand for platinum and there is still physical tightness in the market," he said. Johnson Matthey said earlier it expected a platinum price of between $400-500 per ounce based on shaky economic environment, Russian sales and the use of stockpiles by car manufacturers such as Ford. ❑

Platinum Group Metals

JCI gets day in court

By David McKay

JOHANNESBURG – A dispute over participation rights allegedly owned by Freddies, a JCI-owned company, to the $244 million platinum project, Styldrift, is heading for court after it failed to find an amicable settlement with project backer, Anglo Platinum. A JCI spokesman said the company had a good case but the matter rests on whether participation rights owned by Freddies and another company, Impala Platinum Holdings, signed 30 years ago, remain intact. Impala Platinum Holdings is not planning to join JCI in the legal proceedings, a company source said.

If successful, Freddies will win a 7.5 percent participation in Styldrift which is essentially a down-dip extension of the existing Bafokeng-Rasimone mine. Styldrift, scheduled to produce 250,000 ounces of platinum a year, makes sense for Anglo Platinum because the expansion will share some of the infrastructure already established for Bafokeng-Rasimone, a venture also slated to produce 250,000 ounces a year.

An interesting sub-plot in the dispute is that JCI can make good use of any cash it could gain from participating in Styldrift. The company is due to be folded into its holding structure, Consolidated African Mines, where debt as much as R1.3 billion exists. A 7.5 percent stake in Styldrift might technically be worth $36 million (R330 million) – so there's plenty of incentive for a protracted and expensive court battle.

The development of the dispute is typical of why South African mineral rights ownership is such a hotbed. Styldrift was originally held by Rand Mines Ltd and a trustee of the Bafokeng in a material prospecting contract signed in 1969. Rand Mines' half of the prospecting contract was ceded to Dithaba Platinum Ltd in 1972 and ultimate control of this company was passed on to Rustenburg Platinum Mines, which has since been wrapped up into Anglo Platinum. However, a participation right in any potential mining project developed from Styldrift was signed between Rand Mines and Southern Prospecting before Dithaba took control. Southern Prospecting eventually fell into the hands of JCI Ltd.

Last year, Anglo Platinum was involved in a dispute with Franco-Nevada, the Canadian mining company. Franco-Nevada maintained at the time it had been unilaterally cut off from royalties from the Pandora project, a joint venture between Anglo Platinum and Lonmin. ❑

Base Metals

Anglo backs copper in $1.3 billion deal

By David McKay and Stewart Bailey

JOHANNESBURG – Anglo American is to buy two copper mines and a smelter in Chile for $1.3 billion, a move which represents the UK-listed group's first major step in a strategy aimed at breathing fresh life into its base metals division. The strategy could also involve the sale of 'non-core' assets and other new purchases: already the company is considering a "very attractive expansion project" at its 44 percent owned Collahuasi mine in Chile.

Anglo American said it intended to take control of 252 000 tonnes of copper a year produced by two mines and a smelter held in Compañia Minera Disputada de Las Condes (CMD), a company owned by US giant, Exxon Mobil Corporation. "The acquisition of Disputada, a proven long-life, low cost, copper business, constitutes a major strategic strengthening of our base metals portfolio," Anglo chief executive, Tony Trahar said.

As a result, Anglo will maintain its position as the world's fourth largest copper producer having already decided to shed the 200 000 tonnes a year from its Zambian operations. Speaking on Miningweb sister radio show, Classic Business, Simon Thompson, chief executive of Anglo's base metals division, said: "We have a strong balance sheet which allows us to buy assets like this at the bottom of the cycle when competition is a bit more subdued," he said.

Analysts in Johannesburg believed Anglo was buying at the upper end for the asset which had been valued at about $1 billion implying a healthy premium for ExxonMobil. The US firm, known more for its oil and gas assets, also stands to benefit from upside in the copper price which recently appears to have bottomed out. In terms of this arrangement, ExxonMobil will receive 50 percent of revenues up to a total of $120 million for the next three-and-a-half years if the copper price exceeds certain levels.

For its part, Anglo hopes to derive $100 million from merging the head offices of CMD with that of Mantos Blancos, an Anglo mine producing 157 000 tonnes a year of copper. The bulk of these synergies would be realised through the combination of head office, exploration and marketing functions, as well as from procurement economies.

