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Global Mining News

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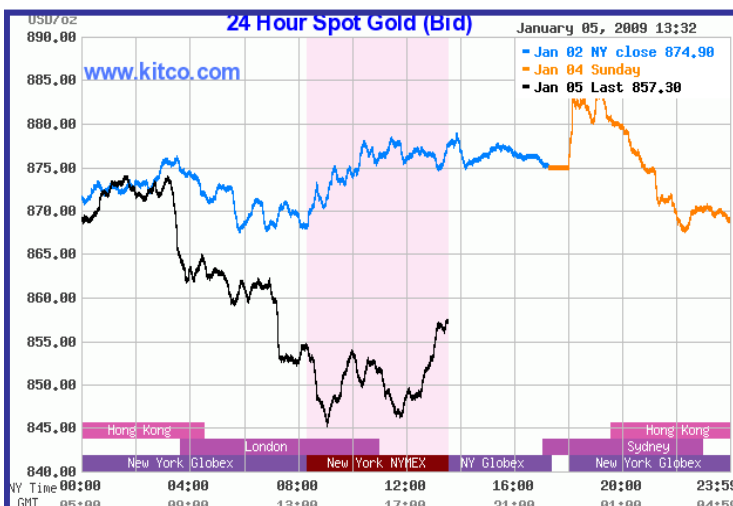
GUINEA COUP BRINGS NEW UNCERTAINTY TO THE COUNTRY'S MINING SECTOR. GOLD MINING SUSPENDED

December 28, 2008 (MineWeb) – The death of Guinea’s autocratic President of 24 years, Lansanah Conteh, and the initial seizure of power by the young army Captain Moussa Camara and his National Transitional Consultative Council has raised the spectre of yet another Civil War in this turbulent, mineral rich, region of the African Continent. However, let it be said that Camara is making the right pledges and appears to be supported by much of the population, one of the world’s poorest, and to a major extent by the country’s former government with an endorsement by the deposed Prime Minister, and most of his government ministers.

The old regime was unpopular and largely seen as corrupt with the potential benefits of the country’s mineral resources not filtering down to the general population where the bulk of the population’s income lies below the poverty level of around \$2 a day. The country has huge mineral resources. It is home to some of the world’s largest and richest bauxite mines with bauxite sales providing around 20 percent of the country’s GDP. It also has a significant gold mining sector and enormous iron ore mining potential at Simandou, although the logistics of setting up the necessary infrastructure to mine these deposits is daunting. Diamonds are also mined.

One of the first statements by Camara suggests that the mining sector and the various mining contracts will be examined closely and re-negotiated should this be warranted. Where corruption is

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USD	JANUARY 02, 2009	DECEMBER 26, 2008
GOLD	874.50	836.75
SILVER	11.0800	10.2900
PLATINUM	926.00	856.00
PALLADIUM	185.00	175.00
ALUMINUM	0.6768	0.6783
COPPER	1.3930	1.2565
LEAD	0.4720	0.4082
NICKEL	5.7652	4.3091
URANIUM	53.00 (12/29/08)	53.00 (12/22/08)
ZINC	0.5536	0.4990

uncovered those involved would be punished. He has also immediately suspended all gold mining in the country.

The moves will inject a degree of uncertainty into the country's mining sector which could be particularly troublesome for companies looking at developing new operations, or in need of capital to maintain or expand existing ones. A particular worry will be the potential effects on the Guinea Alumina project which was seemingly already bogged down in financing in its plans to construct and operate an alumina refinery with an annual design capacity of 3.3 million metric tons with the potential to expand to a capacity of 3.95 million metric tons-per-year. On the gold mining front, the principal players are AngloGold Ashanti with the Siguiri mine, Semafo with the Kiniero operation and Crew Gold's LEFA project. Why these have been singled out for immediate closure pending investigation is unsure, but again adds a degree of worry and uncertainty for those companies involved and among their shareholders.

Iron ore of course is represented by the potentially huge Simandou deposit – with the concession initially held by

Rio Tinto, but where recently President Conteh's government had seemingly given half of this concession to the Steinmetz Group'. It is early days yet for Guinea's fledgling military government and if it keeps to its promises and is genuine in its attempts to root out corruption then it could well form a promising way ahead for the impoverished country.

As for the mining sector we are likely to see government pressure to develop dormant deposits – not the easiest to find finance for in stable political environments at this time of financial strictures, let alone in an unknown governance situation. Hopefully the gold mining sector will be returned to normal rapidly, although one suspects a detailed review may unturn some skeletons which may necessitate a degree of renegotiation. Those involved in the country will thus face additional uncertainties to add to the global difficulties being experienced by the industry at the moment.

