PURE SPECULATION

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India is considering a buyback of jewels from its people

SO much for gold as a barbarous relic. It might just help save India's bacon.

True, at the weekend the Reserve Bank of India tried to hose down news reports that it was about to try to get Indians to sell their gold jewellery and coins to be refined into gold bars rather than keep importing gold (which hit 860 tonnes last year).

Those gold imports are helping create a massive current account deficit: the world's third largest, it's running at $US90 billion ($101bn), up 1125 per cent on 2007 and undermining the rupee.

Reports on Thursday said the RBI was going to encourage individual Indians to sell gold items. There's some 31,000 tonnes, worth about $US1.4 trillion, in the hands of individual Indians, according to Reuters. (The news agency also reminded us that India in 1991 flew 67 tonnes of gold to Europe to avoid sovereign debt default: the RBI still has 557.7 tonnes in its vaults.)

Anyway, the RBI now says it has no plans "at this juncture" to mobilise what it called idle gold, including that in temple trusts.

Back in June, the World Gold Council approached the RBI about monetising the gold. So it is not just a random thought bubble. And don't think the idea is dead.

There have also been reports in Indian business newspapers that the RBI might consider leasing out the 200 tonnes it bought in 2009 from the International Monetary Fund. The *Business Line* newspaper reported that, at a gold conference in Jaipur, David Gornall of the London Bullion Market Association argued that leasing would provide India with some ready cash without it losing ownership of the metal.

One suspects, therefore, the reports of gold's death have been greatly exaggerated.

That said, it has not been such a stellar week for the gold sector here. Foster Stockbroking put out a list of companies it described as "trading sells". And it warned investors about putting more money into the sector.

Noting that gold companies had started raising equity, the broker said these corporates carried significant debt and the new capital was used mainly to pay down that debt. It cited **Millennium Minerals (MOY)** raising $6 million for working capital and its debt reserve account, with **Silver Lake Resources (SLR)** bringing in $50m of fresh capital to repay borrowings.

"No doubt these companies and others laden with high costs and debt were staring into the abyss when the gold price scraped near $US1200 an ounce in July and cashflows strained," Foster said. The move back to about $US1400 an ounce has offered some respite, giving a valuable opportunity to raise some money.

"We believe we will see more equity raisings from some of the higher cost and leveraged gold stocks. Consequently, investors should be wary of such gold companies," Foster said.

The broker then named the companies most likely to be rattling the tin and to be avoided. They are **Newcrest Mining (NCM)** with $4.14bn net debt, **Beadall Resources (BDR)**, which recently had to restructure debt due to delays at its Duckhead project in Brazil, **OceanaGold Corp (OGC)**, which is running at an all-in cost level of $1000 an ounce, and **St Barbara (SBM)** because of its high costs — Foster estimates mining all-in costs at more than $1200 an ounce.

On the subject of costs, good on **Primary Gold (PGO)** for giving the full bottle. It reports the feasibility study on its Toms Gully gold project near Darwin will have cash costs of $664/oz but all-in costs of $935/oz.

Evolution Mining (EVN) on Friday reported a loss of $307.4m after impairments, but will mollify shareholders with a 1c unfranked dividend. After the market closed, Silver Lake Resources reported a $319.3m loss after $351.6m of impairments. No divvy, though, even though 151,296 ounces was dug out of the ground.

Metals in surplus

HOLD the optimism. In the past few weeks we've been crossing our fingers that recovery mode might be under way. Apparently not, with Societe Generale warning on Friday that the Fed's tapering of money printing remained a "menace" for base metals. Barclays, meanwhile, is a little concerned about rising copper stocks in London Metal Exchange warehouses (another 10,325 tonnes lobbed on Friday). Nickel inventories there hit a 52-week high on Friday.

Stephen Briggs at BNP Paribas put out a note headed "The unbearable weight of aluminium", saying the metal was moving deeper into structural surplus. Linked to that, CBA commodity analysts say Indonesia's decision to relax its mineral ore export rules will mean higher bauxite exports, resulting in lower prices for that commodity and also putting more downward pressure on alumina and aluminium prices.

And two Chinese lead smelters, with annual output of 200,000 and 100,000 tonnes, have closed due to low prices. CBA also reports that it understands half China's ferronickel smelters are losing money, hence will not be buying up big for nickel.

Junior's lifeline

RARE-EARTH hopeful **TUC Resources (TUC)** got a huge boost in its share price in mid-January when a Chinese state-owned enterprise signed a memorandum of understanding to inject $19m into the junior's project in the Northern Territory.

That company, along with several others, is older and wiser now on the subject of MoUs with Chinese state-owned enterprises, the potential partner withdrawing four months later without explanation. TUC took the consequent share price hit.

What was particularly puzzling about it all was that TUC's Stromberg deposit is dominated by the heavy rare-earths including yttrium, ytterbium and erbium and it is known that China has limited remaining resources of the heavies. It seemed a logical fit.

TUC, though, has now been thrown a lifeline from Hong Kong, a private investor taking a $1.4m placement. The junior recently added a second project, Skyfall, which is also dominated by heavies, and has an encouraging presence of europium, the rare-earth oxide that provides the colour red in TV and computer screens. Skyfall is a larger target than Stromberg. The race is now on to fill the heavy rare-earth gap.

As far as Australia is concerned, **Alkane Resources (ALK)** is the most advanced (although its Dubbo project is important, too, for its zirconium and niobium) while up in northern Australia there is **Northern Minerals (NTU)** and **Hastings Rare Metals (HAS)**. Of these, only NTU has seen a significant recovery in its share price, due largely to Chinese money actually turning up in the bank. It will be interesting to see whether $1.4m has an effect on TUC's price.

AP

Gold jewels on display at a shop in Allahabad, India ahead of the Diwali festival. The RBI has denied plans to mobilise 'idle gold'

The writer implies no investment recommendation. This report contains material speculative in nature. Investors should seek professional investment advice. The writer does not own shares in any company mentioned.

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