

# BEHRE DOLBEAR

## Global Mining News

### INVESTMENT BANKS SEEM TOO KEEN TO JOIN RIO BANDWAGON

November 12, 2007 (*Financial Times*) – The behaviour of some of the investment banks around BHP’s attempted £67bn (\$140bn) takeover of Rio Tinto has left a bad taste in some boardrooms. Several banks seem so keen to get a role in the proposed deal that they are prepared to risk upsetting long-standing clients in the mining sector.

Anglo American is understood to be irritated that Goldman Sachs has chosen to work for BHP. Goldman has worked for Anglo for years and is listed as the mining group’s corporate broker alongside UBS. The pair are in the process of selling Tarmac, Anglo’s £6bn UK-based building materials business. They also helped Anglo with a \$1bn share offering last year that reduced its holding in AngloGold Ashanti, as well as handling of share buy-backs for the group.

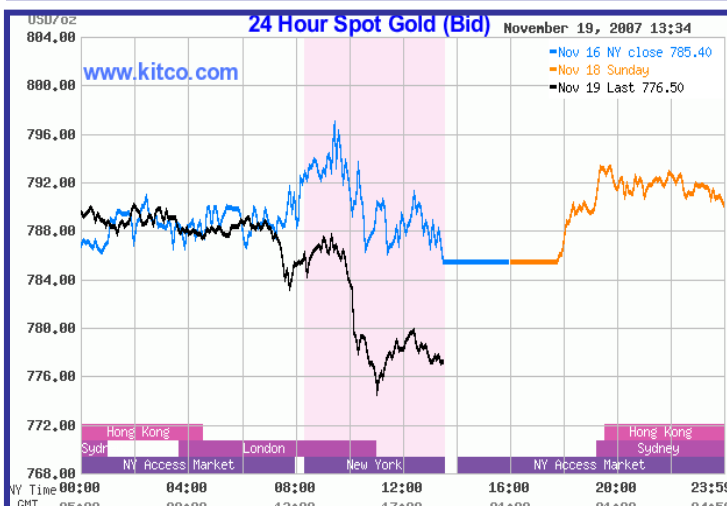
Citigroup has also jumped on to BHP’s team, but the bank has spent years working for Alcoa, the US mining group and Alain Belda, Alcoa’s chairman and chief executive, is also a director of Citi.

Meanwhile, those firms not engaged have been fervently calling Rio to peddle their services. The Anglo-Australian group should take up the offers and tie up as many banks as possible to prevent them from acting for BHP. More shrewdly, it should make sure there are hardly any banks left to provide the debt or equity needed to refinance Rio’s existing debt, already no easy task in this uncertain credit crunch.

Citi is set to provide billions of dollars in financing to BHP and HSBC has been brought on board to do the same. It is, after all,

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USD	NOVEMBER 16, 2007	NOVEMBER 09, 2007
<b>GOLD</b>	<b>789.75</b>	<b>831.50</b>
<b>SILVER</b>	<b>14.4500</b>	<b>15.1500</b>
<b>PLATINUM</b>	<b>1,429.00</b>	<b>1,434.00</b>
<b>PALLADIUM</b>	<b>369.00</b>	<b>370.00</b>
<b>ALUMINUM</b>	<b>1.1317</b>	<b>1.1635</b>
<b>COPPER</b>	<b>3.096</b>	<b>3.1847</b>
<b>LEAD</b>	<b>1.5331</b>	<b>1.5896</b>
<b>NICKEL</b>	<b>14.1748</b>	<b>14.5603</b>
<b>URANIUM</b>	<b>92.00 (11/12/07)</b>	<b>90.00 (11/05/07)</b>
<b>ZINC</b>	<b>1.1367</b>	<b>1.2335</b>

hard to believe that BHP has hand-picked HSBC for anything but its balance sheet, given the bank is not a high-calibre mergers and acquisitions adviser. From the point of view of Goldman and Citi, it all feels a bit childish. Both banks lost out on fees and league table credit last year after advising and financing Alcoa on its hostile bid for Alcan only to be trumped by Rio Tinto.

There is such little differentiation between the world's investment banks and their ability to finance and execute deals these days that the long-term relationship is surely one of the last ways for them to prove their value. Once again, that opportunity has been thrown away.