Thompson also said Anglo

would set out to squeeze more efficiencies from the existing CMD operations, starting with debottlenecking the Chagres smelter. This would add 10 percent to its current production level of 144 000 tonnes of copper a year. Anglo would also see through the capital projects currently underway at the Los Broncos mine, which will expand to 225 000 tonnes a year by 2004, from current levels of 183 000 tonnes a year. CMD also offers exploration potential from its 70 000 hectare property.

Anglo American's base metals division has under-performed in recent years characterised by its investment in Australia's Anaconda Nickel, a project which has chronically drained cash. The group also cancelled future investment in the Zambian copperbelt and wrote down expenditure at $350 million. In total, Anglo's base metals division reported a $510 million operating loss in the 2001 financial year including write-downs.

The intention to buy the CMD assets signals the group's commitment to the sector in a strategy which will also include buying other high quality assets. The group said in its latest annual report that it had deferred an expansion of concentrator capacity at Collahuasi which would have lifted production to 110 000 tonnes from 60 000 tonnes per day. It's likely this is Thompson's exciting expansion at Collahuasi as the copper market has revived. In tandem with this concentrator expansion, there will be a $320 million development of open-pit facilities at Collahuasi's Rosario prospect.

In 2001, CMD produced 251 900 tonnes of copper at an average operating cost of 47 US cents per pound (US c/lb). If Anglo American had owned CMD's assets in its 2001 financial year, the UK group would have had total attributable copper production of 625 000 tonnes at an average operating cash cost of below 50c/lb. According to Deutsche Bank, copper is expected to trend upwards from 74.6 c/lb in 2002 to 89c/lb in 2004. The spot price of copper is currently 72c/lb. ❑

Base Metals

Japanese could lift Anglo's iron hopes

By John Phaceas

PERTH — Speculation is mounting that Asian steelmakers could soon pledge hundreds of millions of dollars to cultivate an emerging band of Australian iron ore producers in a bid to break the stranglehold on supply currently enjoyed by global heavyweights BHP Billiton and Rio Tinto.

In particular, analysts believe the Anglo American/Kumba Resources-backed Hope Downs project in the heart of Western Australia's Pilbara region is likely to win significant Japanese backing in the form of financial assistance to proceed with standalone port and rail infrastructure, estimated to cost around A$1 billion.

Lying 75km from the mining town of Newman, Hope Downs is jointly owned by private Australian group Hancock Prospecting and the recently renamed Kumba Resources, which retains an option to move to full control. The project has assumed increasing prominence since Anglo American doubled its stake in Kumba to 20 percent and vowed to lift the company's iron ore output to over 60 million tons a year.

Containing resources estimated at about 440 million tons of ore grading almost 62 percent iron, Hope Downs is vying with BHP Billiton's big Mining Area C (MAC) project nearby to be the next supplier of so-called Marra Mamba ore to enter the market. The ore is being marketed as a high-quality blending material for steelmakers and cheaper alternative to the Brockman-style premium lump ore mined elsewhere in the Pilbara's Hamersley Ranges.

Rio Tinto is already guaranteed to be the first commercial supplier of Marra Mamba ore, with commissioning of the West Angeles project producing 129,000 tons in the March quarter. Rio, which acquired a 53 percent stake in the project through its hotly contested A$3.5 billion takeover of Robe River Iron parent North Ltd in 2000, forecasts output for West Angelas of 7 million tons next year, rising to 20 million tons within five years.

Hope Downs boasts similar estimated output levels, but development has been stalled while legal efforts are pursued to secure third party access to BHPB's proposed rail-spur linking MAC with its existing rail network. The legal stoush has forced project management to assess its base-case plan to construct standalone port and rail facilities.

Importantly, Japanese steelmakers, which offered significant support for Anglo's failed tilt at North, remain unhappy with Rio and BHPB's growing hold on Australian supplies of steelmaking materials, and have in recent months shown they are willing to invest directly in new projects or the operations of potential rivals to the major producers.

Just this month, Japan's Mitsui revived hopes it would pursue a global alliance with Anglo, first mooted during the North bid, by shutting Australia's MIM Holdings out of the carve-up of the Moura coal mine in Queensland and on-selling half to Anglo. The A$600 million deal also saw Mitsui and Anglo equalise their interests in three other Queensland coal mines.

