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HD **COLD COMFORT FOR MINING SECTOR**

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Barring a gold price bump, there is little to cheer miners GOLD is up — but not enough. As for the resources sector generally, one veteran says there's never been a more difficult time.

The yellow metal had a nice bump (thanks, Iraq) and closed at $US1315 an ounce. While gold bugs celebrated, there was some sobering news from Virginia-based resources analyst SNL Metals & Mining. Over the past 10 years, the cost of building a mine has blown out from $US560 an ounce of gold production capacity in 2004 to more than $US2300 in 2013. This was based on a study of 192 mines with minimum output of 50,000 ounces commissioned over that period.

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Of course, construction costs are not the only factor in project economics (grades are another) and the increase in the gold price since 2004 dulls some of the pain, but nevertheless it is, one, a stark example of the cost inflation in mining about which we have heard so much and, two, reminds one that new projects are expensive things.

As SNL points out, when it became obvious in 2006 that gold's rise was no seven-day wonder, producers green-lighted more capital-intensive projects; and, chillingly, SNL notes that capital cost intensity will hit an average $US2400 an ounce this year before pulling back. In other words, good drill results are the easy part. It's making the development economics right that is harder.

Meanwhile, Peter Strachan at StockAnalysis says he has never seen it so tough, with "the vast majority" of ASX-listed resources companies now the "walking dead, just hanging on by their fingernails". And the mining service companies "are bleeding in a ditch for want of work and cutting their own throats with cut-priced quotes". Latest figures show minerals exploration spending is about 12 per cent beneath what it was in the GFC depths of despair.

So how do you get a 31.6 per cent share price leap in a day in this climate? Announce that a tech company has taken a slice of you, that's how. Coking coal play Liberty Resources (LBY) is now 6.4 per cent-owned by Applabs Technology (ALA),which produces "stunning, high-performance apps". LBY sees substantial opportunities "to expand into new global business opportunities with immediate revenue and profit growth". Is it just us, or does that have a 1999 dot.com ring to it? But we may be unfair: after all, the Applabs website promises "the team won't let go of your app without a dynamite launch plan".

Potash depressed POTASH prices just don't seem to want to budge. As Roger Bade of London brokerage Whitman Howard notes in his paper on the sector, in spite of Belarus and Russia patching up their differences (the break-up of their cartel having sunk the price of the fertiliser feedstock) the potash price remains depressed at $US270- $US300 a tonne.

While North American producers are reporting demand remaining firm, it is as yet insufficient to offset increased supply from Russia and Belarus.

Bade does not share the optimists' view of prices moving up next year. He is sticking with what he terms "an enthusiasm dampening price" of $US250 a tonne — that's for muriate of potash, which dominates the market.

He sees the price for sulphate of potash (a premium fertiliser product that, unlike MoP, does not contain chloride and so is suitable for crops such as tobacco, potatoes, beans, strawberries, citrus and stone fruit) hitting $US600 a tonne. If that is right, it will be one of the biggest gaps between the two for many years.

While that may be good news for the companies planning to extract SoP from various brine lakes in Australia, Bade's report does not include those.

Of the Australian companies mentioned, he is not too hopeful about a couple of African contenders. He thinks South Boulder Mines (STB) has a problem with the Eritrean government having, essentially, a 50 per cent free-carried interest. Bade says the latest talks between the two suggests the junior having to fund 100 per cent of the project for only 50 per cent of the return, which he regards as "unacceptable".

And he doesn't see Elemental Minerals (ELM) getting into production before 2020 in Republic of Congo due to the collapse in prices, a failed rescue bid by the **Chinese** and the **company** still searching for new partners.

As for Highfield Resources (HFR) with its Spanish projects, Bade sees the shallow resource with low capital costs of $307.9 **million** "extremely reasonable" in comparison to the deeper Canadian projects that require many **billions** to develop. But he urges a little caution, noting that the project has variously been "a reopening of an old mine, then a solution project ignoring the old mine, then a conventional underground mine focusing on a new resource".

Graphite hopeful GRAPHITE seems to be one commodity that still manages to send a tingle down investors' spines. Metals of Africa (MTA) rose 18.33 per cent on Friday to 7.1c with a big leap in turnover with the announcement it is about to begin exploration at its Montepuez graphite project in Mozambique.

The attraction, apart from graphite itself, seems to be that the project is a long strike from the big graphite discoveries made by Syrah Resources (SYR) and Triton Minerals (TON). (We note, incidentally, the considerable price gap between those two, with SYR closing on Friday at $3.82 and Triton at 34.5c.) MTA is not just a pretty graphite face (and with the caution that the work starting next month will determine whether there's any drilling potential), but it has built a portfolio of base metals projects in Tanzania and Gabon.

In the latter, the **company** has the Kroussou project that has not been looked at since the 1960s, when the French geological agency drilled there and pronounced there was contained zinc. The project has a strike length up to 70km and, after all, zinc has eclipsed nickel as the base metals star, closing on Friday at $US2177a tonne, having seen its strongest rally since December.

Brave battlers PURE Speculation will continue to salute the brave souls that battle on in the **uranium** sector (the spot price retreated again last week, back at $US28.25 a pound). Forte **Energy** (FTE) is to earn a 50 per cent **stake** in Slovakian **uranium** assets and **Uranium** Equities (UEQ) has doubled its land holding in the Alligator Rivers **uranium** field. We were remiss last week not mentioning that Alligator **Energy** (AGE) is about to drill at its Tin Camp Creek **uranium** project in the NT.

No investment advice is implied and investors should seek professional guidance. The writer does not own shares in any **company** mentioned.robin.bromby@news.com.au

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