## GOLD STRUCK BY A 'PERFECT STORM'

*November 12, 2007 (MineWeb)* – If a preoccupation with the weather is a curiously English phenomenon, then nothing could be as compelling a story as a 'perfect storm' – a rare occurrence in nature in which powerful, convergent weather conditions come together to destructive effect. It is from such systems that hurricanes are said to evolve.

Gold, an important bellwether of the economic world finds itself the beneficiary of such an occurrence, buoyed to within a whisker of the all time high of \$850/ounce this last week by some very inclement economic weather. Time to head for the lifeboats ?

Where the meteorological analogy fails is the implication that the current bull run is, like a storm - a passing phenomenon when actually some deep structural and even seismic shifts are occurring in the commodity markets. Reflecting this, most hard assets, oil prices amongst them have risen between threefold and tenfold in the last five years and remain stubbornly robust.

The Goldman Sachs BRICS report in 2003 takes some credit in putting commodities on the map, predicting a new world order in which some 39% of this planet's population will be joining the consumer society with a concomitant rise in the demand for natural resources. Despite high prices, global gold mine production is actually falling. South Africa, the world's largest producer is at levels not seen since the early 1930s with production at roughly one quarter the level seen in 1970.

Those few locations where gold deposits are found are beset with resource nationalism, environmental

constraints and AIDS (affecting over one third of the workforce at many mines). Gold producers have met the challenge with a frantic mating frenzy (or horizontal integration to use a less graphic image) leading to greater supply-side discipline. They went further by unwinding hedges to buy back gold and thus created a self-fuelling cycle of activity. The effect was electric. So far, not enough to create a storm in bullion circles but enough to have you reaching for a raincoat.

If the supply side issues are interesting, then the demand side fundamentals are positively compelling. Two reasons: access to gold and new players – the effect of which has turned the whole psychology of the market on its head. Pre-2000 gold traded on markets which could be described as off radar and somewhat opaque. Of £1,000 of investable products across all markets a mere £3 went to commodities – and gold is a subset of that. Whilst gold has had insufficient budgets to adequately promote itself, it has nevertheless been successful in making itself more accessible.

So what is the weather forecast from here. Three currents are in play to Christmas – the hot money brigade, many of whom joined the rally in the last few months are keen to see a breach of the \$850 level to hunt down stops and propel us higher, the banks and traders sitting on large profitable positions on shorting the dollar and long on gold yet keen to take profits ahead of year end; and finally the slow steady glacial money of pension funds moving inexorably if belatedly into this asset class. Our advice – buy an umbrella.

## JINDAL PROJECT IN BOLIVIA LIKELY TO BE DELAYED

*November 12, 2007 (PTI)* – Naveen Jindal-promoted Jindal Steel and Power Ltd's ambitious project to develop iron ore reserves and build a steel plant may be delayed as the Bolivian senate has returned to the Chamber of Deputies the JV signed by the country's government and the Jindal Steel and Power Ltd. "The senate, controlled by the Opposition, approved the project but added to the document several changes, making necessary a new

analysis in the chamber," the Steel Business Briefing (SBB) reported.

"This will delay even more the agreement signed almost four months ago, and could put at risk its implementation. Pro-government deputies have already declared that it will reject changes added by the senators," the report added.

Some of the 11 changes made by the senate include creating a law to allow Jindal's operation at El Mutn. It also gives the cities of the region some stake in the net profit obtained by the state-owned Empresa Siderrgica del Mutn (ESM), formed to represent Bolivia in the joint venture, SBB said.

Jindal intends to invest \$2.1 billion over eight years to install iron ore and steel making facilities at El Mutn, it added.

## RUSAL TO RESTART NIGERIA ALUMINIUM SMELTER IN JANUARY

*November 12, 2007 (Business Day)* – Russia's United Company RUSAL will reopen Nigeria's only aluminium smelter in January after a nine year closure, a top company official said weekend. The Alcon smelter at Ikot Abasi, Akwa Ibom State had a capacity of 193,000 tons a year when it was built by the government at a cost of \$2.5-billion (N315-billion) in 1997, but it was poorly managed and produced just 40,000 tons of metal before closing in 1999.

RUSAL, the world's largest primary aluminium producer, paid \$250-million (N315-billion) for a 77.5 percent stake in Alcon last year after a two-year privatisation process. "Right now, we are modernising the equipment. We will start the plant in January and increase production step by step until we reach full capacity," Alexandr Livshits, director of international special projects, told Reuters. Livshits, speaking through an interpreter over the telephone, said 70 percent of the plant has already been refurbished and upgraded.