"There's no question the Japanese are seriously looking at ways to get another major iron ore supplier off the ground in Australia," said one senior Australian analyst, who declined to be named. "If there's any way they can get Anglo into the equation, I'm sure they'll pursue it, which must make Hope Downs of interest."

Hope Downs project manager Russell Tipper said there had been no noticeable change at the project since Anglo put its foot on Kumba, which had been firmly focusing on the independent rail and port option since last December.

"We can't foresee what the outcome [of the legal challenge] will be, so really we haven't been able to pursue anything but the base-case, and are assuming we will have to put in a new line," he said. "But we have received really strong feedback during our marketing initiatives on our project and the need for a strong new producer in the market."

Importantly, Tipper said a final feasibility study should be completed in June, at which point it would be "up to the shareholders to get comfortable with the base-case scenario". ❑

Mining Finance

BHPB sounds alarm for world markets

By Barry FitzGerald

MELBOURNE – Resources giant BHP Billiton has given the markets a wake up call on the impact of continued sluggish demand and prices.

The wake up call came with the release of the diversified resources group's lower than expected March (third) quarter profit of $US406 million (US6.5 cents a share), the first in recent times not to be inflated by weakness in the rand and Aussie dollar.

While down by one-third on the previous corresponding period, the more alarming aspect of the profit report was that it was well short of market consensus for a result of about $US440 million.

Excuses from the brokers for the being on the high side with their profit estimates included an underestimation of the impact on earnings from lower coal and iron shipments and an over-estimation of the petroleum division's contribution.

The company claimed the result as a sound one in light of ``difficult" market conditions and warned that there was little evidence of a surge in demand/prices in the near term.

CEO-elect Brian Gilbertson was not exactly bullish with his comment that there had been ``some signs of a modest improvement in the global economic environment." He also pointed to concerns about the ``strength and sustainability of the recovery." Rio Tinto chief, Robert Wilson, has been equally sombre of late.

It was the sniff of a cohesive rebound in global economic activity/commodity prices that drove BHP Billiton's share price to more than $A12 a share in early February. The slide since, in the harsh reality of continued commodity weak commodity prices, has pulled the stock.

One of the brokers caught out on the high side in its profit estimate was Merrill Lynch. It was looking for a $US436 million result and has gone off to find the missing $US30 million in its estimate, as has most others.

After noting that it would now be shaving its full (June) year profit estimate, Merrills said it still retained its `strong buy" on the stock. ❑

Mining Finance

Mitsubishi brightens Rio Tinto's results

By Peter Gonnella

PERTH – Rio Tinto [ASX:RIO] has downplayed the imminence of a A$400 million pig iron project after partner Mitsubishi Corporation said it had given the venture the green light. Nonetheless, the UK-listed mining house would have appreciated the distraction amid uninspiring March quarter production results. Output from all commodities, bar coal, was lower.

According to Tokyo news sources, Mitsubishi, the Japanese trading house, confirmed construction of the "Hismelt" downstream processing plant, to be established in Western Australia, would kick off this year with a view to commercial start-up around September 2004. Mitsubishi and US-based electric furnace steelmaker, Nucor Corp, and Chinese blast furnace steelmaker, Shougang Corp, would have minority stakes in the project and Rio, the world's third-largest mining group, would be the dominant equity partner with 60 percent.

A Rio spokesperson told Miningweb Review it had not yet given the official green light to the Hismelt development south of Perth. However, he wasn't perturbed about Mitsubishi's exuberance, which suggested the all-clear was imminent, once a few final environmental and other mandatory approvals, including Foreign Investment Review Board approval, had been received.

The Hismelt plant, forecast to produce 800,000 tons a year of pig iron, involves the application of new technology (at the commercial scale) exhaustively tested by Rio at a pilot plant in WA over the past 11 years to treat low-cost raw materials, such as powdered iron ore and basic coal without a coke furnace. This is designed to achieve capital and operational costs below those of conventional blast-furnace plants. Rio and its partners are planning to export the value-added iron product to Asia, including the burgeoning market of China.