GLENCORE SET FOR KATANGA MINING TAKEOVER

December 29, 2008 (miningmx.com) – Glencore looks set to take control of Katanga Mining (Katanga) which is one of the largest copper/cobalt operators in the Democratic Republic of Congo (DRC). The Swiss-headquartered commodities giant could own up to 83.7% of Katanga in terms of an emergency funding package for the embattled company announced on Christmas Eve.

According to a Katanga statement, the company is “in serious financial difficulty”. It urged shareholders to vote for an increase in Katanga's authorised share capital at a meeting to be held on January 12. The approval is required for implementation of the proposed funding scheme. The statement added Katanga will not, “in the absence of other equivalent immediate financing alternatives, be able to continue to operate as a going concern”.

Under normal circumstances, shareholders should approve both the loan and the proposal to issue shares. Katanga, however, is pushing ahead without this based on the “financial hardship exemption in the rules of the Toronto Stock Exchange (TSX)”. The downside of this is that the TSX intends undertaking a “delisting review” on Katanga, but the Katanga statement said the company will meet TSX listing requirements once the financing is complete.

Glencore holds an 8.5% stake in Katanga which it earned in a similar fashion by providing financial assistance to predecessor Nikanor in mid-2007, when Nikanor got into funding problems because of capital expenditure overruns.

The Glencore funding is in the form of a \$265.3m, two-year mandatory convertible loan facility which consists of new finance of \$100m and the restatement of an existing \$150m from Glencore which, with interest, amounts to \$165.3m. But this funding is only enough to see Katanga through its “immediate financing requirements for its revised production plan through the first quarter of 2009”. Katanga then needs to raise another \$250m in equity and/or debt during the first half of next year.

Katanga and Glencore intend approaching other potential investors to participate in up to 75% of the R265.3m facility; the deadline for this is February 9. If backers are found for the full 75% on offer, Glencore's equity stake in Katanga will amount to 22.1%. If no other investor is prepared to contribute, Glencore will end up with 83.7% of Katanga.

CHINA IRON AND STEEL ASSOCIATION WARNED NOT TO ACCEPT INDEX PRICE

December 29, 2008 (Platts) – China Iron and Steel Association (CISA) warned China's steel makers not to accept spot contracts based on index pricing proposed by Anglo-Australian iron ore giant BHP Biliton, Shanghai Securities News reported on Dec 25. While Baosteel and the three major international mining companies are about to start their 2009 iron ore negotiations, BHP Billiton has recently begun its lobbying in China trying to sell iron ore on spot contracts. The new price scheme is to replace the current fixed-price contract with an index-based pricing which adjusts prices on a more regular basis or based on spot index. According to Chinese buyers, BHP sweetened the spot deal with Chinese mills by counting spot volumes as part of the committed volume under long term contracts. Spot procurements taking place before 1 April 09 will be counted as follow through of the FY08 contracts that the Chinese mills signed previously, avoiding possible contract defaults for these firms. Thus far, BHP is said to have sold several spot contracts for the first quarter of 2009. The China Iron and Steel Association again expressed its firm stance against indexed pricing, saying that while it was permissible for Chinese mills to buy from spot market for now and until 1 April 2009, the association would take punitive action

toward any steel producers that sign spot contracts with suppliers from April, threatening to recall their iron ore import licenses. Mr. Liu Bing, steel analyst from First Capital said: "It is positive for steel mills to sign spot contracts in the short-term as the current spot prices are lower than FY08 contracted prices. However, in the long run, Chinese mills may not be able to lock in profit under this price scheme and thus may incur earnings volatilities."

Mr. Shanshanghua, secretary of CISA, is quoted saying that the negotiated price for long term supply contracts will be the lowest among all. Small and medium-sized steel mills can import through its bigger counter parts who are acting as their agents to secure iron ore supply under this price. It won't allow any steel producers to sign contracts above this price level, under the index-pricing scheme. Some firms have not signed a spot contract with BHP but are not ready to wait to receive a negotiated price from Baosteel. They have instead opted to negotiate their own long term supply contracts. They view the current contango in iron ore as a good opportunity to negotiate a favorable long term price.

MEXICO'S CEMEX SELLS CANARY ISLANDS ASSETS

December 29, 2008 (Reuters) – Mexico's Cemex, the world's third-largest cement maker, said on Monday it completed the sale of its Canary Islands operations to Spanish units of Cimpor Cimentos de Portugal for \$227 million. Cemex has earmarked proceeds from asset sales to pay down its \$16.4 billion debt. Its leverage levels jumped after buying Australian rival Rinker last year.