The plant originally had been expected to restart in December, but was delayed by a dispute with the local community over dredging of the Imo river, and the

kidnap of six Russian workers at the plant in June. The hostages were released unharmed after two months in captivity.

Livshits, who is on a trip to Nigeria, said he met with top Nigerian government officials to find a way to resolve the dispute over the dredging of the Imo river, which is central to the import of raw materials and export of finished aluminium. Communities argue the dredging will affect fishing, a central economic activity in the area.

Dredging will now start early in 2008 and last 11 months, but meanwhile, there are sufficient raw materials on site to keep the plant running, Livshits said. "We can expand the plant's production capacity faster as soon as we resolve the problems with the local communities," he said.

RUSAL said in February it planned to invest \$15-million over the next three years to complete, refurbish and modernise the plant, but Livshits declined to say how much has so far been invested. Nigeria retains a 15 percent stake in ALSCON, while Germany's Ferrostaal AG holds 7.5 percent.

## RIO TINTO REJECTS US\$350 BILLION BHP BILLITON BID

*November 13, 2007 (AFP)* – Anglo-Australian mining giant Rio Tinto formally informed shareholders Tuesday that it had rejected an unsolicited 350-billion US dollar merger proposal from BHP Billiton.

Rio Tinto knocked back BHP's three-for-one share swap offer last week and has twice refused requests from the world's largest miner to hold talks on the mega-merger, saying the offer undervalued the company. Rio Tinto, itself the world's third largest miner, formally notified its shareholders of the decision in a letter sent to the Australian Stock Exchange Tuesday.

"Your boards gave the proposal careful consideration and concluded that it significantly undervalues Rio Tinto and its prospects. Accordingly, the boards unanimously rejected the proposal," Rio Tinto chairman Paul Skinner said in the letter.

BHP argues the proposal is "logical and compelling" because it will unlock 3.7 billion US dollars a year in enhanced earnings and cost-saving synergies for shareholders of both companies. In a statement to the Australian Stock Exchange Monday, BHP argued its offer represents a premium of about 28 percent to the combined market value of Rio Tinto shares in the three months to October 31.

BHP told journalists in London Monday that it plans to meet the major shareholders of Rio Tinto as early as this week to explain the "irresistible logic" of the offer. Chief executive Marius Kloppers hinted that BHP could launch a hostile takeover bid if the Rio Tinto board continued to hold out. "Our sole objective is to tell people about this unique value proposition and get Rio Tinto to engage," Kloppers said when asked if his company would go hostile.

## CHINESE NICKEL: DEMAND RETURNS, BUT SO DOES PIG NICKEL PRODUCTION

November 13, 2007 (Macquarie Research) – Last week, Macquarie joined the China International Nickel and Cobalt Industry Forum held at Antaika in Ningbo, Zhejiang province. The conference was well-attended by more than 600 delegates from the nickel, cobalt and stainless steel industries.

Overall, most of the feedback from the conference was upbeat about the prospects for growth in Chinese stainless steel demand in 2008. However, caution remains about the nickel outlook due to the recent recovery in Chinese nickel pig iron production and the rise in global nickel prices since mid-October of this year.

Utilisation rates at Chinese stainless steel mills have returned to normal since mid-October, following cuts in August and September, and it is expected that output

growth in 2008 will remain strong. It is becoming an increasingly popular view that China will become a net exporter of stainless steel in 2008.

On 8 November, the National Development and Reform Commission (NDRC) and the Ministry of Commerce jointly issued the 2007 version of the ‘Guide of Industries for Foreign Investment’. The new guide will replace the 2004 version and take effect on 1 December, and it appears to indicate an increased focus by the government on tightening control of the domestic mining sector.

The Indian 63.5% iron ore fine was quoted at US\$195/t cif and US\$135/t fob, while 66% Hebei iron ore fine posted at US\$154/t ex-VAT. Contrary to some press reports, the spot market appears to have been very stable for the past three weeks.

## PRICE OUTLOOKS FOR PLATINUM, PALLADIUM DIVERGENT: JOHNSON MATTHEY

November 13, 2007 (Platts) – Radically different fundamentals for platinum and palladium mean that the greater certainty which can be applied to predicting a price range for platinum is not there for palladium, according to Johnson Matthey, whose Platinum 2007 Interim review was published Tuesday.

JM has identified a “deficit” of 256,000 oz of platinum for the whole year 2007, based on a shortfall of primary mine production sales to the market, a figure which evolved over the course of the year, said Jeremy Coombes, general manager, marketing and publications, in an embargoed interview with Platts last week.