Modest production results

Attributable Australian and Indonesian coal production was 7 percent higher (at 11.02 million tons) in the March quarter compared with the December 2001 quarter, reflecting a full three-month contribution from the acquisitions made last year. As for the other operating units, alumina output dipped 5 percent (to 492,000 tons) in the March quarter as against the December quarter, aluminium (191,100t) and borates (130,000t) were off 3 percent each, based on the same quarterly comparison, US coal output fell 9 percent (25.85Mt), copper eased 2 percent (904,100t), and iron ore (22.50Mt) and titanium dioxide feedstock (328,000t) were down 4 percent apiece. Diamonds (6.17 million carats) and gold (686,000 ounces) took the biggest hits, dropping 22 and 17 percent respectively.

Softer demand in some markets saw Rio's total aluminium, iron ore and coal shipments decline, while lower ore grades dragged copper, diamonds and gold output into negative territory.

Aside from the depressed state of the steel industry negatively impacting on iron ore and coal sales, perhaps Rio's iron ore and coal customers also decided to hedge their bets and hold out for more attractive prices to be set at the annual contract negotiations, which were still in progress at the time of writing.

Australian and UK-listed Rio is currently caught up in a war of attrition with Japanese steelmakers, who are fighting for a reduction in contract prices of coal and iron ore on the back of the steel downturn and uncertainty over the effect US tariffs will have on steel exports. The miner in turn is trying to exert its greater pricing leverage (as there are fewer suppliers in the global supply equation) to secure increases. The annual negotiations between the Japanese Steel Mills and major producers, including Rio, set the benchmark price levels for the Japanese financial year beginning April 1. The 2002-2003 JFY is already almost four weeks old. ❑

Energy

Coal market is still in a state of flux

By Peter Gonnella

JOHANNESBURG — The moment of truth has arrived for coal suppliers who have been striving to become internationally competitive over the past five years, according to a leading Australian research firm.

Sydney-based AME Mineral Economics believes the much improved FOB cash cost curve of the coal industry, combined with forecast future real cost gains, will enable producers to finally deliver increased profit margins as coal prices continue to decline in real terms.

Based on an AME analysis covering 162 mines worldwide, average FOB cash costs for export thermal and semi-coking coal mines had been reduced 17% from US$21.70 per tonne in 1999 to US$18.00/t last year, while hard coking coal mines had cut their FOB cash costs by 18% from US$29.80/t to US$24.50/t over the same timeframe.

"The mining industry needs such a fillip," AME said, referring to anticipated better margins for coal suppliers. "While fighting to remain competitive, shareholders have rarely obtained an adequate return on their investment over recent years." Other stakeholders such as governments through taxes and royalties, buyers via falling real prices, and employees had faired better, it said.

Depressed prices between 1997 and 2000 sparked major cost cutting programs and a consolidation of ownership of assets. This rationalisation and the implied shift in the balance of pricing power have led to the current impasse in the annual Australia-Japan coal price negotiations, which are now four months old and over one month into the JFY.

"Suppliers are seeking market related outcomes, while Japanese buyers are concerned about the state of their industries," the research group said. "But the market balance has equalised and buyers can no longer simply use muscle to secure the results they want."

AME felt this was the watershed year for the coal exporting brigade in terms of winning sizeable price rises. "The (annual) coal price negotiations have now remained deadlocked for over four months, but prospects for the world's producers of export hard coking coal have received a significant boost with the recent reported price settlement struck with some European steel mills at US$48/t FOB," the group said. "A full flow-on of this to Japanese reference prices would represent a 12 percent increase on 2001 price levels."

That's unlikely to eventuate given two imposing factors. First, it has been well documented the Japanese steel industry is in a downturn. The Japanese steel mills will be calling on all their powers of persuasion and resistance to minimise price hikes.

And secondly, AME appears to have overlooked the softer coal demand in the March quarter reported by two of the world's largest miners, Rio Tinto and BHP Billiton. In addition, the two companies have painted a bleak outlook for the coming quarter and perhaps beyond.

Analysts attribute the weaker demand climate to a sluggish global economic recovery. BHPB and Rio Tinto suffered sales falls across several commodity divisions.

BHPB announced in its March quarterly production report this week that some South African energy coal capacity would be shut down with a view to managing a weaker market. ❑