Monterrey-based Cemex said last week its banks had agreed to refinance nearly \$2.2 billion in debt maturing in 2009 and 2010; it will now be payable in February 2011. Cemex, which operates in more than 50 countries, said

creditors had also agreed to extend almost half of its \$3 billion syndicated loan facility due in December 2009.

Investors in Cemex had been worried the company might default amid the global financial crisis, tight credit conditions and lower cash flow as the U.S. housing crisis hits business. Cemex's troubles stem from its takeover of Rinker, which increased the Mexican company's presence in the United States just as the U.S. housing industry slumped and sparked a recession in the world's top economy.

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ALUMINUM INVENTORIES DROP 1.4 PERCENT IN NOVEMBER, REPORT SHOWS

December 29, 2008 (Bloomberg) – Aluminum inventories last month were 1.4 percent lower than in October, a report from the International Aluminium Institute showed.

Stockpiles of unwrought aluminum, or metal not processed into products, declined to 1.6 million metric

tons in November from almost 1.63 million tons in October, the London-based group said today on its Web site. They totaled almost 1.47 million tons in November last year.

ZAMBIA URGES MINING FIRMS TO KEEP OPERATING

December 29, 2008 (Reuters) – Zambia has asked foreign mining firms to use profits they made when copper prices were high to keep working in the downturn, its central bank chief said on Monday after Luanshya Copper Mine (LCM) suspended operations. Bank of Zambia (BoZ) governor Caleb Fundanga expressed optimism that copper prices would soon rebound but said the developments at LCM were a threat to the country's copper industry.

LCM shut down its Chambishi Metals Plc unit, the country's largest cobalt producer, and the Baluba copper mine soon after suspending the \$354 million Mulyashi copper project, which had been due to start producing 60,000 tonnes of copper in 2010. It cited operational difficulties arising from the global credit crunch as reasons for the decision.

The fact that there has been a low copper demand and prices have seen a downward trend is a development with lots of implications. However, (mining firms) must be able to weather the storm, it's a bit too early to leave (and) it's not too good to leave in a rush," Fundanga told

Reuters. World copper prices have dropped by almost two-thirds from the July all-time high of \$8,940 a tonne.

Industry analysts say most copper mines, the southern African country's economic lifeblood, have also slowed down expansions and upgrades following the global financial crisis. There are fears some investors may consider pulling out of the country. Fundanga said Zambia remained optimistic the global economy would stabilise soon and demand for copper would begin to rise to give relief to the industry, which earns Zambia 63 percent of its foreign exchange.

"In 2002, Anglo American pulled out of Konkola Copper Mines (KCM) citing low copper prices, but soon after prices rose and this is likely to happen again," Fundanga said. Fundanga said the other way Zambia would mitigate the effects of falling copper demand and prices was by diversifying its economy to other sectors such as agriculture and manufacturing of copper products. "We (will) diversify into manufacturing of copper cables and other products," he said.

ZAMBIA APPROVES URANIUM PROJECT, DECISION IN JANUARY

December 30, 2008 (Reuters) – Lumwana Mining Company (LMC) said on Tuesday it has received the permission to proceed with its \$200 million Zambia uranium project, but the decision to begin construction of processing facilities will be taken in January. Managing Director Harry Michael said the environmental impact assessment report had been endorsed by the authorities, paving the way for the construction of processing facilities and also allowing the firm to seek separate licences for mining, storage and transportation of uranium. Michael said the board of Lumwana's owner,

Australia's Equinox Minerals, would take a decision in January on whether to proceed with the project on the back of a difficult global economic climate.

Lumwana would process 1.0 million tonnes of uranium to produce around 800 tonnes of yellow cake per year, he said. "About \$200 million is required for initial start up of the project and we do not have the money in the backyard of Lumwana. So we will evaluate the potential of the project, look at the liquidity in view of the financial crunch," Michael said. Michael said mining of uranium

and stockpiling which started a few months ago would continue even if the Equinox board decided to defer the project.

The project would employ 300 people during the peak of production. The LCM has previously said a \$6 million uranium feasibility study at the Lumwana mine showed the existence of high grade uranium. Zambia is Africa's largest copper producer and foreign firms including Zambezi Resources Ltd, African Eagle Resources Plc and Lithic Metals and Energy Ltd, have also discovered huge uranium deposits in the mineral-rich southern African country.