With the “tighter than expected fundamentals” for platinum, JM has accordingly been able to identify a six month price outlook for platinum between \$1,350/oz and \$1,575/oz, with the upside possible particularly if the US dollar continues to slide. Particular support for platinum comes from physical purchasing in Asia and support from the gold price.

Meanwhile, the picture for palladium is for a 1.715 million oz “surplus” in 2007 – more metal sold into the market than is picked up by identified demand; these “surplus” sales are made to players such as funds, banks, fabricators, processors and depositories, explained Coombes.

Given that the metal is sold into the market, there is even an argument that the palladium market is balanced, he noted, stressing, “Investors and hedge funds are taking up this metal.” In palladium, demand from autocatalyst, dental, electronic and jewelry sectors of demand account for 89.2% of identified demand for 2007, compared to the “other” sector – which also includes chemical demand.

In platinum – in which investment demand is categorized separately – non-investment net demand is expected to account for 98.9% of JM’s projected platinum demand in 2007. Investors have long believed it is good to be long palladium, said Coombes, naming a range of factors, including the belief that the price differential between platinum and palladium must shrink.

However, he noted, in a market where investors hold the balance, the question is: “how strong are the hands of investors?” The JM report’s official answer is: “Many investors view palladium as undervalued or simply cheap compared to its historical peak, and it seems likely that investment activity will prevent the price from falling below \$320 in the next six months. Fund buying could raise the price to \$420 over the same period, particularly if platinum and gold prices rise.”

## CHINESE SILVER PRODUCTION, CONSUMPTION, EXPORTS WILL INCREASE THIS YEAR

November 14, 2007 (MineWeb) – A recent international silver conference in Chengdu, China's fifth largest city, revealed that Chinese silver production, consumption and exports are all expected to increase substantially this year.

In a presentation to the Sixth Annual China International Conference, Yao Wong, Vice Secretary-General Director of China General Chamber of Commerce, suggested that the healthy growth in the nation's economy should provide silver markets with an excellent opportunity for development. Yao said that 2007 GDP growth is 11.5% for the first half of this year, while the current per capita GDP for China is US\$2,000. Urban income is three times that of rural income.

During 2006, China reported a year-on-year total production of 8,252 tons of silver, a 14.7% increase over the same period of 2005. Silver consumption of jewelry and silverware accounted for 20% of total silver consumption in 2006, which was reported at 3,000 tons. Use of silver in jewelry and silverware increased 13.9% y-o-y in 2006. The country exported 4,712 tons of silver last year.

Silver Standard President and CEO Robert Quartermain, the President of the Washington, D.C.-based Silver Institute, which co-sponsored the Chinese conference, estimated that China's silver production will be 9,700 tons this year, for a projected 17% increase. Quartermain projected this year's Chinese silver consumption at 3,350 tons, including a 28.5% y-o-y increase in jewelry consumption.

Meanwhile, Quartermain said that "rapid ongoing development of microelectronics communications and information technology continues." An average growth rate of 15% between 2006 and 2010 is forecast by Chinese silver experts with silver consumption in electronics up 35%.

China has a long history of wearing silver jewelry. With the improving living standards of the Chinese people, Chinese silver experts anticipate that there will be an increased tendency to for personal consumption of silver jewelry. The anticipated continuing rapid growth rate of silver consumption in China is expected to make the nation the second-largest silver consumer after the United States.

## DEMOCRATIC REPUBLIC OF CONGO KATANGA GOVERNOR MOVES TO REASSURE COPPER/COBALT MINE INVESTORS

November 14, 2007 (Reuters) – The governor of Congo's mineral-rich Katanga province has reassured investors that they are welcome despite a leaked report from a government-appointed commission that said many mining licences should be cancelled. "I would like to reiterate that responsible mining companies which have invested in Katanga or are about to invest are very welcome in my province," Governor Moise Katumbi said in a letter dated Nov. 13. "I encourage the mining companies to continue their investment programmes in spite of rumours of a non-official document by the Commission reviewing the mining contracts."

The letter was distributed on Wednesday by South African mining group African Rainbow Minerals, which said Katumbi wanted the letter made public following a meeting with ARM's Chief Executive Andre Wilkens on Tuesday. The letter follows a similar statement seeking to restore confidence by the mines minister on Nov. 6, who said most mining companies operating in the Democratic Republic of Congo would remain in the long term.

