SP Angel – Morning View – Wednesday 24 08 16

Metal prices are generally flat while oil and iron ore pull back

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FinnAust Mining* (FAM LN) – Progress report on Pituffik mineral sands exploration

Glencore (GLEN LN) – Attributable losses halved with strong performances from marketing and copper

UK politics (BBC) – "Virgin Trains has questioned footage showing Jeremy Corbyn sitting on the floor of a "ram-packed" service.

- In a film shown on The Guardian, the Labour leader said he was experiencing a problem "many passengers face every day" on the London to Newcastle train.
- But Virgin said CCTV showed Mr Corbyn and his team walking past available seating before starting filming.
- It says the crew helped him to a coach where seats were available and he sat down for the rest of his journey."

Miners are trading lower after Glencore reported a 66% drop in H1/16 earnings while a drop in oil prices weighs on energy stocks.

- Brent is off 1.2% this morning after surging in the previous trading session and touching US$50/bbl level on suggestions Iran might join other producers in efforts to freeze production levels.
- US$ is little changed this morning as investors are waiting for the Janet Yellen speech on Friday with chances of a potential rate hike climbing higher compared to the previous week.
- Iron ore prices fell from two-week high on steel mills cutting orders and production amid state orders to cut pollution ahead of the G20 summit.

Dow Jones Industrials	**+0.10%**	**at**	**18,547**
Nikkei 225	**+0.61%**	**at**	**16,597**
HK Hang Seng	**-0.77%**	**at**	**22,821**
Shanghai Composite	**-0.12%**	**at**	**3,086**
FTSE 350 Mining	**-2.76%**	**at**	**11,699**
AIM Basic Resources	**-2.07%**	**at**	**2,458**

Economic News

US – Existing home sales unexpectedly climbed to the highest level in nine years while the rate of growth in the manufacturing sector slowed in the last summer month led by a weaker increase in new business.

- Stronger jobs market and historically low borrowing costs are reported to be leading an surge in sales which hit 654k units (annualized), the strongest reading since Oct/07.
- On US manufacturing PMI Markit said that "taking the Jul (came in better than expected) and Aug readings together suggests that manufacturing is enjoying its best growth so far this year in Q3, and should help drive stronger GDP growth".
- At the same time a slower growth in overall order book, a drop in hiring and easing inflation pressures led Markit to conclude that "the Fed looks unlikely to tighten policy again until the upturn has stronger foundations, suggesting any interest rate rise looks unlikely before Dec."

Date	Index	Period	Actual	Expected (Bloomberg)	Previous

Tuesday	Markit Manufacturing PMI	Aug	52.1	52.6	52.9
	New Home Sales	Jul (%mom)	12.4	-2.0	3.5
Wednesday	Existing Home Sales	Jul (%mom)		-1.08	1.09
Thursday	Jobless Claims			265	262
	Durbale Goods Orders	Jul (%mom)		3.4	-3.9
	Durbale Goods Orders (ex Transport)	Jul (%mom)		0.4	-0.4
	Capital Goods Orders (ex Air)	Jul (%mom)		0.2	0.4
	Markit Services PMI	Aug		51.8	51.4
	Markit Composite	Aug			51.8
Friday	GDP (Second reading)	Q2 (%qoq)		1.1	1.2
	Core PCE (Second reading)	Q2 (%qoq)		1.7	1.7

Source: Bloomberg

Germany – Q2/16 GDP growth numbers were confirmed at 0.4%qoq/1.8%yoy, in line with previous estimates and down from 0.7%qoq/1.9%yoy in recorded in Q1/16.

- The breakdown provided in updated numbers showed growth has been driven by net exports adding 0.6pp to the headline number while government and consumer spending added 0.1pp each. A reduction in inventories subtracted 0.1pp while weaker investments cut the growth rate by 0.3pp.
- This differs from the last four quarters when growth was led by household and government spending and business investments while a decline in net exports subtracted 1pp.
- Bloomberg estimates are for a stronger growth in H2 (Q3/Q4 at 1.5%/1.8%) led by a pick-up in domestic demand in line with historical data and supported by strong labor market and low borrowing costs.

UK – British banks approved the least number of mortgages since Jan/15 in Jul which is reported to be related to Brexit vote nervousness.

- British banks approved 37,662 new mortgagers in Jul v 39,763 in Jun and 38,000 forecast.
- ON a more positive note, net consumer credit borrowings climbed while non-financial companies' credit grew in Jul after a slight drop recorded in the run-up to the referendum in Jun.
- Overall the BBA report concluded that "the data does not currently suggests borrowing patterns have been significantly affected by the Brexit vote, but it is still early days".
- "Many borrowing decision will also have been taken before the referendum."