In October, Zambia enacted a law for mining, storage and export of uranium which bars the diversion of the mineral for use in making nuclear weapons or devices. The law, which covers the prospecting, mining and milling of uranium ores and other radioactive minerals ores, gives all powers to the mines minister to issue licences for mining and exports of uranium as a safeguard to ensure it is exported to the right consumers.

CHINA TO DECIDE SOON WHETHER TOLLING IS OKAY

December 30, 2008 (Shanghai Daily) – China, the world's biggest metals consumer, is close to deciding whether to allow tax-free imports of copper concentrate and primary aluminum for processing into export-bound products to boost industrial production. The government should make a decision soon on whether to allow the practice, known as tolling, Wen Xianjun, vice president of China Nonferrous Metals Industry Association, said yesterday.

China has been restoring tax benefits for overseas metals sales to encourage exports, which fell for the first time in seven years last month, and to boost industrial production that grew at the weakest pace in almost a decade.

“This is to help Chinese metal processors maximize capacity at a time when the global slowdown has reduced

demand,” Wen told Bloomberg News. China ended tolling for some metal raw materials last year in an effort to curb expansion in the energy-intensive and polluting sector.

Raw material imports under tolling trade would be exempt from export duties and value-added tax, Wang Qinhua, head of the markets and trade department of the association, said. Exports of finished goods, which for the pending decision means refined copper and aluminum products, would still be subject to both taxes, Wang said.

“Metal processors want the practice back, feeling such production isn't energy-consuming and is often labor-intensive, which helps employment at this difficult time,” she said.

CHINA TOP TIN PRODUCER TO SELL 30,000 TONNES TO PROVINCIAL RESERVE

December 30, 2008 (Reuters) – Top Chinese tin producer Yunnan Tin has proposed to sell 30,000 tonnes of tin ingots to Yunnan province for its planned base metal reserves, a company executive said on Monday. Yunnan Tin would buy back part of, or all of the 30,000 tonnes of tin ingots once it received a confirmation from the State Reserves Bureau (SRB), he said.

The amount is nearly 4-fold the current stocks in the London Metal Exchange's warehouses and around 7 percent of global annual tin production, which could lead to reduced exports from China, the world's top producer of refined tin. “We are transporting our stocks to an SRB warehouse in Yunnan,” the executive told

Reuters, without providing details. That warehouse is also being used by the provincial government to store metals processed under Yunnan's stock-building plan.

The plan, announced in early December, calls for the building of a reserve of 1 million tonnes of base metals, including 100,000 tonnes of tin, to take advantage of the lowest prices in years and to bolster weak demand. “The storing is temporary. The central government will buy tin as reserve soon,” the Yunnan Tin executive said. “When the SRB buys, we just have to change the warrant to the SRB.” He added the SRB had not finalized the amount of tin the state body would buy for reserves.

This month, the SRB has already bought 30 tonnes of indium and about 300,000 tonnes of primary aluminium from smelters for stockpiles. It is expected to buy up to 300,000 tonnes of zinc soon.

The firm's tin production would be around 60,000 tonnes this year, out of annual capacity of 70,000 tonnes. The

Yunnan Tin executive was unwilling to speculate when the firm would be able to restart production but said it was unlikely to happen in coming month.

RUSSIA NORILSK BUYS OWN SHARES FOR \$1.59 BILLION

December 30, 2008 (Reuters) – Russia's metals giant Norilsk Nickel said on Tuesday it has bought its own shares for 46.5 billion roubles (\$1.59 billion) by Dec.30 as part of a buyback restarted after a court had lifted a

suspension. Earlier this month Norilsk officials said the process of completing the buyback worth a total of \$1.8 billion could take some two months.

CHINA'S STATE RESERVE LIKELY TO PURCHASE INDIUM AGAIN: SOURCES

December 30, 2008 (Platts) – China's government agency, the State Reserve Bureau, is likely to purchase indium again in 2009 following its 30 mt purchase this month, local industry sources said Tuesday. The SRB is said to have bought 30 mt of indium ingot from Huludao Zinc Industry in mid-December to stimulate trade that has stagnated due to weak demand. The SRB was not available for comment, but an export official at Huludao Zinc confirmed the sales, adding that he was not sure if the quantity was 30 mt.

The SRB is likely to buy more indium in 2009 until prices rise, said Chinese trade and producer sources. "I was told SRB is likely to buy another 30 mt, and another 30 mt continuously, until prices go up," said one local source, who estimated the country had 150 mt excess stocks for the SRB to absorb. An amount of 30 mt is equivalent to one year's production for Huludao Zinc, one of the top three Chinese indium producers, and more than three-years production for 20 or so other smaller producers in China.