The government set up a mining commission earlier this year in the vast former Belgian colony to bring contracts, most of which were negotiated during a 1998-2003 war and a subsequent three-year transition period, up to international standards.

A leaked preliminary report seen by Reuters earlier this month said the panel recommended that 61 contracts needed to be renegotiated or cancelled in the DRC, which holds a tenth of the world's copper reserves and a third of its cobalt.

The contracts being reviewed included deals with international firms such as Freeport McMoRan Copper & Gold Inc, BHP Billiton and Nikanor. Katumbi said that over the past two years, more than \$2 billion has been raised on international stock markets for development of mining projects in the DRC. "The current investment momentum in the province has taken several years to develop and I want to ensure that it continues to develop in a positive manner."

**PRODUCTION PROBLEMS KEEP PLATINUM PRICES WHITE-HOT**

November 14, 2007 (*Financial Times*) – Production problems mean demand for platinum will exceed supply this year, which could push prices to \$1,575 a troy ounce in the next six months, a survey published yesterday shows. A fall in supply from the main producing regions – South Africa, Russia and North America – has contributed to prices rising almost 33 per cent this year to a recent record of \$1,484 a troy ounce, according to Johnson Matthey's interim 2007 platinum review.

The precious metals group expects global platinum supplies to fall 135,000 ounces, or 2 per cent, to 6.66m ounces this year. This would leave the market with a supply deficit of 265,000 ounces, the seventh year in the past eight that the market has recorded a shortfall. In 2006, the market recorded a tiny surplus of 65,000 ounces.

Production at three of South Africa's big platinum producers, Anglo Platinum, Lonmin and Impala Platinum, is likely to be lower than expected this year. A spate of mining deaths in South Africa has caused output interruptions. Further disruption is seen as likely as

regulators press for improved safety standards.

South Africa is expected to see production fall by 70,000 ounces this year to 5.22m ounces. Russia's production is expected to fall by a similar amount to 820,000 ounces. Demand is expected to increase 195,000 ounces, or 2.9 per cent, to a record 6.925m ounces this year, with the automotive industry providing the main source of growth.

Johnson Matthey points out that heavy-duty diesel vehicles have just started to have catalysts fitted. This market is in its infancy, and further tightening of US and European emissions standards would require more platinum per vehicle. But Johnson Matthey says technical limitations mean it is unlikely more than a quarter to a third of platinum in an individual catalyst can be displaced by palladium in a light diesel vehicle.

Industrial usage of platinum is forecast to continue to rise this year, up 40,000 ounces, or 2.1 per cent, to 1.91m ounces.

**BIG EARTHQUAKE HITS CHILE, HALTS SOME COPPER MINING**

November 14, 2007 (*Reuters*) – A powerful earthquake (measuring 7.7) hit mineral-rich northern Chile on Wednesday, injuring people, damaging buildings and halting operations at some of the world's biggest copper mines.

Chile is the biggest copper producer in the world, providing more than a third of annual supplies, and the quake is reported to have hit an area containing many large mines. BHP Billiton said at 1730 GMT that work was paralyzed after power was cut off at its Escondida, Spence and Cerro Colorado copper mines. Freeport-McMoRan Copper & Gold said operations were halted due to power outages; work at its Candelaria mine had now resumed but its El Abra mine was still down without power.

Chilean state copper miner Codelco said at 1800 GMT that it had resumed operations at its largest division,

Codelco Norte, two hours after the quake cut off power to the operations. "After a two-hour halt, Codelco Norte has resumed normal productive operations," Codelco said in a statement. The state-run company, the world's largest copper company, said its operations themselves had not been damaged by the earthquake.

Copper prices soared 6% to US\$3.30/lb on New York Mercantile Exchange's COMEX division, as the mines reported they were without power. The quake made buildings sway in Chilean capital Santiago, and also hundreds of kilometers away in neighbouring countries. The US Geological Service said the quake was initially reported at 7.8 magnitude (later verified at 7.7). Just two hours later, a second quake of 5.7 magnitude struck.

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## BARRICK SAYS GOLD SUPPLY TO FALL FASTER THAN EXPECTED

November 15, 2007 (*Bloomberg*) – Barrick Gold Corp., the world's largest gold producer, said supply will fall faster than expected as it gets harder to extract the precious metal from deeper and older mines.