South Africa – The rand fell to the lowest level against the US$ in three weeks on the news that local police ordered Finance Minister Pravin Gordhan to report to its offices on Thursday raising concerns over a potential replacement.

- The Treasury targeted a reduction in debt by limiting new spending which run into a conflict with the ruling party calls on the government to "reprioritize" the budget in an effort to win support from the electorate, Bloomberg reports.
- The currency was off nearly 5% at some point this morning before the announcement released yesterday and is currently trading at 14.1 to a US$.

Currencies

US$1.1293/eur vs 1.1331/eur yesterday. Yen 100.17/$ vs 100.16/$. SAr 14.057/$ vs 13.504/$. $1.322/gbp vs $1.318/gbp.

0.763/aud vs 0.764/aud.CNY 6.651/$ vs 6.643/$.

Commodity News

Precious metals:

Gold US$1,339/oz vs US$1,340/oz yesterday

Gold ETFs 65.3moz unch vs 65.3moz yesterday –

Platinum US$1,106/oz vs US$1,106/oz yesterday

Palladium US$696/oz vs US$696/oz yesterday

Silver US$19.05/oz vs US$19.05/oz yesterday

Base metals:

Copper US$ 4,688/t vs US$4,739/t yesterday

Aluminium US$ 1,664/t vs US$1,662/t yesterday

Nickel US$ 10,225/t vs US$10,255/t yesterday – Metal Bulletin report that historic low Shanghai premiums for nickel will hit imports through the rest of 2016

Zinc US$ 2,303/t vs US$2,294/t yesterday

Lead US$ 1,863/t vs US$1,854/t yesterday

Tin US$ 18,725/t vs US$18,460/t yesterday

Energy:

Oil US$49.3/bbl vs US$48.7/bbl yesterday

Natural Gas US$2.767/mmbtu vs US$2.656/mmbtu yesterday

Uranium US$25.90/lb vs US$25.75/lb yesterday

Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US$60.9/t vs US$59.7/t

Chinese steel rebar 25mm US$406.7/t vs US$404.8/t

Thermal coal (1st year forward cif ARA) US$56.4/t vs US$57.0/t yesterday

Other:

Tungsten - APT European prices vs $185-200/mtu unch vs $190-200/mtu

Company News

FinnAust Mining* (FAM LN) 5.4p, mkt Cap £26.5m – Progress report on Pituffik mineral sands exploration

- FinnAust Mining reports it has now completed extensive trenching and 260 auger drill holes for onshore mineral sands within the Pituffik licence area in north-west Greenland as well as 150 offshore “vibracore” drillholes to test shallow marine occurrences of titanium bearing sands.
- The work is aimed at *“defining both the grade and volume characteristics of Pituffik via the production of a JORC code compliant resource, with a particular emphasis on defining optimal “wet mining” areas”* and the company reports that the *“trenching over the main project areas has identified large volumes of ilmenite rich sand across many square kilometres …* [and] *… Ground penetrating radar has identified buried layers of what is expected to be high concentrations of heavy minerals”*
- All the auger holes, which were drilled on onshore raised beach targets have shown *“significant horizons of ilmenite rich sands”*. Two main target areas have been identified at Moriusaq and at Interlak.
- The Moriusaq area is considered to be the more advanced and *“has returned the highest ilmenite grades to date, whilst Interlak offers the largest volume of heavy mineral sands with grade upside potential. “* The Interlak target area’s tonnage potential is enhanced by the presence of a large delta area which has potential to contain large volumes of accumulated heavy minerals.
- Investigation of the offshore potential using the “vibracore” drilling technique designed to recover core samples from underwater sediments which are not amenable to auger drilling has investigated the potential to a depth of around 3m below the seabed. *“interesting results* [have been] *obtained over almost all of the shallow marine areas targeted”.*
- The company points out that reduced drilling rates *“in the Moriusaq Bay area by smaller second vibracore unit* [are] *due to almost pure layers of ilmenite bearing sediments”.*

- The company reports that the site has been visited by a representative of the consultants, SRK, in preparation for the preparation of a JORC compliant mineral resource estimate.
- FinnAust Mining also reports that the baseline studies and environmental programme have been completed *"ahead of submission of application for* [an] *exploitation licence in Q1 2017."*

Conclusion: The exploration work at Pituffik appears to have generated some very positive results with a high level of success in both the onshore and offshore drilling and high levels of ilmenite sand intersections. The data should underpin a JORC compliant resource estimate and parallel work streams to support environmental permitting and the submission of an exploitation licence application early next year have also been completed. We look forward to a resource estimate and further information on grades.