But producer as well as local trade sources showed little interest in the SRB purchase. An official at one of the top three producers said that was because of the SRB pricing. The recent sales by Huludao Zinc was at Yuan 2,000-2,200 (\$290-320)/kg, sources said, although the price level was not confirmed by the company or SRB.

This sales price was lower than the prices quoted at the local indium exchange, the Guangxi Indium Exchange, which was Yuan 2,600/kg when the SRB purchase took place. Although local market participants may not necessarily be enthusiastic about selling to SRB, the SRB purchases are likely to have a positive impact in the trading environment in the long run, sources added.

There is little SRB can do about slump in indium export demand, which was caused by the financial crisis in the Western countries, but SRB's moves may help balance China's supply with falling demand, they said.

PART 1 – WHAT NOW FOR GOLD, SILVER AND PLATINUM GROUP METALS MINERS?

December 30, 2008 (MineWeb) – No follower of metals markets will be unaware that the past year has seen tumultuous volatility in metals prices and mining stocks, and many will have had their fingers burnt drastically in the shakeout we have seen over the past few months.

What has been the real shock has been the speed of the price downturn once it started which reduced many mining stock prices to a fraction of their prior worth in a matter of weeks.

But what can we expect in the weeks and months to come? A continued recovery – or a return to the lows seen in early October? But we can expect precious and industrial metals to perform rather differently given the former – or at least silver and gold – have a monetary and investment element in their price movements while the latter (and one has to include the platinum group metals in the industrial sector here) are ultimately price dependent on the state of industrial supply and demand.

Gold has been one of the best performers in the general market crash seen in the past nine months. True it is well off its peak achieved back in mid-March, but a fall of only 15 percent between then and now can be seen as a pretty creditable performance in wealth maintenance terms. The metal price is actually higher at year end than at the beginning and not many commodities will have achieved this accolade! The recent heavily reported surge in demand for physical gold is not necessarily because people are looking for huge gains in price, but primarily because of the lack of trust in banks and investment institutions and a protection against possible failures in these sectors. In the current climate wealth preservation is the primary aim of most people.

There is obviously the possibility of good gains as well, but this should be seen as a bonus if it should happen, rather than a likelihood. There is also the continuing possibility that the gold price will fall back in the months ahead, particularly if the general markets see a new downturn. But the consensus is that if the gold price does fall back the downside potential is much more limited than that for the stock market as a whole.

Silver is a bit of a different animal, but does tend to ride on gold's coat tails – but in a far more volatile manner given its production patterns and industrial usage. Unlike gold, silver fell back 57 percent from peak to trough and will likely continue to be far more volatile than gold in the months ahead. If gold does surge, then silver may do even better in percentage terms. If gold falls there is the possibility silver will do even worse.

Overall I suppose one should be cautiously optimistic on the outlook for gold and silver in the year ahead. Gold

fundamentals look relatively strong and prices seem to be well supported above the \$740 mark which should limit the downside risk. Upwards the sky would seem to be the limit, but the reality is that gold has moved pretty cautiously through the recent financial quagmire and is likely to continue to do so. \$1,000 gold still has to be in prospect sometime in 2009, and once reached may well be maintained, particularly if the dollar starts to fall again.

Then there are the in-between metals – notably platinum and palladium – the former having suffered one of the biggest falls of all during the past year. It was initially buoyed by the assumed ever-continuing supercycle, coupled with a power supply crisis in South Africa which was restricting supply and the platinum price rose dramatically on supply fears in what was already likely to be a supply deficit year anyway. But the price fall was dramatic as auto sales collapsed in the second half of the year on global economic paralysis following the banking collapses, huge governmental bailouts and a generally very pessimistic view of the short to medium term economic picture. With auto catalysts accounting for by far the bulk of platinum use, there is unlikely to be a serious pick-up in platinum price until the true auto (and platinum) demand picture is clarified in the months ahead. For the moment platinum seems to be stuck at a level marginally above or below the gold price and this could well continue for a few more months, depending on where gold goes from here. But any discount to gold may be shortlived once global industrial output begins to pick up with most specialist analysts predicting a return to plus \$1,200 platinum in 2009.

Palladium seems to be in a different position. Supply was in surplus prior to the auto industry nosedive and the price looks as though it remains vulnerable with little upside potential on the fundamentals front. However, global supply is largely dependent on Russian exports and these could be cut off if the Bear sees it to be politically or financially advantageous.