“Global mine supply is going to fall at a much faster rate than people generally believe,” Chief Executive Officer Greg Wilkins said today at a conference in London organized by RBC Capital Markets. “Many of the mines that people are anticipating bringing into production will either not come into production or will be on a much longer timeframe.”

Gold mining companies are trying to boost output after bullion climbed to within 0.5 percent of a record last week. Strikes, stoppages and the difficulties of mining

farther underground are hampering operations in South Africa, the world's largest producer. Demand is rising as consumption increases in China, India and the Middle East, RBC Capital Markets said yesterday.

Gold demand rose 19 percent in the third quarter, led by a sevenfold increase in investment in exchange-traded funds backed by bullion, the producer-funded World Gold Council said yesterday.

Mining production costs have increased so much that if prices were to fall, many mines may become unprofitable, Wilkins said. “The cost structure of the industry has substantially changed and if we were to see a return to a \$500 gold price, I think the industry will be in serious trouble,” Wilkins said.

## THE BIGGEST CHALLENGE TO A BHP-RIO MERGER COULD COME FROM CHINA

November 15, 2007 (*Globe and Mail*) – Scale matters, might be ArcelorMittal's smug verdict on its own profits. Fresh from completing the deal that bound together Mittal, the world's leading steel maker, with Arcelor, Europe's biggest steel company, the group delivered \$2.9-billion (U.S.) of profit, an increase of more than one-third from the same period in 2006 and a good \$500-million more than expected.

Even so, Indian steel tycoon Lakshmi Mittal would be unwise to crow too loudly about the success of his strategy of shopping for growth, lest he encourage deals among hewers of heavy metal. Two giants of the mining sector, Rio Tinto and BHP Billiton, are trying to stitch together a deal that could have serious repercussions for steel makers and provoke a struggle for market power between companies of the Old World and the New World.

Combination has worked well for steel makers, evidenced in the Mittal margin expansion, but a new threat looms because those on the bottom tier of metal manufacturing, the miners, are playing the same game. In a bid to better control output in a boom-bust industry, they are merging, acquiring and combining.

Two ingredients of steel are at issue – iron ore and coking coal – and supply is concentrated in the hands of a few players, mainly located in Australia. Rio Tinto controls about 22 per cent of the seaborne iron ore trade while BHP Billiton has 14 per cent. CVRD, the Brazilian miner, accounts for 36 per cent of the free market in iron ore. Already, German steel makers are protesting about

the creation of a duopoly in iron ore if BHP buys Rio and the two firms would have 36 per cent of the coking coal trade.

The biggest protesters are likely to be Chinese steel makers who import all of their iron ore, mainly from Australia. There is already speculation about a rival bid from China and a Chinese investor is reported to have acquired a 1-per-cent shareholding in Rio – a heavy hint that China expects to be consulted.

The big adjudicators of antitrust in Brussels and Washington would pore over a BHP-Rio bid and, no doubt, demand concessions. BHP's advisers have obviously seen the traps and found ways to circumvent the difficulties. However, the real obstacle is likely to be in Asia, where the two Old World giants of mining are confronting powerful and new customers, Baosteel of China and Posco of South Korea. These may not be content with a bit of jiggery-pokery and might prefer a more dramatic solution, such as a downstream-upstream combination that gives China a big stake in the mining sector.

China is desperate for access to the minerals it needs to build its country but wherever it seeks to plant its flag, it finds the old firms of Europe have already staked their claims and established their colonies. BHP and Rio would probably resist a Chinese demand that a mine be handed over to Beijing control but having chosen to stir the pot, they may find they have no choice but to swallow the stew.

## YESTERDAY'S TOP STORY: RBCCM PREDICTS BULLISH GOLD PRICE UPSWING TO LAST REMAINDER OF DECADE – BUT....

November 15, 2007 (MineWeb) – RBC Capital Markets, which today is hosting an invitation only major gold seminar in London, has this week released a research report which predicts that the bullish upswing in the gold price will likely last until the end of the decade. Investors would continue to use gold as a safe haven and with the current perceptions of economic uncertainty and global geopolitical risk.

The investment banking arm of the Royal Bank of Canada also says that the “continued weakening of the US dollar, potentially leading to the unwinding of Bretton Woods II, is another factor increasing the metal’s credibility.”

But – and it is a very big but if it comes about – RBCCM’s analysts believe that with the gold price

currently sitting at near record levels, and with November being a seasonally quiet period for gold, a “significant correction” could be in store. The sharpness of the predicted correction could, it is felt, take the gold price right back down to the \$725-750 level. But, following such a shake-out, the analysts further believe that the price could bounce right back up again to as high as \$900 an ounce in the first quarter of next year.