** SP Angel acts as nomad and broker to the company*

Glencore (GLEN LN) 180 pence, Mkt Cap £25.9bn – Attributable losses halved with strong performances from marketing and copper

- Glencore's interim results show a halving of the net loss to 3 cents/share based on a reduced net attributable loss of $369m compared with $676m in H1 2015.
- On an adjusted EBITDA basis, the Group generated US$4.02bn – down 13% on the US$4.61bn reported for H1 2015.
- Capital expenditure has been cut by 51% to US$1.6bn while unit operating costs are reported at 97 cents/lb for copper, 3 cents/ lb for lead (including a 12 cent credit for gold), and $2.46/lb for nickel.
- Free cash flow before financing amounted to US$2.48bn (H1 2015 – US$4.40bn)
- As expected, marketing activities were a key contributor to EBITDA rising by 9% to US$ 1.29bn (H1 2015 – US$1.18bn) and representing 32% of the total EBITDA compared to 26% in H1 2015. On an EBIT basis, marketing rose by 14% to US$1.22, marginally exceeding the US$1.17bn market expectation and keeping Glencore on course to match the full year market expectation of US$2.35bn. Company guidance of US$2.4-2.7bn EBIT remains unchanged.
- Lower commodity prices reduced industrial revenue by 16% to US$10.84bn though *"In most commodities, prices have recovered substantially off their inter-period lows, as supply and demand forces converged with a growing realisation/consensus around the impacts of eventual supply constraints, in combination with tepid (but not diminishing) global demand growth."*
- The Group's industrial activities contributed US$3.43bn to EBITDA with the copper business contributing US$1.34bn (49%) to the total and improving EBITDA margin to 34% compared to the 25% margin achieved on US$1.28bn of EBITDA in H1 2015. The copper operations at Collahuasi and at Antamina improved EBITDA by 16% and 18% respectively and lifted EBIT by 49% and 28% respectively offsetting weaker performance from the African and Australian copper businesses.
- Commenting on the state of the wider copper market, Glencore has a view that *"As well as production shutdowns in the African copper belt, we have seen contraction of Chinese mine supply. As such, we have witnessed very strong concentrate imports into China in the first half of 2016."*
- Glencore's zinc operations, led by Kazzinc which contributed 59% or US$451m of the total US$770m of EBITDA generated by the zinc business, also showed improvements with divisional EBITDA margins rising to 28% from 22% in H1 2015. Glencore detects tightness in the zinc concentrates market, a reduction in treatment charges and rising concentrate imports into China.
- Elsewhere, the nickel business reported a 47% decline in EBITDA to US$168m and a softening of EBITDA margins from 29% to 19% while EBIT reversed a US$59m profit in H1 2015 to report a loss of US$88m. Glencore considers that 70% of the global nickel industry is currently operating at a loss as a result of long term oversupply leading to record levels of inventory. Looking to the future, rising levels of demand in China and underperformance on the supply side by the Philippines, where we would add the incoming Government of President Duerte is scrutinising the existing operations' environmental performance, leads Glencore to comment *"the market is now tracking towards its first material deficit of this decade"*.
- The Ferroalloys, Aluminium/Alumina and Iron Ore businesses all reported weaker performances in H1 2015 compared to 2015 with EBITDA and EBIT losses reported for both the Aluminium/Alumina and Iron Ore operations and a 38% decline in EBIT for the ferroalloys business to US$45m where spot ferrochrome prices are at *"their lowest levels since 2009."*

- In the energy businesses, coal generated US$506bn of EBITDA, half the US$1.03bn in H1 2015 reflecting *"the grim lows seen in February"* and supply reduction measures implemented by the Chinese Government equating to an effective 16% reduction in volumes leads Glencore to conclude that *"Global seaborne thermal coal demand is expected to remain flat year-on-year"*. Margins in the coal business declined to 18% (H1 2015 - 28%).
- The oil business was impacted by lower prices seeing adjusted EBITDA margins declining to 38% (from 41%) on EBITDA of US$65m (H1 2015 – US$112m) *"owing to more modest oil marketing conditions relative to the buoyant comparative prior period."*
- Commenting on progress with its debt reduction strategy, the company reports that *"We have already largely achieved our asset disposals target of $4-5 billion with a diverse and material pool of asset sales processes also on-going"* and net debt is down 9% so far this year to US$23.58bn. We note that the company is now targeting net debt of US$16.5-17.5bn by the end of 2016 which is a meaningful US$500m reduction in the previously reported target of US$17-18bn.

Conclusion: The Marketing business continues to perform well while the Industrials, mining business, is recovering strongly aided by impressive cost cutting for its major commodities. Glencore should enjoy a very much better second half and looks like a significantly stronger company from an investment perspective. Looking forward Glencore looks well positioned to raise margins alongside the rise in metals and other commodity prices. The oil business should return to profit while thermal and coking coal should also see dramatically better performance.

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*SP Angel are the No1 integred nomad and broker by number of mining brokerage clients on AIM according to the AIM Advisers Ranking Guide *(joint brokerships excluded)*

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