RIO TO SELL STAKE IN CHINESE ALUMINIUM SMELTER

December 31, 2008 (Reuters) – Rio Tinto has agreed to sell its half in a Chinese aluminium smelting joint venture to its partner Qingtongxia Aluminium, a Rio spokesman said on Wednesday. Rio, which is trying to sell up to \$30-billion in assets to pay off debt, acquired the stake in

the joint venture, capable of supplying up to 150,000 tonnes of aluminium smelting capacity a year, when it bought Canada-based aluminium group Alcan last year.

Both the Rio spokesman, Jim Singer, and a senior Qingtongxia executive declined to say how much Rio agreed to sell the stake for because the sale was yet to be finalized. Alcan paid about \$150 million in 2004 for the half-interest. "Completion of the transaction is expected in the first quarter of 2009, pending clearance of certain Chinese government approvals," Singer said.

Following a dramatic drop in world commodities prices and a sharp fall in its share price, Rio earlier this month said it would cut 14,000 jobs and broaden an asset sell-off plan to raise more cash. Most of Rio's debt was

incurred from the Alcan purchase. Rio had hoped to sell \$10 billion worth of assets this year out of a planned \$15 billion, but had to scrap that target due to the global economic downturn and credit crisis. It has been trying to sell the downstream packaging and engineering units of its aluminium unit Alcan, its North American coal unit, its Minerals unit, the Northparkes copper mine in Australia and the U.S. Sweetwater uranium operation. So far it has managed to sell only \$3 billion worth of assets.

ZIJIN MINING PLANS \$381 MLN COPPER REFINERY VENTURE

December 31, 2008 (Reuters) – Zijin Mining, China's top listed gold producer, said it planned to team up with a major shareholder to build a copper refinery in Fujian province at a total investment of 2.6 billion yuan (\$381 million).

Zijin Mining said late on Tuesday it planned to link up with Minxi Xinghang State-owned Assets Investment Co

Ltd to build the copper refinery in Fujian's Shanghang with a capacity of 200,000 tonnes a year. It gave no further details.

RUSSIA'S VEB TO LEND \$1.5BN TO MINING INDUSTRY

December 31, 2008 (Reuters) – Russian state-owned bank VEB's supervisory board approved a proposal to lend \$1.5-billion to domestic metals and mining companies for them to refinance foreign loans, the bank said on Wednesday. VEB, or Vneshekonombank, did not provide any details on which companies would receive the loans.

The Kremlin has entrusted the bank with distributing a \$50-billion rescue package to help Russian companies

refinance a total of \$120-billion of Western loans by the end of 2009. VEB paid out some of these funds this month, including an \$800 million loan to steel maker Evraz Group and a \$750 million loan to Gazprom Neft.

In October, it also agreed to lend \$4.5 billion to RUSAL so that the aluminium giant could repay loans taken out to acquire a 25 percent plus two-shares stake in Norilsk Nickel.

THE YEAR AHEAD PART 2 – BASE METALS PROSPECTS

December 31, 2008 (MineWeb) – While the prospects for the year ahead for precious metals are perhaps easier to assess (although equally likely to be proved wrong) those for base metals are so dependent on the state of the global economy, where recovery or otherwise is so uncertain, that it makes any kind of prediction fraught with problems.

On the face of things, the general economic consensus out there is that 2009 will be an extremely tough year for

the global economy. One reads little in the press apart from doom and gloom as the world plunges into recession and perhaps deflation over the next 12 months.

Yet for the commodities sector all the adverse forecasting may not be as it seems – or perhaps we are being overly optimistic in suggesting this. There have been huge falls in base metals prices as industrial production has been slumping and demand has fallen away. But have the falls, and the remedies for them, been overcooked? We

certainly seem to have seen this in the price fallout for commodity stocks which bottomed in mid-October and have mostly staged pretty strong recoveries, although still remaining hugely lower than they were only a year or so ago. To a large extent this has applied to the stock market in general, but there is perhaps more vulnerability in the overall economy than there is in the commodities sector precisely because the opportunities for reducing production are far higher, and can be accomplished far quicker, in the latter. Commodity prices depend very much on the supply/demand balance and there is little doubt that the supply side for most metals and minerals is being cut back ruthlessly which should help stabilise prices and lead to new growth in the year ahead.