Stephen D. Walker, Director of Global Mining Research at RBC Capital Markets commented: “RBC Capital Markets remains bullish on gold and gold equities for the medium-term, and believes the commodity is in a secular recovery; however, the bank’s short-term outlook is more cautious.

## CITICORP FORECASTS REDUCE METAL PRICE VOLATILITY, FAVOR COPPER

November 16, 2007 (MineWeb) – Citigroup metals analysts said they believe “the defining features of 2008 may well be reduced volatility in metals prices, and key equities finally moving to full market multiples.”

In a report issued Wednesday, Citigroup analysts John Hill, Graham Wark, and Paul Cheng said they see metals and mining mergers and acquisitions “as driven by scarcity, frictional barriers to new capacity, and free cash flow premia. Cash is piling up, opposite a dwindling pool of re-investment opportunities. ...China is hungrily stalking copper, iron ore, and other strategic metals/mining assets.”

“We take comfort from high seaborne freight rates, and implications for Chinese commodity demand,” they said. “Every day seems to yield yet another announcement of a major pension or sovereign investment fund establishing a position of commodities, usually index based. Overall, we see the supply-centric tenets of the commodity Supercycle as entirely intact.” The analysts said they continue to favor copper “as the most defensive, yet aggressively pro-cyclical, China-centric industrial metal.”

“We see copper as the best positioned among the ferrous metals, due to robust offtakes from global infrastructure/capex, sluggish mine capacity adds, disproportionate cost escalation at the top end of the cost curve, thin inventories, and Chinese important requirements,” Citigroup said. “It is arguably both the most potentially pro-cyclical non ferrous exposure, and the most defensive.”

Citigroup Copper forecasts for 2008-10 are \$3.50/lb, \$3 and \$3.

Citigroup analysts said they believe that “2008 will be aluminum’s year, and are comfortable with a \$1.20/lb forecast. The long-term floor is likely to be well above \$1/lb.’ While the analysts believe that recent inventory build, rapid Chinese capacity additions and exposure to U.S. housing/autos are of concern, “we are maintaining a positive stance toward aluminum into 2008/09 based on the likelihood that upside to Chinese demand has been galloping ahead and handily absorbing excess metal. Recent import/export tax changes are significant for aluminum with positive implications.”

The analysts said that “nickel has bounced from an uptick in stainless orders after peak surcharges finally flowed out. Futures are relatively flat, but inventory builds are intimidating.” Cutbacks from stainless mills in the third quarter have diverted nickel to LME warehouses, which are now up six times to 41 kT, representing 13 days of consumption.

Citigroup forecasts that nickel will settle in the \$11-\$13/lb range. The global commodity team said they expect “nickel to revert to its long-run price much faster than other metals, declining to long-term estimate of \$6/lb (real) by 2010. This view is divorced from the futures curve, which is above \$14/lb for 2010.”

## CHILE MINES NEARLY BACK TO NORMAL: BHP

November 16, 2007 (*Dow Jones Newswires*) – BHP Billiton said overnight that its copper mining operations in northern Chile are nearly back to normal after Wednesday's 7.7-magnitude earthquake. At the wholly owned Cerro Colorado and Spence mines, production resumed overnight, the company said.

At the Escondida mine, which BHP controls and operates, concentrate production is at 76 per cent of

capacity, while cathode production is at 38 per cent of capacity "as energy supply difficulties continue," the company said. The company's Coloso port, meanwhile, is operating normally, BHP said.

According to the company, there were no damages to mining installations nor was anyone injured. BHP had said earlier that the walls of the open pits didn't suffer structural damages.

## FORTESCUE AGAIN SEEKS PILBARA RAILWAY ACCESS

November 16, 2007 (*Mining Journal*) – Fortescue Metals Group Ltd has asked Australian regulators to give it access to Rio Tinto and BHP Billiton's railways in Western Australia, saying BHPB's proposed combination raised competition concerns.

"Fortescue is seeking to open the tremendous synergies available in the Pilbara to all Australian mining companies as originally foreshadowed by the iron ore industry's founding fathers," Andrew Forrest, managing director of Perth-based Fortescue said. Fortescue is building a A\$2.6 billion (US\$2.3 billion) iron ore project in the Pilbara. One of Rio's railways in the region runs close to Fortescue's Solomon project, where a billion tonne iron ore discovery was made this week.