What is recession as far as the global economy is concerned? A period of zero or negative growth. There is little doubt that much of the world is experiencing this at the moment. Taken along with new project and expansion deferrals or abandonments, some of which will not now see the light of day again for many years, and the general declines in output from older mining operations as orebodies run out, or higher grade mining opportunities are diminished, we can expect significant production shortfalls in the years ahead.

So what are we faced with at the moment? Copper is very much the bellwether of the base metals sector and the price has slumped to a current \$1.30 a pound, a level last seen in 2004. Only six months ago the copper price was around the \$4 mark! On the face of things this suggests a pretty dire time ahead for the copper sector and there still

has to be the possibility of further short term price falls. But even the current price level will see more cutbacks as the smaller less financially secure miners go out of business and the majors continue to retrench and we have to be awfully close to a supply/demand balance again.

There seems to be little doubt that western economies will continue particularly weak and will offer little support to the price. But the eastern nations – China in particular – with their huge populations now looking to standard of living improvements as a right, are already beginning to ride to the rescue of the world's beleaguered miners with plans to soak up excess inventory. 'What has happened to copper supplies has been even more apparent in other base metals sectors, notably zinc and nickel, where the price fallout has been more severe and global output is being even more severely cut back.

With a good proportion of the world's producers operating at or below break even there will likely be more big production cuts still to come. Even with all the cuts, price growth will be slow to pick up, while some of the measures to stabilise the sector which have already been taken – notably the implementation of strategic stockpile building in China – will also mean any price buildup will be slower than before as material can be released from these stockpiles to counter any rapid price increases.

But overall, as confidence begins to return to the global economy, which hopefully it should start to do within the next few months, then metals prices should improve, but not nearly as fast as they did over the 2004-2007 period.

YEAR-END LEAP IN OIL PRICE COULD BODE WELL FOR GOLD IN 2009

January 1, 2009 (MineWeb) – Oil, and to a lesser extent gold, recorded a strong price surge on the final day of the year, which could be bad news for the U.S. dollar, but positive for precious and base metals at the beginning of 2009.

Oil is arguably the most oversold commodity of all in the markets having fallen from \$147 a barrel in July down to as low as \$32 a barrel in recent weeks, despite OPEC's avowed policy to cut production by some 2.2 million barrels a day to restabilise prices at a higher level. Indeed OPEC would like to see the oil price back to \$100 a barrel and certainly has the muscle, if perhaps not the will, to continue production cuts until this is achieved.

Longer term the peak oil scenario, which sees production potential reaching a maximum followed by a serious decline, if correct, would suggest a continuing high oil

price environment from late in the next decade, although timing of the 'peak' is open to argument. Cognisant of the reserve depletion likelihood, major oil producers may thus be more ready to make production cuts to maintain prices at what they see as reasonable levels with a contrarian effect on the strength of the U.S. dollar as, for the time being at least, the world's largest consumer of oil and oil products. Some would say that security of continuing oil supply is what the Iraq Wars have, in reality, been all about.

But if stronger oil prices could lead to a weaker dollar (its strength further eroded by the huge increase in money supply being pumped into the economy by the government to try and avoid prolonged recession) and a weaker dollar generally means a stronger gold price.

\$100 oil would probably mean on balance \$1,000 gold going on historic ratios – so the potential (probable?) rise in oil price is not necessarily a formula for huge gold price gains, but sufficient to give the gold mining sector a good fillip and bring selected gold mining stock prices back to their peak levels.

The year-end boost in the gold price, albeit in pretty thin trading because of the holiday period, has taken it up

through what had seemed to be a strong resistance level so there would seem to be decent potential for at least a little growth over the next few months, but market nervousness and volatility could see the price hitting a series of successive peaks and troughs as the market tries to stabilise. While the overall trend may look to be positive don't expect it to be a smooth ride!

BHP BILLITON BOLSTERS DECEMBER IRON ORE SHIPMENTS

January 2, 2009 (The Australian) – BHP Billiton appears to have boosted December Pilbara iron ore shipments and may have been spared from most of a flagged 6 million tonnes shortfall from its 2008 sales target. As spot iron ore prices rebounded somewhat in December and Chinese iron ore demand showed some signs of strengthening, BHP increased the number of ships loaded at its Port Hedland berths.

In November, BHP said a sharp slump in Chinese iron ore demand meant annual sales would probably be down 6 million tonnes from a target of 130 million because steel mills could not take contracted shipments. But judging from the number of ships that left BHP's Port Hedland berths last month, the miner may fall only 1 million or 2 million tonnes short of its target.