BHPB, the world's largest mining company, proposed taking over Rio Tinto last week, a combination that Forrest said will "exacerbate" competition concerns.

"I certainly oppose any merger which doesn't take into account Australia's national interest, that does not mean that I oppose this merger," Forrest said in a teleconference from Perth. "If they share those rails, if they open up those ports, if they open up the Pilbara as they originally intended, then we will certainly be supportive."

Fortescue has written to the National Competition Council to seek access to part of Rio Tinto's railway and has also written to the Australian Competition and Consumer Commission to raise its concerns about the proposed takeover offer for Rio Tinto by BHPB, Forrest said in the statement.

The company has previously sought access to BHPB's Mt. Newman railway to cut development costs. BHPB lost an appeal in the Australian Federal Court on October 5 against a ruling allowing rivals access to the line.

## NORILSK TO RAISE \$2.14 BILLION FROM SELLING TREASURY SHARES

November 16, 2007 (*Reuters*) – Russian miner Norilsk Nickel will raise \$2.14 billion through the sale of treasury shares equivalent to about 4 percent of its charter capital, the company said late on Thursday.

Norilsk, which mines about a fifth of the world's nickel, said it set the price for the sale of 7,498,950 ordinary shares at \$285, or 6,982.5 roubles, per share. The price is a 3 percent discount to the company's closing price in Moscow on Thursday. Norilsk decided this month to refloat treasury shares acquired during a buyback last year. The shares must be sold or annulled by Dec. 17 in accordance with Russian law.

The sale is being executed through an accelerated bookbuilding offering to institutional investors. Norilsk

said it expects the offering to receive board approval on Nov. 19. Morgan Stanley is acting as sole global coordinator of the offering and, along with Deutsche Bank's London branch, is acting as joint bookrunner.

Norilsk is controlled by two Russian billionaires, Mikhail Prokhorov and Vladimir Potanin, who plan to split their assets in a complicated process that will involve dozens of companies. Norilsk's stock has risen about 80 percent this year and the company, which also produces more than half of the world's palladium, has a market capitalisation of \$56.1 billion.

## CHINA'S MOVES TO CURB ALUMINUM EXPORTS HELPING CAP DOMESTIC PRICES – ICEA

November 16, 2007 (XFN-ASIA) – China's moves to discourage exports of aluminum, combined with rising output, is holding down prices, ICEA said.

“From January to August, China raised its aluminum production by 36.6 pct to 8.07 mln tons, roughly ahead of the country's aluminum consumption of 7.75 mln tons, up 41 pct year-on-year. China accounts for 32 pct of the global aluminum production. In fact, it drives 84 pct of production growth in the world,” ICEA said in the note to investors.

In volume terms, China maintained its net exports at 8-10 pct of its domestic production in 2004-2006. But the percentage dropped to just above two pct in 2007 as the government cut the export tax rebate.

“Both import and export volume of aluminum fell sharply in September 2007. The net exports also fell, amounting

to 209,000 tons from January-September in 2007 against 550,000 tons for the same period in 2006. It is worth noting that the risk for having excess production stays high as the surplus at the end of September amounting to 350,000 tons is much higher than the 19,000 tons for the first three quarters of 2006,” ICEA added.

It said that aluminum prices have since rebounded from the two-year low of 17,720 yuan per ton but upside is restrained by rising inventories. “In the short term, we think China's aluminum price will consolidate around 18,000-19,000 yuan per ton given ample market supply, and smelters can still record decent profits,” the note added.

## NORILSK NICKEL TO SELL ENERGY ASSETS IF SPIN-OFF FAILS

November 16, 2007 (RBC) – Norilsk Nickel will be ready to sell its non-core energy assets should its shareholders vote against their divestment as part of the EnergoPolyus spin-off, the Russian nickel producer's General Director Denis Morozov told journalists. According to the chief executive, the purpose of the spin-off is to create value for EnergoPolyus. Morozov did not rule out that other opportunities would be looked into if shareholders did not approve the divestment scheme. At the same time, he

expressed confidence that one of Norilsk Nickel's major shareholders, Oneksim Group President Mikhail Prokhorov, would not vote against the spin-off.

Norilsk Nickel shareholders are anticipated to approve the divestment of the company's energy assets into a separate company, EnergoPolyus, at an extraordinary meeting on December 14.





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