While its major competitors, Rio Tinto and Vale, have sliced iron ore production because of a sharp fall in demand and prices, BHP has said it will not do so while it can make a profit. It has been happy to sell on to spot markets at substantially lower prices than achieved in contract negotiations.

When announcing the potential pull-back in sales, chief commercial officer Alberto Calderon said the 2008 shortfall would be due to the time taken to find spot

market buyers for previously contracted shipments. Yesterday, a BHP spokeswoman declined to comment on whether the company had managed to restrict lost sales, saying all would be revealed in the miner's January 21 quarterly production report.

Iron ore spot prices rebounded over November and December after plummeting from more than \$US180 a tonne in July to \$US63.50 in October. While still below contract prices of about \$US100 a tonne, the Metal Bulletin spot price had climbed to \$US79 the last time it was published on December 19.

Rio Tinto chief executive Tom Albanese recently said there were signs of life coming from Chinese steel mills, though he was not prepared to declare the worst was over. But analysts warn that the bounce-back could be temporary and are waiting for more solid evidence that demand for steel is picking up. Last week Chinese state media and industry participants said at least five major mills, including industry leader Baoshan, would raise steel prices. This would bode well for BHP and Rio, which are preparing for annual price negotiations where they are expected to have to take substantially lower prices.

CHINA TURNS SCREWS ON IRON ORE GIANTS

January 2, 2009 (The Daily Telegraph) – Just days into the new year the signs from China for our battered big miners are ominous. According to reports out of Shanghai, the Chinese Government is seeking tighter control over iron ore imports to help drive down prices for the steel-making ingredient.

That's bad news for the world's biggest iron ore producers – Rio Tinto, BHP Billiton and Brazil's Vale – as it will give Chinese steel giant Baosteel much greater

muscle in the current round of iron ore price talks. Substantially reduced iron ore prices will put even more pressure on BHP and Rio, as they grapple with dramatic price falls across all major commodities.

Rio is especially vulnerable as it struggles with \$US38.9 billion (\$A55.3 billion) in debts in the face of the global financial crisis. Annual iron ore contract price negotiations are shrouded in mystery but are believed to have kicked off in the weeks before Christmas.

Beijing reportedly wants closer monitoring of where iron ore shipments end up after their arrival in China's ports. And it is looking at clamping down on the practice among import agents of making profits by stockpiling iron ore as a punt on future higher prices. The new regulatory regime could hurt BHP and Rio as it will potentially reduce shipments of iron ore – Australia's second-biggest commodity export after coking coal – into China. Iron ore demand has already softened dramatically in recent months as the global economic slowdown pulls in steel-intensive industries such as construction activity and car-makers. Global construction of crude steel experienced one of its biggest reversals in November, tumbling nearly 20 per cent to just 59 million tonnes

when compared with the same month of the previous year.

In another bad omen China's first batch of coking coal imports for 2009 are nearly half the levels they were a year ago. China's Ministry of Commerce has decided on an initial quota of 5.78 million tonnes – down from 9.62 million tonnes at the start of last year. That suggests Australia's biggest trading partner is shifting to greater use of domestically produced coking coal rather than imported product as economic times get tougher. And it could not come at a worse time for coal producers already starting to suffer after a sharp drop in prices for the energy source.

BIG DROP IN INDIAN GOLD IMPORTS IN 2008

January 2, 2009 (Reuters) – Gold imports by India, the world's largest buyer of the metal, fell 47 percent in 2008 to 402 tonnes as high prices and a slowing economy dented demand, a leading trade body said on Thursday. The Bombay Bullion Association (BBA) said imports in December slumped 81 percent to 3 tonnes from 16 tonnes in the same month a year before, with deadly attacks in the financial hub of Mumbai also affecting demand. "Imports were down because prices rose. There were not many marriages or festivals either," Suresh Hundia, president of the BBA, said.

Gold prices on the Multi Commodity Exchange (MCX) soared to a record 14,320 rupees (\$293.4) per 10 grams on Oct. 10, up 35.1 percent from the close in 2007, before falling to 11,290 by Oct. 24. Prices again began to rise in November and climbed more than 4 percent in December to 13,690 rupees, ending the year up 29.2 percent, as the dollar weakened against the euro and crude oil rose, enhancing gold's appeal as a hedge against inflation.

On Thursday, the benchmark February gold on the MCX was up 0.3 percent at 13,676 rupees by 1048 GMT.



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- The World of Underground Mining
- Mineral Processing Methods
- Smelting
- Environmental and Sustainability: The Social License to Operate
- Minerals Marketing
- Global Risks Inherent in Mining
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